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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x
Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

UICI

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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x No fee required.
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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held May 19, 2004

The Annual Meeting of the Stockholders of UICI (the Company), a Delaware corporation, will be held at the Harvey Hotel DFW Airport, 4545 West John Carpenter Freeway, Irving, Texas 75063 on Wednesday, May 19, 2004, at 10:00 a.m., Central Daylight Time.

At the Annual Meeting, you will be asked to:

elect seven (7) directors of the Company to hold office until the next annual meeting of stockholders and until their respective successors are chosen and qualified.

approve the UICI Agency Matching Total Ownership Plan and the UICI Agency Matching Total Ownership Plan II, which have been established for the benefit of the independent insurance agents and independent sales representatives associated with UGA-Association Field Services and New United Agency, Inc.

approve the UICI Matching Agency Contribution Plan I and UICI Matching Agency Contribution Plan II, which have been established for the benefit of the independent insurance agents and independent sales representatives associated with Cornerstone America.

ratify the appointment of KPMG LLP as independent auditors to audit the accounts of the Company for the fiscal year ending December 31, 2004.

consider such other business as may properly come before the meeting or any adjournments or postponements thereof.

The Board of Directors has fixed March 29, 2004 as the record date for the meeting. Holders of the Company s Common Stock of record at the close of business on such date will be entitled to notice of and to vote at such meeting or any adjournment thereof. A list of such stockholders will be available, as required by law, at our principal offices at 9151 Grapevine Highway, North Richland Hills, Texas. The stock transfer books will not be closed.

We will supply, upon written request and without charge, a copy of our Annual Report on Form 10-K for the year ended December 31, 2003 as filed with the Securities and Exchange Commission. Requests for the Annual Report should be directed to Investor Relations, UICI, 9151 Grapevine Highway, North Richland Hills, Texas 76180-5605.

All stockholders are cordially invited to attend the meeting. It is important that your shares be represented and voted whether or not you plan to attend the Annual Meeting in person. You may vote in person, on the Internet, by telephone, or by completing and mailing the enclosed proxy card. Voting over the Internet, by telephone or by written proxy will ensure your shares are represented at the Annual Meeting. Please review the instructions on the proxy card or the information forwarded by your bank, broker or other holder of record regarding these voting options.

By Order of the Board of Directors

Peggy G. Simpson
Secretary

Date: April 16, 2004

UICI, 9151 Grapevine Highway, North Richland Hills, Texas 76180-5605

UICI

9151 Grapevine Highway
North Richland Hills, Texas 76180-5605

PROXY STATEMENT
FOR THE ANNUAL MEETING OF STOCKHOLDERS
To Be Held May 19, 2004

This proxy statement and the accompanying proxy card are being furnished in connection with the solicitation of proxies by the Board of Directors of UICI, a Delaware corporation (*UICI,* the *Company* or *we*), from holders of our outstanding shares of Common Stock, par value $0.01 per share (the Common Stock), for the Annual Meeting of Stockholders to be held on Wednesday, May 19, 2004, for the purposes set forth in the accompanying notice (the Annual Meeting). The Board of Directors does not know of any other matters to be presented at the meeting, but, if any other matters are properly presented to the meeting for action, the persons named in the accompanying proxy will vote upon such matters in accordance with their best judgment. We will bear the costs of soliciting proxies from our stockholders. In addition to soliciting proxies by mail, our directors, officers and employees, without receiving additional compensation therefor, may solicit proxies by telephone, by telegram or in person. Arrangements also will be made with brokerage firms and other custodians, nominees and fiduciaries to forward solicitation materials to the beneficial owners of Common Stock held of record by such persons, and we will reimburse such brokerage firms, custodians, nominees and fiduciaries for reasonable out-of-pocket expenses incurred by them in connection therewith.

Our Common Stock trades on The New York Stock Exchange under the symbol: UCI. This proxy statement is being mailed on or about April 16, 2004 to stockholders of record at the close of business on March 29, 2004, who are the only stockholders entitled to receive notice of and to vote at the meeting. At March 29, 2004 we had outstanding 46,303,337 shares of Common Stock. A quorum of stockholders is necessary to take action at the Annual Meeting. A majority of the outstanding shares of Common Stock, represented in person or by proxy, will constitute a quorum. Each share of the outstanding Common Stock is entitled to one vote. The affirmative vote of the holders of a majority of the total voting power present in person or by proxy and entitled to vote at the Annual Meeting is required to elect directors and ratify or approve the other items being voted on at this time. Abstentions will have the same effect as votes against the proposals, although abstentions will count toward the presence of a quorum.

Your vote is important. You can vote in one of four ways: (1) in person by casting your vote in person at the Annual Meeting, (2) by mail by marking, signing and dating the enclosed proxy card, and returning it promptly in the enclosed postage-paid envelope, (3) on the Internet by visiting the website indicated on the enclosed proxy card, or (4) by telephone by using the toll-free number indicated on the enclosed proxy card.

The Internet voting procedure is designed to authenticate stockholder identities, to allow stockholders to give voting instructions, and to confirm that stockholders instructions have been recorded properly. Stockholders voting by internet should be aware that there may be costs associated with electronic access, such as usage charges from internet access and telephone or cable service providers, that must be borne by the stockholder. If you choose to vote on the Internet, you will be offered the option to receive future annual meeting materials electronically through the Internet, which is cost-effective for us. We hope the convenience and cost savings of voting by computer will attract you. A sizable electronic turnout would save us significant return-postage fees.

We are pleased to announce that we will broadcast the annual meeting live on-line (listen only) at *www.uici.net* for stockholders unable to attend in person. The replay of the Webcast will be available for thirty (30) days following the meeting.

A proxy may be revoked at any time before its exercise (i) by notifying UICI in writing at 9151 Grapevine Highway, North Richland Hills, Texas 76180-5605, Attention: Secretary; (ii) by completing a later-dated proxy and returning it to UICI; or (iii) by appearing at the Annual Meeting in person and revoking the proxy orally by notifying the Secretary before the vote takes place. Properly executed proxies will, unless such proxies have been revoked, be voted in the manner specified in the proxies. If no instructions are indicated, such shares will be voted **FOR** the election of the seven (7) directors, **FOR** the approval of the UGA Agent Matching Stock Plans, **FOR** the approval of the Cornerstone Agent Matching Stock Plans, and **FOR** the ratification of KPMG LLP as our independent auditors for 2004.

1. ELECTION OF DIRECTORS

The Board of Directors (the Board) has fixed the number of directors for the ensuing year at seven (7). The Nominating & Governance Committee of the Board has nominated Messrs. Ronald L. Jensen, William J. Gedwed, Glenn W. Reed, Richard T. Mockler, Mural R. Josephson, R.H. Mick Thompson and Dennis C. McCuistion for election as directors at the 2004 Annual Meeting of Stockholders. At the meeting, it is intended that such number of directors will be elected to hold office until the next Annual Meeting of Stockholders and until their respective successors are chosen and qualified. It is intended that the proxies will be voted to elect as directors the nominees listed above. All of the nominees (other than Mr. McCuistion) are currently directors of the Company. Although the Board does not anticipate that any of such nominees will be unable to serve as a director, in the event of such occurrence, the proxy holders shall have the right to vote for such substitute, if any, as the present Board may designate. The Nominating & Governance Committee of the Board has not received any recommendations from any of the Company s stockholders in connection with the 2004 Annual Meeting. The Company has not engaged a third party search firm to help identify Board nominees.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION AS DIRECTORS OF EACH OF THE NOMINEES LISTED ABOVE

NOMINEES FOR DIRECTOR

Set forth below is a biographical summary of the experience of each of the nominees for director:

Ronald L. Jensen (age 73) has served as Chairman of the Board of Directors of the Company and its predecessor company since December 1983. Mr. Jensen served as President and Chief Executive Officer (CEO) of the Company in 1993 and 1994 and from September 1997 to January 1999. Mr. Jensen serves on the Executive and Management Operating Committees of the Board of Directors.

William J. Gedwed (age 48) has served as a director of the Company since June 2000 and as President and Chief Executive Officer since July 1, 2003. He serves on the Executive, Nominating & Governance, Investment and Management Operating Committees of the Board of Directors. Mr. Gedwed served as Vice President of the Company from August 1999 until May 2000 and as Executive Vice President of the Company from May 2000 until December 31, 2000, when he resigned to become President and CEO of NMC Holdings, Inc. where he served in such capacity until May 2002. Mr. Gedwed has served as a Director of NMC Holdings, Inc. since July 2000. He also served as Chairman, President and CEO of National Motor Club of America, Inc. from January 2001 until May 2002. From May 2002 until January 2003, Mr. Gedwed served as Chairman of National Motor Club and currently serves as a Director. From July 2002 until July 2003, Mr. Gedwed served as President and CEO of Landen Bias Corporation (d/b/a Coach-Net) and served as a Director from July 2002 until March 2004. Mr. Gedwed also served as a Director and President and CEO of DirectoryNET, LLC from February 2002 until June 2003. Mr. Gedwed also currently serves as Chairman and Director of The MEGA Life and Health Insurance Company, Mid-West National Life Insurance Company of Tennessee, The Chesapeake Life Insurance Company and Fidelity First Insurance Company (subsidiaries of the Company).

Glenn W. Reed (age 51) has served as a director of the Company since May 2001 and as Executive Vice President and General Counsel of the Company since July 1999. Mr. Reed serves on the Executive, Privacy

and Management Operating Committees of the Board. Mr. Reed also serves as a director and Vice President of The MEGA Life and Health Insurance Company, Mid-West National Life Insurance Company of Tennessee, The Chesapeake Life Insurance Company and Fidelity First Insurance Company. Prior to joining the Company, Mr. Reed was a partner in the Chicago, Illinois law firm of Gardner, Carton & Douglas. He has served as a director of The Pepper Companies, Inc. (a Chicago-based general contractor) since 1990, as a director of Peoples Bancorp, Inc. (a bank holding company located in Arlington Heights, Illinois) since 1999 and as a director of Assistive Technology Group, Inc. (a provider of assistive and rehabilitative systems, medical products and supplies) since 2002.

Richard T. Mockler (age 66) has served as a director of the Company since 1991. Mr. Mockler is a member of the Audit and Nominating & Governance Committees of the Board of Directors. Mr. Mockler retired as a partner with Ernst & Young LLP in 1989 after 27 years with the firm. Mr. Mockler has served as a member of the Board of Directors of Georgetown Rail Equipment Company since 1994 and as Treasurer since October 1996.

Mural R. Josephson (age 55) has been a director since May 2003 and is a member of the Audit Committee of the Board. Following his retirement as Senior Vice President and Chief Financial Officer of Lumbermens Mutual Casualty Company (the lead company of Kemper Insurance Companies) in October 2002, Mr. Josephson has served as a consultant to various financial institutions. In July 1998, Mr. Josephson retired as a partner with KPMG LLP after 28 years with the firm. Mr. Josephson is a licensed Certified Public Accountant in the State of Illinois, and is a member of the American Institute of Certified Public Accountants. He has served as a director and Treasurer of Omni Youth Services (Buffalo Grove, Illinois) since October 2003 and as a director of SeaBright Insurance Company (formerly Kemper Employers Insurance Company), since February 2004.

R.H. Mick Thompson (age 57) has been a director of the Company since November 2003. Mr. Thompson is a member of the Executive Compensation and Nominating & Governance Committees of the Board. Mr. Thompson has served as the Oklahoma Bank Commissioner since September 1, 1992. In May 2003, Mr. Thompson was elected Chairman of the Conference of State Bank Supervisors (CSBS), and currently serves on the CSBS Legislative Committee. Mr. Thompson also serves as an Advisor to the Board of Trustees of the Graduate School of Banking, University of Colorado in Boulder.

Dennis C. McCuistion (age 61), director-nominee, is President of McCuistion & Associates, Inc. (an Irving, Texas based firm providing management consulting services to financial institutions and other businesses). Mr. McCuistion, a former bank CEO, is a prolific author on business topics and is the host and executive producer of *McCuistion,* a television program regularly airing on PBS affiliates since 1989. Mr. McCuistion has served as a director of Affiliated Computer Services, Inc. (a publicly held company that provides business process outsourcing and information technology outsourcing solutions to commercial and government clients) since September 2003. Mr. McCuistion has been appointed to serve as Lead Independent Director on the Board of Directors (*see* discussion below), and it is anticipated that he will be appointed to serve on the Audit, Nominating & Governance and Executive Compensation Committees of the Board.

Certain affiliations exist between us and certain directors and nominees. *See* COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION; CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Stuart D. Bilton and Thomas P. Cooper, M.D. (current directors of the Company) will not stand for reelection to the Board at the 2004 Annual Meeting. Neither Mr. Bilton nor Dr. Cooper is leaving the Board of Directors as a result of any business disagreement with the Company.

Stuart D. Bilton (age 57) has served as a director since 1999. Mr. Bilton currently serves as Chairman of ABN AMRO Asset Management Holdings, Inc. (U.S.), where he served from February 2001 to September 2003 as President and CEO. He previously served as President and CEO of Chicago Trust Company (an institutional money manager and mutual fund sponsor) and as President and CEO of Alleghany Asset

Management, Inc. Alleghany Asset Management, Inc. and Chicago Trust Company were acquired by ABN AMRO in February 2001.

Thomas P. Cooper, M.D. (age 60) has served as a director of the Company since May 2002. Dr. Cooper has served as CEO of Senior Psychology Services, Inc. (a company providing mental health services to patients in long-term care facilities) since 1991 and as a director since 1994. Dr. Cooper has been an Adjunct Professor at Columbia Business School since September 1999.

THE BOARD OF DIRECTORS AND COMMITTEES

General Information

The UICI Board of Directors currently consists of eight directors and, following the 2004 Annual Meeting, will consist of seven directors. The Board has responsibility for establishing broad corporate policies and for the overall performance of the Company, although it is not involved in day-to-day operations. Members of the Board are kept informed of our businesses by various reports and documents sent to them, as well as by operating and financial reports made at Board and committee meetings. Regular meetings of the Board are held each quarter, and special meetings are held as necessary. The annual organizational meeting follows immediately after the Annual Meeting of Shareholders. During the fiscal year ended December 31, 2003, the Board of Directors met twelve (12) times and took action on other occasions by unanimous consent of its members. Each member of the Board of Directors who held such position in 2003 attended at least 75% in the aggregate of all meetings of the Board and any committee on which such Board Member served.

In April 2004, the Board of Directors considered transactions and relationships between each non-employee director and any members of his immediate family and the Company and its executive management. Based on that review, the Board of Directors has affirmatively determined that each of our directors (other than Mr. Jensen, Mr. Gedwed and Mr. Reed) meets the criteria of director independence contained in the applicable listing standards of the New York Stock Exchange and rules and regulations adopted by the Securities and Exchange Commission. In addition, following the 2004 Annual Meeting, the Audit Committee, the Executive Compensation Committee and the Nominating & Governance Committee will be composed solely of independent directors. There are no interlocking directorships and none of our independent directors receive any consulting, advisory or other non-director compensatory fees from the Company.

We encourage but do not require our directors to attend the Annual Meeting of Stockholders. Four of the Company s directors attended the Annual Shareholder Meeting held May 14, 2003.

Corporate Governance Matters

Code of Ethics

The Company has adopted a Code of Business Conduct and Ethics (the Code of Ethics), which contains general principles and policies that govern the activities of the Company and to which our directors, officers, employees and agents and others who represent us directly or indirectly must adhere. The Code of Ethics applies to all directors, officers, agents, consultants and employees, including the Chief Executive Officer and the Chief Financial Officer and any other employee with any responsibility for the preparation and filing of documents with the Securities and Exchange Commission. The Code of Ethics covers several topics, including conflicts of interest, confidentiality of information and compliance with laws and regulations. A copy of the Code of Ethics is available on the Corporate Governance page of the Company s website at *www.uici.net.* The Company may post amendments to or waivers of the provisions of the Code of Ethics, if any, made with respect to any of our directors and employees on that website. Stockholders of the Company may also request a copy of the Code of Ethics by writing to UICI, c/o Corporate Secretary, 9151 Grapevine Highway, North Richland Hills, Texas 76180.

Corporate Governance Guidelines

The Board of Directors has also adopted Corporate Governance Guidelines, which address, among other things, the Board s policies and expectations with respect to the qualification of directors, the composition of the Board of Directors, board member selection criteria, director responsibilities and other matters. A copy of the Corporate Governance Guidelines is available on the Corporate Governance page of the Company s website at *www.uici.net.* Stockholders of the Company may also request a copy of the Corporate Governance Guidelines by writing to UICI, c/o Corporate Secretary, 9151 Grapevine Highway, North Richland Hills, Texas 76180

Lead Independent Director

Following the 2004 Annual Meeting, the independent members of the Board of Directors intend to select Mr. McCuistion to serve as the Lead Independent Director. Among other duties, as Lead Independent Director, Mr. McCuistion will (a) preside over, coordinate and develop the agenda for executive sessions of the independent directors and sessions of the non-management directors, (b) preside at all meetings of the Board of Directors at which the Chairman of the Board is not present, (c) serve as a liaison between the Chairman of the Board and the independent directors, (iii) approve information sent to the Board of Directors, (iv) approve the meeting agenda for the Board of Directors, and (v) approve meeting schedules to assure that there is sufficient time for discussion of all items. In addition, as Lead Independent Director, Mr. McCuistion has authority to call meetings of the independent directors.

To promote open discussion and foster better communication among the non-management directors (*i.e.*, directors who are not officers of UICI but who do not otherwise have to qualify as independent), regular executive sessions are held after each quarterly Board meeting in which the non-management directors meet without management participation. Our By-laws provide that the Lead Independent Director shall serve as the presiding director at all meetings of non-management directors as and when required in accordance with the applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules promulgated thereunder and the applicable rules of the New York Stock Exchange. In addition, at least one executive session per year will be limited solely to independent directors. Each meeting of the independent directors is scheduled and chaired by the Lead Independent Director.

Shareholder Communications with the Board of Directors

The Board of Directors has adopted a written policy with respect to shareholder communications to the Board of Directors. Shareholders may communicate directly with the UICI Board of Directors, including the Chairman of the Audit Committee, Chairman of the Nominating & Governance Committee and/or the non-management directors individually or as a group. All communications should be directed to our Corporate Secretary, c/o UICI, 9151 Grapevine Highway, North Richland Hills, TX 76180 and should prominently indicate on the outside of the envelope that it is intended for the Board of Directors as a group, or, as appropriate, for the Chairman of the Audit Committee, the Chairman of the Nominating & Governance Committee and/or for the non-management directors. c/o the Lead Independent Director. Each communication intended for the Board of Directors, Chairman of the Audit Committee, Chairman of the Nominating & Governance Committee and/or the Lead Independent Director will be promptly forwarded to the specified party following its clearance through normal security procedures. If addressed to a specified individual director, the communication will not be opened but will rather be forwarded unopened to the intended recipient. If the communication is directed to all members or all non-management members of the Board, the Secretary will make copies of all such letters and circulate them to the appropriate director or directors.

In addition, we maintain contact information, both telephone and email, on our website *(www.uici.net)* under the heading Info Request Contact Us. By following the contact information link, a shareholder will be provided access to our telephone number and mailing address as well as a link for providing email correspondence to UICI s Investor Relations Department. Communications sent to Investor Relations and specifically marked as a communication for the Board will be forwarded to the Board or specific members of the Board as directed in the shareholder communication.

Committees of the Board

Various committees of the Board of Directors have been established to assist the Board in the discharge of its responsibilities. The functions and composition of the Board committees are described below:

Audit Committee

The Audit Committee (of which Mural R. Josephson (Chairman), Richard T. Mockler, Thomas P. Cooper and Stuart D. Bilton currently serve as members and of which, following the 2004 Annual Meeting, Mural R. Josephson (Chairman), Richard T. Mockler, Dennis McCuistion and R.H. Mick Thompson will serve as members) assists the Board of Directors in fulfilling its oversight responsibilities by assessing the processes related to the Company s risks and control environment, overseeing the integrity of the Company s financial statements and financial reporting and compliance with legal and regulatory requirements and evaluating the Company s audit processes. The Audit Committee confers with the Company s independent auditors and internal auditors regarding audit procedures, including proposed scope of examination, audit results and related management letters. The Audit Committee reviews the services performed by the independent auditors in connection with determining their independence, reviews the reports of the independent auditors and internal auditors, and reviews recommendations about internal controls. The Committee selects and appoints the Company s independent auditors and approves any significant non-audit relationship with the independent auditors. The Audit Committee held ten (10) meetings during 2003.

The Audit Committee s Report appears elsewhere in this proxy statement. The Audit Committee operates under a written charter adopted by the Board of Directors. The charter is attached hereto as *Appendix A* and also is available for review on the Company s website *(www.uici.net).* The Committee reviews and assesses the adequacy of its charter on an annual basis. The composition of the Audit Committee, the attributes of its members and the responsibilities of the Committee, as reflected in its charter, are intended to be in accordance with applicable requirements for corporate audit committees. The Board of Directors has determined that Mr. Josephson, who is independent of management of the Company, is an audit committee financial expert , as that term is used in Item 401(h) of Regulation S-K promulgated under the Securities Exchange Act of 1934 (the Exchange Act) and as defined by the applicable listing standards of the New York Stock Exchange. In addition, each of the members of the Audit Committee meets the current independence requirements as set forth in the applicable listing standards of the New York Stock Exchange and provisions of the Sarbanes-Oxley Act of 2002.

The Audit Committee has adopted procedures governing the receipt, retention and handling of concerns regarding accounting, internal accounting controls or auditing matters that are reported by employees, shareholders and other persons. Employees may report such concerns confidentially and anonymously by utilizing a toll free hot line number [(877) 778-5463] or by accessing Report-It [www.reportit.net], a third party reporting service. All others may direct such concerns in writing to the Board of Directors, Audit Committee and/or the non-management directors c/o our Corporate Secretary, UICI, 9151 Grapevine Highway, North Richland Hills, TX 76180 as described above under the caption Shareholder Communications with the Board of Directors.

Executive Committee

The Executive Committee (of which Ronald L. Jensen (Chairman), William J. Gedwed and Glenn W. Reed serve as members) has the authority of the full Board of Directors in the management and affairs of the Company, except that the Committee *may not* effect certain fundamental corporate actions, such as (a) declaring a dividend, (b) amending the Certificate of Incorporation or By-Laws, (c) adopting an agreement of merger or consolidation, or (d) imposing a lien on substantially all of the assets of the Company. In practice, the Executive Committee meets infrequently and does not act except on matters that are not sufficiently important to require action by the full Board of Directors. During 2003 the Executive Committee did not meet, but the Committee took action on selected occasions by unanimous consent of its members.

Investment Committee

The Investment Committee (of which Ronald L. Jensen (Chairman), William J. Gedwed and Thomas P. Cooper currently serve as members and of which, following the 2004 Annual Meeting, Ronald L. Jensen (Chairman), William J. Gedwed and Glenn W. Reed will serve as members) coordinates with the Investment/ Finance Committees of the Company s insurance subsidiaries in supervising and implementing the investments of the funds of the Company and its insurance subsidiaries. The Investment Committee held one meeting during 2003.

Nominating & Governance Committee

The Nominating & Governance Committee (of which Richard T. Mockler (Chairman), William J. Gedwed and R.H. Mick Thompson currently serve as members and of which, following the 2004 Annual Meeting, Richard T. Mockler, Dennis C. McCuistion and R.H. Mick Thompson will serve as members) identifies individuals qualified to become Board members consistent with criteria approved by the Board and recommends that the Board select the director nominees to be voted on at the next annual meeting of shareholders. The Committee also makes recommendations concerning the structure, size and membership of the various committees of the Board of Directors. The Nominating & Governance Committee develops and recommends to the Board the Corporate Governance Guidelines applicable to the Company, oversees the evaluation of the Board and management, and reviews the succession plan of the Chief Executive Officer and other key officer positions.

The Nominating & Governance Committee seeks to identify prospective directors for nomination to the Board that combine diverse business experience, skill and intellect in order to better enable the Company to pursue its strategic objectives. The Committee has not reduced the qualifications for service on the Company s Board to a checklist of specific standards or specific, minimum qualifications, skills or qualities. Rather, the Company seeks, consistent with the vacancies existing on the Company s Board that may exist at any particular time, to select individuals who exhibit core traits of judgment, skill, integrity, experience with businesses and other organizations of comparable size and the ability to work well with complex organizations. In assessing Board candidates, the Nominating & Governance Committee seeks individuals with specific expertise with respect to the industry in which the Company conducts its business, the ability to evaluate the impact of technology on the Company, an understanding of and appreciation for the Company s corporate culture, and skill in communicating effectively with other Board members and senior management. In addition, the Company intends to periodically conduct a self-evaluation and a review of individual Board members in order to help the Company continue to formulate a governance strategy that complements the Company s business and its strategic vision.

The Nominating & Governance Committee s process for identifying and evaluating nominees for directors includes recommendations by stockholders, non-management directors and executive officers, a review and background check of specific candidates, an assessment of the candidate s independence and interviews of director candidates by members of the Nominating & Governance Committee.

In carrying out its responsibilities to nominate directors, the Nominating & Governance Committee will consider candidates recommended by the Board of Directors and by shareholders of the Company. All suggestions by shareholders for nominees for director for 2005 must be made in writing and received by the Secretary of the Company, 9151 Grapevine Highway, North Richland Hills, Texas 76180 not later than December 10, 2004 (*see* Deadline for Submission of Stockholder Proposals and Nominations for Director). The mailing envelope must contain a clear notation indicating that the enclosed letter is a Director Nominee Recommendation . The letter must identify the author as a shareholder and provide a brief summary of the candidate s qualifications, as well as contact information for both the candidate and the shareholder. At a minimum, candidates for election to the Board must meet the independence requirements of the applicable listing standards of the New York Stock Exchange and Rule 10A-3 under the Securities Exchange Act of 1934, as amended. Candidates should also have relevant business and financial experience, and must be able to read and understand fundamental financial statements. The Committee has not historically received director candidate recommendations from the Company s shareholders but will consider all relevant qualifications as

well as the needs of the Company in terms of compliance with the listing standards of the New York Stock Exchange and Securities and Exchange Commission rules. In evaluating a nominee recommended by a stockholder, the Nominating & Governance Committee s evaluation of a nominee would consider the factors described above.

Mr. Thompson (who was elected to the Board following the 2003 Annual Meeting) and Mr. McCuistion (director-nominee) are being nominated for election by the stockholders for the first time at the 2004 Annual Meeting. Both individuals were first introduced to the Nominating & Governance Committee by a non-management director.

The Nominating & Governance Committee operates under a written charter adopted by the Board of Directors, which is available for review on the Company s website *(www.uici.net).* In addition, following the 2004 Annual Meeting each of the members of the Committee will meet the independence requirements as set forth in the applicable listing standards of the New York Stock Exchange and provisions of the Sarbanes-Oxley Act of 2002. During 2003 the Nominating & Governance Committee held two meetings and took action on selected occasions by unanimous written consent of its members.

Executive Compensation Committee

The Executive Compensation Committee (of which R.H. Mick Thompson (Chairman), Stuart D. Bilton, and Thomas P. Cooper, M.D. currently serve as members and of which, following the 2004 Annual Meeting R.H. Mick Thompson (Chairman), Dennis C. McCuistion and Mural R. Josephson will serve as members) administers the Company s compensation programs and remuneration arrangements for its highest-paid executives. The Executive Compensation Committee operates under a written charter adopted by the Board of Directors, which is available for review on the Company s website *(www.uici.net).* In addition, each of the members of the Committee meets the current independence requirements as set forth in the applicable listing standards of the New York Stock Exchange and provisions of the Sarbanes-Oxley Act of 2002. The Committee reviews and approves corporate goals and objectives relative to CEO compensation, evaluates the CEO s performance in light of those goals and objectives and sets the CEO s compensation level based on this evaluation. The Committee also makes recommendations to the Board with respect to incentive-compensation plans and equity-based plans, and evaluates, from time to time, the compensation to be paid to directors for their service on the Board or any committee thereof.

The Committee held two meetings during 2003.

The Executive Compensation Committee s Report on Executive Compensation appears elsewhere in this proxy statement.

Privacy Committee

The Privacy Committee (of which Glenn W. Reed (Chairman) and William J. Gedwed serve as members) oversees implementation and administration of the privacy, security, transaction codes set and other requirements imposed under the federal Gramm-Leach-Bliley Act and Health Insurance Portability and Accountability Act. The Privacy Committee did not meet during 2003.

COMPENSATION OF DIRECTORS

UICI does not compensate directors who are also officers of the Company for their service as directors. The following chart reflects the compensation for the non-employee directors of the Company effective May 1, 2003 and as modified by the Executive Compensation Committee to be effective May 1, 2004:

Feature	Current-Effective May 1, 2003	To be effective May 1, 2004
Annual Retainer	$7,500	$10,000
Per Quarterly Meeting Attendance Fee	$6,000	$6,000
Audit Committee Chairman:		
Annual Retainer:	$4,000	$10,000
Per Meeting Attendance Fee:	$500	$500
Lead Independent Director:		
Quarterly Retainer:	None	$15,000
Chairman of Nominating and Governance Committee and Chairman of Executive Compensation Committee:		
Annual Retainer:	None	$4,000
Per Meeting Attendance Fee:	None	$500
Annual Retainer for Other Non- Employee Members of Audit Committee, Compensation Committee and the Privacy Committee:	$3,000	$3,000
Stock in Lieu of Cash Feature	For fees otherwise payable in cash, outside directors may elect to receive UICI stock, in whole or in part, in lieu of cash, at a 15% discount to the market price. Each director electing to receive stock in lieu of cash will receive an option to purchase one share of UICI stock for each share of UICI purchased pursuant to stock-in-lieu-of-cash feature.	Directors may elect to receive an equivalent value of UICI stock in lieu of cash for fees otherwise payable in cash. Each director electing to receive stock in lieu of cash will receive an option to purchase one share of UICI stock for each share of UICI purchased pursuant to stock-in-lieu-of-cash feature.
Stock Purchase Feature	Each outside director may purchase up to $60,000 of UICI stock at a 15% discount to the market price and will receive an option to purchase one share of UICI for every two shares so purchased.	Terminated

During 2003, all non-employee directors elected to receive 100% of their director compensation in stock (except Messrs. Mockler and Thompson, who elected to receive such director compensation in cash). During 2003, no director elected to purchase UICI stock pursuant to the stock purchase feature of the director compensation program.

EXECUTIVE COMPENSATION

EXECUTIVE COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Company s compensation objectives include attracting and retaining the best possible executive talent, motivating executive officers to achieve the Company s performance objectives, rewarding individual performance and contributions, and linking to the extent possible executive and stockholder interests through equity-based (stock option and restricted stock) plans. The Company s executive compensation consists of four key components: annual base salary, annual cash incentive bonus compensation, stock option grants and restricted stock grants. Each component of compensation is designed to complement the other components and, when considered together, to meet the Company s overall compensation objectives.

Historically, the Executive Compensation Committee of the Board of Directors (the Committee) has approved base compensation for senior executives (including Mr. Gedwed) based on reference to base salaries of comparable executive positions at a peer group of comparably sized insurance and insurance holding companies. Mr. Gedwed s base compensation is intended to be comparable with the 50th percentile of salaries within such peer group. Consistent with past practice, in December 2002 and January 2003 the Committee reviewed and approved base compensation to be paid to executives in 2003. In establishing base compensation for 2003 to officers other than the President and CEO, the Committee considered the recommendations of Gregory Mutz (who served as President and CEO until June 2003) and approved, subject to any modifications it deemed appropriate, base compensation to be paid to such executive officers.

Commencing in 2001, the Company established and implemented a more structured incentive compensation plan, pursuant to which the Company set a maximum bonus potential for each executive as a percentage of base compensation and established quantitative and qualitative bonus criteria. For 2003, the quantitative performance goals included, among other things, UICI consolidated financial results, business unit profitability and attainment of specific revenue (annualized premium volume) goals. Throughout the year, each executive s progress toward meeting his or her incentive compensation goals was measured and monitored, and final determination of incentive compensation awards was made in January 2003 in light of anticipated year end results. At a meeting held on January 23, 2004, the Committee (then composed of Patrick J. McLaughlin[1] (Chairman), Stuart D. Bilton, Thomas P. Cooper and Mural R. Josephson) reviewed and approved incentive bonus compensation in accordance with the plan for all Named Executive Officers below and approximately ten other officers and key employees of the Company.

The Company s executive officers are also entitled to participate in the Company s 1987 Amended and Restated Stock Option Plan. Under the 1987 Plan, nonqualified options to purchase Common Stock of the Company may be granted at exercise prices not less than the fair market value of the Common Stock at the date of grant. Options granted under the 1987 Plan become exercisable generally in annual cumulative installments of 20% of the number of options granted over a five-year period, or sooner at the discretion of the Executive Compensation Committee. With respect to 2003 performance, the Committee determined not to award options to acquire UICI shares, but rather to pay the incentive bonus compensation solely in cash.

Section 162(m) of the U.S. Internal Revenue Code limits the deductibility of compensation in excess of $1.0 million paid to the Company s Chairman, chief executive officer and president or to any of the Company s four highest-paid other executive officers unless certain specific and detailed criteria are satisfied. The Committee considers the anticipated tax treatment to the Company and its executive officers in its review and establishment of compensation programs and payments, but has determined that it will not necessarily seek to limit compensation to that amount otherwise deductible under Section 162(m).

To provide an additional equity-based vehicle to incentivize officers and other key employees, in February 2000 and January 2001, the Board of Directors of the Company approved and adopted the UICI 2000 Restricted Stock Plan and 2001 Restricted Stock Plan, respectively, pursuant to which the Company may

1 Mr. McLaughlin resigned as a Director and member of the Executive Compensation Committee effective January 27, 2004. Mr. McLaughlin did not leave the Board of Directors as a result of any business disagreement with the Company.

from time to time and subject to the terms thereof make awards of restricted shares of the Company s Common Stock to eligible participants in the Plan. The shareholders of UICI approved the UICI 2000 Restricted Stock Plan and 2001 Restricted Stock Plan on May 16, 2001. Shares of Common Stock granted to eligible participants generally vest on the second anniversary of the date of grant and are otherwise forfeitable if the participant ceases to provide material services to the Company as an employee, independent contractor, consultant, advisor, director or otherwise for any reason other than death prior to vesting. Shares of restricted stock also vest upon a Change of Control (as defined) or upon the death of the participant. With respect to 2003 performance, in January 2004, the Committee determined not to award restricted stock to any eligible participant, but rather to pay incentive bonus compensation solely in cash.

Executive Compensation Committee

R.H. Mick Thompson, Chairman
Stuart D. Bilton
Thomas P. Cooper, M.D.

SUMMARY COMPENSATION TABLE

The following table summarizes all compensation for services to us and our subsidiaries for the fiscal years ended December 31, 2003, 2002 and 2001, earned by or awarded or paid to the persons who were the Chairman of the Board, the chief executive officer, and the four other most highly compensated executive officers of the Company serving as such at December 31, 2003 (the Named Executive Officers).

		ANNUAL COMPENSATION			LONG-TERM COMPENSATION AWARDS		
NAME AND PRINCIPAL POSITION	YEAR	SALARY($)	BONUS($)(a)	OTHER ANNUAL COMPENSATION ($)(b)	RESTRICTED STOCK AWARDS ($)(c)	SECURITIES UNDERLYING OPTIONS (#)(d)	ALL OTHER COMPENSATION ($)(e)
Ronald L. Jensen	2003	1					
Chairman of the	2002	1					
Board	2001	1					
Gregory T. Mutz	2003	510,000					48,411(g)
CEO and Director(f)	2002	500,000	997,000		34,500		42,683
	2001	500,000	(h)			150,000(i)	27,123
William J. Gedwed	2003	202,692	250,000				8,636
CEO and Director(j)	2002					(k)	(m)
	2001					(l)	(n)
Glenn W. Reed	2003	400,000	300,000				22,074
Executive Vice	2002	390,000	200,000		232,875	17,000	53,213
President & General	2001	390,000	175,000			20,000	35,385
Counsel							
Phillip J. Myhra	2003	325,000	520,000				20,519
Executive Vice							
President	2002	275,000	300,000		126,500	45,000	32,781
Insurance Group	2001	225,000	210,000			20,000	47,232
James N. Plato	2003	287,439	250,000	181,417			12,000
President Life Insurance	2002	267,323	358,150	102,330		10,000	20,545
Division(o)	2001	120,595	107,100		45,050	20,000	77,695
Mark D. Hauptman	2003	200,000	150,000				12,402
Vice President, Chief	2002	175,769	110,000		43,068		11,789
Financial Officer &							
Chief	2001	156,981	40,000		19,875		10,550
Accounting Officer							

(a) Reflects cash bonuses accrued for the year presented.

(b) With respect to 2003, Mr. Plato received an aggregate of $181,417 for reimbursement of certain housing expenses (consisting of reimbursement for interest on mortgage loans in the amount of $39,900 and closing costs in the amount of $141,517). With respect to 2002, Mr. Plato received an aggregate of $102,330 for reimbursement of certain housing expenses (consisting of reimbursement for interest on mortgage loans in the amount of $59,137, real estate taxes in the amount of $23,448, an employment tax gross up in the amount of $19,745). No other Named Executive Officer received perquisites or other personal benefits in excess of the lesser of $50,000 or 10% of the total of annual salary and bonus reported for the Named Executive Officer.

(c) With respect to 2002, reflects market value of restricted stock granted February 12, 2003. With respect to 2001, reflects market value of restricted stock granted on June 11, 2001 (February 6, 2002 with respect to Mr. Hauptman). The number of shares awarded for 2002 and 2001 was as follows: Mr. Mutz, 3,000 shares and -0- shares; Mr. Reed, 20,250 shares and - 0- shares; Mr. Myhra, 11,000 shares and -0- shares; Mr. Plato, -0- shares and 5,000 shares; and Mr. Hauptman, 3,745 shares and 1,500 shares. Dividends are paid, if any, to holders with respect to restricted stock at the same rate paid to all stockholders. Shares of restricted stock granted to all executives (other than Mr. Plato) vest on the second anniversary of the date of grant. Shares of restricted stock granted to Mr. Plato vest in 20% increments over

five years. At December 31, 2003, the number of unvested shares and market value of all restricted stock then held by Messrs. Gedwed, Mutz, Reed, Myhra, Plato, and Hauptman was -0- and $0; 3,000 shares and $39,840; 20,250 shares and $268,920; 11,000 shares and $146,080; 3,000 shares and $39,840; 5,245 shares and $69,654, respectively.

(d) With respect to 2002, includes options granted on February 12, 2003. With respect to 2001, includes options granted on December 8, 2001, June 11, 2001 and February 4, 2002.

(e) Amounts for 2003 include Company contributions to its Employee Stock Ownership and Saving Plan of $12,000 for the benefit of Messrs. Mutz, Reed, Myhra, Plato, and Hauptman and $8,636 for the benefit of Mr. Gedwed.

Amounts for 2003 include reimbursement of housing expenses of $2,916, $9,672, $8,117 for Messrs. Mutz, Reed and Myhra, respectively. Amounts for Mr. Mutz in 2003 include $14,517 for reimbursement for tax preparation fees, $9,315 reimbursement of legal fees and $9,262 employment tax gross up on the tax preparation fees. Amounts for 2002 include Company contributions to its Employee Stock Ownership and Savings Plan of $12,000 for the benefit of Messrs. Mutz, Myhra and Plato and $11,500 for the benefit of Messrs. Reed and Hauptman. Amounts for 2002 for Mr. Mutz, Mr. Reed, Mr. Myhra and Mr. Plato include reimbursement of housing expenses of $17,785, $41,424, $20,493, and $8,545, respectively. Amounts for Mr. Mutz in 2002 include reimbursement of tax preparation fees of $12,609. Amounts for 2001 include Company contributions to its Employee Stock Ownership and Savings Plan of $10,200 for the benefit of Messrs. Mutz, Reed, Myhra, Hauptman and $6,872 for the benefit of Mr. Plato. Also includes in 2001 contributions to the Company s Medical Savings Account Health Insurance Plan for the benefit of Messrs. Mutz, Reed, and Myhra in the amount of $2,000, $2,000, and $1,000, respectively. Amounts for Messrs. Mutz, Reed, Myhra and Plato in 2001 also include reimbursement of housing expenses in the amount of $14,778, $23,040, $35,887 and $15,751, respectively. Amounts for Mr. Plato in 2001 include reimbursement of interest on mortgage loans in the amount of $55,072.

(f) Mr. Mutz resigned as CEO on June 30, 2003 but remained a Director until December 31, 2003. In February 2004, the Company and Mr. Mutz entered into a agreement, pursuant to which Mr. Mutz agreed to resign from the Board and the Company agreed to pay to Mr. Mutz the amount of $510,000, payable in equal monthly installments of $42,500 over the twelve-month period ending December 31, 2004 See COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION; CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

(g) Does not include income realized by Mr. Mutz upon cancellation of a split-dollar life insurance arrangement in December 2002 in the amount of $191,327.

(h) In lieu of a cash bonus for 2001 performance in the amount of $200,000, Mr. Mutz was awarded immediately exercisable options to purchase 100,000 shares of UICI Common Stock at an exercise price of $11.40 per share.

(i) Includes immediately exercisable options to purchase 100,000 shares of UICI Common Stock at an exercise price of $11.40 per share, which were granted to Mr. Mutz in lieu of a cash bonus for 2001 performance.

(j) Mr. Gedwed has served as a director of the Company since June 2000, and as President and Chief Executive Officer since July 1, 2003.

(k) Does not include stock options Mr. Gedwed received in his capacity as director as follows: 448 shares on May 17, 2001, 154 shares on August 3, 2001, and 150 shares on November 2, 2001.

(l) Does not include stock options Mr. Gedwed received in his capacity as director as follows: 164 shares on February 8, 2002 and 114 shares on May 3, 2002.

(m) Does not include income Mr. Gedwed received in 2001 in his capacity as a consultant of the Company in the amount of $120,000.

(n) Does not include income Mr. Gedwed received in 2002 in his capacity as a consultant of the Company in the amount of $120,000.

(o) Mr. Plato commenced employment with the Company on June 11, 2001.

AGGREGATE STOCK OPTION EXERCISES

IN 2003 AND YEAR-END VALUES

The following table summarizes for each of the named executive officers the total number of unexercised stock options held at December 31, 2003, and the aggregate dollar value of in-the-money, unexercised stock options held at December 31, 2003.

			NUMBER OF UNEXERCISED STOCK OPTIONS AT YEAR END(#)		VALUE OF UNEXERCISED IN-THE-MONEY STOCK OPTIONS AT YEAR END($)(a)	
NAME	SHARES ACQUIRED ON EXERCISE(#)	VALUE REALIZED($)	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Ronald L. Jensen						
Gregory T. Mutz(b)	90,537	451,081	246,000	154,000	1,064,130	881,620
William J. Gedwed	6,640	2,635	37,284	22,396	200,216	134,118
Glenn W. Reed			34,300	43,700	144,813	139,335
Mark D. Hauptman	3,800	2,041	3,200	13,800	11,746	28,764
Phillip J. Myhra			20,800	67,200	101,599	172,604
James N. Plato			6,000	24,000	17,140	43,660

(a) The closing stock price per share at December 31, 2003 was $13.28.

(b) As of March 29, 2004, Mr. Mutz had exercised 246,000 stock options in 2004. The 154,000 stock options that were unexercisable at December 31, 2003 were subsequently forfeited by Mr. Mutz.

During 2003 the Company did not adjust or amend the exercise price of stock options previously awarded to any of the Named Executive Officers, whether through amendment, cancellation or replacement grants or any other means.

COMPARISON OF TOTAL SHAREHOLDER RETURN

The following graph compares the cumulative total stockholder return on UICI Common Stock for the last five years with the cumulative return for the same period of the S&P 600 Small Cap Market Index and the S&P Insurance Index. The graph assumes the investment of $100 at the beginning of the period in the Company s Common Stock.

	1998	1999	2000	2001	2002	2003
UICI	100	43	24	55	63	54
S&P 600 Small Cap Market Index	100	112	124	131	111	152
S&P Insurance Index	100	74	109	85	80	106

EMPLOYEE STOCK OWNERSHIP AND SAVINGS PLAN

The Company maintains for the benefit of its and its subsidiaries employees the UICI Employee Stock Ownership and Savings Plan (the Employee Plan). The Employee Plan through its 401(k) feature enables eligible employees to make pre-tax contributions to the Employee Plan (subject to overall salary deferral limitations) and to direct the investment of such contributions among several investment options, including UICI common stock. A second feature of the Employee Plan constitutes an employee stock ownership plan (the ESOP), contributions to which are invested primarily in shares of UICI common stock. The ESOP feature allows participants to receive from UICI and its subsidiaries discretionary matching contributions and to share in certain supplemental contributions made by UICI and its subsidiaries. Shares contributed to the ESOP or purchased with the Company s contributions are allocated to the participant s account on a monthly basis, and forfeitures are allocated to employees who are participants on the last day of the plan year based upon the ratio of each participant s annual credited compensation (up to $40,000) to the total annual credited compensation of all participants entitled to share in such contributions for such Plan Year. Effective January 1, 2002, contributions by UICI and its subsidiaries to the Employee Plan under the ESOP feature currently vest in prescribed increments over a six-year period.

BENEFICIAL OWNERSHIP OF COMMON STOCK

The following table sets forth the number of shares of Common Stock beneficially owned and the percentage of Common Stock so owned, as of March 29, 2004, by (a) each person known by management to own beneficially five percent or more of the Company s Common Stock, (b) each director of the Company, each nominee for director of the Company and each Named Executive Officer and (c) all directors and executive officers as a group:

Name & Address of Beneficial Owner	Common Shares Beneficially Owned	Percent of Common Stock
Ronald L. Jensen 6500 N. Beltline Road, Suite 170 Irving, TX 75063	7,949,722(1)	17.09%
Comerica Bank, as Trustee(2) One Detroit Center Detroit, MI 48275	3,102,579	6.67%
Dimensional Fund Advisors 1299 Ocean Avenue, 11th Floor Santa Monica, CA 90401	3,058,600	6.58%
Onward and Upward, Inc. 6500 N. Beltline Road Irving, TX 75063	2,734,483	5.88%
William J. Gedwed	75,489(3)(4)	(5)
Glenn W. Reed	92,889(3)(6)	(5)
Richard T. Mockler	22,769(7)	(5)
Mural R. Josephson	3,146(8)	(5)
R.H. Mick Thompson	-0-	(5)
Dennis C. McCuistion	300	(5)
Stuart D. Bilton	19,297(12)	(5)
Thomas P. Cooper, M.D.	8,031(13)	(5)
Phillip J. Myhra	76,067(3)(9)	(5)
James N. Plato	24,548(3)(10)	(5)
Mark D. Hauptman	35,931(3)(11)	(5)
All executive officers and directors (16 individuals) as a group	8,579,814	18.44%

(1) Includes 4,100,000 shares held by Mr. Jensen s spouse and 8,000 shares held by Special Investment Risks, Ltd., which is owned by Mr. Jensen. Does not include shares held directly or indirectly by Mr. Jensen s five adult children, as to which Mr. Jensen disclaims beneficial ownership. Mr. Jensen s adult children directly hold in the aggregate approximately 5% of the outstanding Common Stock. Mr. Jensen s adult children are also the stockholders of Onward and Upward, Inc., which holds approximately 5.88% of the outstanding Common Stock. Does not include 897,710 (1.9%) shares owned by various foundations and trusts controlled by Mr. Jensen s adult children, as to which Mr. Jensen disclaims beneficial ownership.

(2) Represents shares held as Trustee under the Company s Employee Stock Ownership and Savings Plan. See Employee Stock Ownership and Savings Plan.

(3) Includes shares of Common Stock held by the Trustee under the Company s Employee Stock Ownership and Savings Plan. The shares of Common Stock held by the Trustee under the Plan that are purchased with contributions made by the Company are subject to the vesting requirements of the Plan.

(4) Includes 47,419 shares subject to options exercisable within 60 days.

(5) Represents less than 1% of outstanding UICI Common Stock.

(6) Includes 44,200 shares subject to options exercisable within 60 days.

(7) Includes 3,787 shares subject to options exercisable within 60 days.

(8) Includes -0- shares subject to options exercisable within 60 days.

(9) Includes 34,400 shares subject to options exercisable within 60 days.

(10) Includes 10,000 shares subject to options exercisable within 60 days.

(11) Includes 5,600 shares subject to options exercisable within 60 days.

(12) Includes 4,379 shares subject to options exercisable within 60 days.

(13) Includes 706 shares subject to options exercisable within 60 days.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Under the securities laws of the United States, the Company s directors, executive and certain officers, and any persons holding more than ten percent of the Company s common stock are required to report their ownership of the Company s common stock and any changes in that ownership to the Securities and Exchange Commission (the Commission) and, in the Company s case, The New York Stock Exchange. Specific due dates for these reports have been established and the Company is required to report in this proxy statement any failure to file by these dates during 2003. Based solely upon a review of Reports on Forms 3, 4 and 5 and any amendments thereto furnished to the Company pursuant to Section 16 of the Securities Exchange Act of 1934, as amended, and written representations from the executive officers and directors that no other reports were required, the Company believes that all of such reports were filed on a timely basis by executive officers and directors during 2003.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION;

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Introduction

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

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

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

Compensation Committee Interlocks and Insider Participation

No member of our Board s Executive Compensation Committee (of which R.H. Mick Thompson (Chairman), Stuart D. Bilton and Thomas P. Cooper, M.D. currently serve as members and of which, following the 2004 Annual Meeting, R.H. Mick Thompson (Chairman), Dennis C. McCuistion and Mural R. Josephson will serve as members) has served as one of our officers or employees at any time. None of our executive officers serve as a member of the compensation committee of any other company that has an executive officer serving as a member of our Board of Directors. None of our executive officers serves as a member of the board of directors of any other company that has an executive officer serving as a member of our Board s Compensation Committee.

Transactions with Mr. Jensen and Jensen Affiliates

Special Investment Risks, Ltd.

From the Company s inception through 1996, Special Investment Risks, Ltd. (SIR) (formerly United Group Association, Inc. (UGA)) sold health insurance policies that were issued by AEGON USA and coinsured by the Company or policies issued directly by the Company. SIR is owned by Mr. Jensen. Effective January 1, 1997, the Company acquired the agency force and certain tangible assets of SIR.

In accordance with the terms of the asset sale to the Company, SIR retained the right to receive all commissions on policies written prior to January 1, 1997, including the policies previously issued by AEGON and coinsured by the Company and the policies previously issued directly by the Company. The commissions paid to SIR on the coinsured policies issued by AEGON are based on commission rates negotiated and agreed to by AEGON and SIR at the time the policies were issued prior to 1997, and the commission rates paid on policies issued directly by the Company are commensurate with the AEGON renewal commission rates. The Company expenses its proportionate share of commissions payable to SIR on co-insured policies issued by AEGON. During 2003, SIR received insurance commissions of $559,000 on the policies previously issued by AEGON prior to January 1, 1997 and coinsured by the Company. During 2003, SIR received commissions of $2.7 million on policies issued prior to January 1, 1997 and issued directly by the Company.

In accordance with the terms of an amendment, dated July 22, 1998, to the terms of the sale of the UGA assets to the Company, SIR was granted the right to retain 10% of net renewal commissions (computed at the UGA Association Field Services agency level) on any new business written by the UGA agency force after January 1, 1997. In an effort to simplify the calculation of the payments to be made to Mr. Jensen and to clarify with specificity the business subject to this override arrangement, effective October 1, 2003 the Company and SIR entered into an amendment to the asset sale agreement, the principal effect of which is to change the basis of the override calculation from a multiple of renewal commissions received by UGA Association Field Services to a multiple of commissionable renewal premium received. Based on management s projections of future business, the Company estimates that the absolute amount of future override commission to be paid to SIR pursuant to the amendment will not vary in any material respect from that expected to be paid in accordance with the prior arrangement. During the year ended December 31, 2003, the Company paid to SIR the amount of $3.7 million pursuant to this arrangement.

In October 2003, Mr. Jensen (through SIR) paid to the Company $303,000 to fund an obligation owing to an agent stock accumulation plan established for the benefit of UGA agents and field service representatives. Mr. Jensen incurred this obligation prior to the Company s purchase of the UGA agency in 1997.

Richland State Bank

Richland State Bank (RSB) is a state-chartered bank in which Mr. Jensen holds a 100% equity interest. In accordance with the terms of a loan origination agreement with Academic Management Services Corp. (AMS), RSB historically provided to AMS certain loan origination and underwriting services with respect to an AMS student loan program for students in post-secondary education (primarily graduate health curricula). In accordance with the origination agreement, RSB originated the student loans and resold such loans to AMS at par plus an origination fee of 31 basis points (0.31%). In addition, the agreement provided

that AMS was required to prefund all loans originated by RSB by depositing on account at RSB cash sufficient to fund the loans. During 2003, RSB originated $26.3 million aggregate principal amount of student loans for AMS, for which RSB received $82,000 in origination fees.

Following announcement of collateral deficiencies at AMS in July 2003, AMS terminated the uninsured alternative student loan program for which RSB acts as originator. However, loans and loan commitments in process prior to July 16, 2003 have been and will continue to be funded. In an effort to free up cash to be used for operations at AMS, on September 25, 2003, AMS and RSB entered into an amendment to the loan origination agreement, pursuant to which RSB agreed to release to AMS restricted cash on deposit (approximately $2.0 million) and hold the student loans until December 31, 2003 (in the case of fully funded loans) and May 20, 2004 (in the case of second disbursements).

All obligations of AMS under the loan origination agreement with RSB, as amended by the agreement dated September 25, 2003, were guaranteed by UICI. On November 18, 2003, UICI sold all of its equity interest in AMS to an unaffiliated third party and, in connection with such sale, the purchaser agreed to indemnify and hold UICI harmless from any future liability associated with UICI s guaranty.

RSB also has provided student loan origination services for the Company s former College Fund Life Insurance Division of MEGA and Mid-West. Pursuant to a Loan Origination and Purchase Agreement, dated June 12, 1999, as amended, RSB has originated student loans and resold such loans to UICI Funding Corp. 2 (Funding) (a wholly owned subsidiary of UICI) at par (plus accrued interest). During 2003, RSB originated $15.7 million aggregate principal amount plus accrued interest of student loans for the College Fund Life Division. In addition, during 2003, RSB collected on behalf of, and paid to, Funding $1.4 million in guarantee fees paid by student borrowers in connection with the origination of student loans.

In June 1999, RSB entered into a service agreement with the Company s former College Fund Life Division, pursuant to which College Fund Life Division provides underwriting services to permit RSB to approve prospective student loans. During 2003, RSB collected on behalf of and collectively paid to College Fund Life Division the amount of $390,000, representing origination fees paid by student borrowers in connection with the origination of student loans.

During 2003, Funding received from RSB interest income in the amount of $3,000 on money market reserve accounts maintained at RSB by the Company.

Specialized Association Services, Inc.

Pursuant to an agreement entered into in July 1998 and terminated effective December 31, 2002 (the July 1998 Agreement), Specialized Association Services, Inc. (SAS) (which is controlled by Mr. Jensen s adult children) paid UICI Marketing for certain benefits provided to association members. UICI Marketing, in turn, purchased such benefits from third parties (including National Motor Club of America, which is controlled by the Jensen family). During 2002 and 2001, SAS paid to UICI Marketing $14.4 million and $15.0 million, respectively, pursuant to the terms of the July 1998 Agreement. At December 31, 2002, SAS owed to UICI Marketing the amount of $887,000 pursuant to the July 1998 Agreement (which amount was subsequently paid). Of the amounts paid by SAS to UICI Marketing under the July 1998 Agreement for association membership benefits during 2002 and 2001, UICI Marketing in turn paid to National Motor Club of America $161,000 and $1.4 million, respectively, for association membership benefits. Included in the 2002 amount paid to UICI Marketing was $3.3 million that was in turn remitted to another non-insurance subsidiary of the Company that provides subscribers with a benefit consisting of educational materials describing the tax deductibility of health premiums and costs.

Upon termination of the July 1998 Agreement effective December 31, 2002, SAS and Benefit Administration for the Self-Employed, LLC (BASE 105) (an 80% owned subsidiary of the Company) entered into a new agreement effective January 1, 2003 (the January 2003 Agreement), which January 2003 Agreement automatically renews each year unless notice of termination is given to either party on or before October 1 of such year. The January 2003 Agreement has been renewed for 2004. Pursuant to the

January 2003 Agreement, in 2003 SAS paid UICI Marketing (as the administrator for BASE 105) the amount of $2.8 million, which UICI Marketing in turn paid to BASE 105.

The Impact Creative Group (ICG), a division of UICI Marketing, provides various printing and video services. During 2003, 2002 and 2001, SAS paid ICG $221,000, $227,000 and $-0-, respectively, for various printing and video services.

During 2002, SAS began purchasing directly from MEGA certain ancillary benefit products (including accidental death, hospital confinement and emergency room benefits) for the benefit of the membership associations that make available to their members the Company s health insurance products. The aggregate amount paid by SAS in 2003 to MEGA for these benefit products was $10.9 million.

During 2003, the Company paid to SAS $24,000 for various services and reimbursement of expenses. The Company received from SAS $269,000 during 2003 for reimbursement of expenses. During 2003, SAS paid to MEGA $246,000 for leased office facilities.

NetLojix Communications, Inc.

At December 31, 2002, Mr. Jensen and his adult children beneficially held in the aggregate approximately 59% of the issued capital stock of NetLojix Communications, Inc (NetLojix). As part of a going private transaction completed in June 2003, the Jensen family disposed of its entire investment interest in NetLojix.

Until November 2002, NetLojix provided long distance voice telecommunications services to the Company and its subsidiaries, pursuant to a series of agreements originally executed in 1998 and most recently extended for a two-year period in November 2000. The Company s most recent agreement with NetLojix expired on October 31, 2002 and was not extended upon expiration. The Company paid NetLojix $161,000 during the six months ended June 30, 2003 and $2.5 million and $2.3 million for the years 2002 and 2001, respectively, for long distance telecommunications and transition services provided under the contract that expired on October 31, 2002.

On August 23, 2002, UICI and NetLojix entered into a one-year master services agreement, pursuant to which NetLojix provided to UICI and its subsidiaries certain technical support services. During the six months ended June 30, 2003 and year ended December 31, 2002, the Company paid to NetLojix $16,000 and $40,000, respectively, pursuant to this agreement.

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

Mr. Jensen s five adult children hold in the aggregate 100% of the equity interest in Onward & Upward, Inc. (OUI), the holder of approximately 5.9% of the Company s outstanding Common Stock.

OUI formerly held a 21% equity interest in U.S. Managers Life Insurance Company, Ltd., a Turks and Caicos Islands domiciled insurer (U.S. Managers). U.S. Managers was subsequently merged into United Group Reinsurance Company, a Turks and Caicos Islands domiciled insurer, effective December 31, 2003. UICI held the remaining 79% majority interest in U.S. Managers. The shares held by OUI were subject to the terms of a Stock Agreement, dated as of January 3, 1992, as amended (the Stock Agreement), between UICI and OUI, pursuant to which OUI had a put, and UICI had a corresponding obligation to purchase, the minority interest in U.S. Managers at a formula price generally equal to the cost of such minority interest plus (or minus) cumulative earnings (losses) of U.S. Managers. OUI notified UICI of its intent to exercise its put and sell its 21% minority interest in U.S. Managers at the formula price calculated as of July 31, 2003, and UICI and OUI entered into a Purchase Agreement governing the terms of the exercise of the put and sale to UICI of the minority interest. In accordance with the terms of the Purchase Agreement, on August 26, 2003, UICI purchased the 21% minority interest in U.S. Managers from OUI for a purchase price of $863,000, representing the formula price at July 31, 2003.

In 2003, the Company paid $259,000 to Small Business Ink (a division of Specialized Association Services, Inc., in which the adult children of Mr. Jensen own a 99% equity interest) for printing services.

Sun Communications, Inc. Litigation

On May 13, 2003, the Company, Mr. Jensen and the plaintiffs reached agreement on a full and final settlement of litigation *(Sun Communications, Inc. v. SunTech Processing Systems, LLC, UICI, Ronald L. Jensen, et al)*concerning the distribution of the cash proceeds from the sale and liquidation of SunTech Processing Systems, LLC (STP) assets in February 1998 (the Sun Litigation).

Effective April 2, 2002, the Company and Mr. Jensen entered into an Assignment and Release Agreement, which, among other things, transferred UICI s financial and other rights and obligations in STP to Mr. Jensen and effectively terminated the Company s active participation in, and limited the Company s financial exposure associated with, the Sun Litigation. As part of the terms of the Assignment and Release Agreement, UICI granted to Mr. Jensen an irrevocable option to purchase and to receive an assignment of UICI s membership interests, including without limitation all of UICI s Class A Interests and Class B Interests (constituting an 80% economic interest) in STP for an exercise price of $100. Following settlement of the Sun Litigation, and pursuant to the terms of an agreement dated as of June 17, 2003, by and between UICI and Mr. Jensen, Mr. Jensen exercised his option to purchase UICI s membership interests in STP, and UICI assigned and transferred to Mr. Jensen all of the Company s right, title and interest in and to such STP membership interests.

Transactions with National Motor Club

An investor group consisting of Jensen family members (including Mr. Jensen, the Company s Chairman) and Mr. Gedwed hold a 94.7% and 5.3% equity interest, respectively, in NMC Holdings, Inc. (NMC), the parent company of National Motor Club of America, Inc. (NMCA). In July 2000, MEGA and NMCA entered into an administrative service agreement, pursuant to which MEGA agreed to issue life, accident and health insurance polices to NMCA for the benefit of NMCA members in selected states. NMCA, in turn, agreed to provide to MEGA certain administrative and record keeping services in connection with the NMCA members for whose benefit the policies have been issued. Effective January 1, 2003, MEGA and NMCA entered into a similar administrative services agreement for a term ending on December 31, 2004. During 2003, NMCA paid to MEGA the amount of $1.3 million pursuant to the agreement.

During 2003, NMC paid the Company $236,000 for printing and various other services.

Other Transactions with Certain Members of Management

Transactions with Mr. Mutz

Gregory T. Mutz served as President and Chief Executive Officer of the Company until July 1, 2003, after which he continued to serve as a director and Vice Chairman of the Company until his resignation from the Board of Directors effective December 31, 2003.

AMLI Residential Properties Trust. During 2003, Mr. Mutz also served as Chairman of the Board of AMLI Residential Properties Trust, a publicly-traded real estate investment trust (AMLI Residential). As Chairman of the Board of AMLI Residential, Mr. Mutz received certain compensation and participated in various option and deferred compensation programs, all of which are described in the AMLI Residential proxy statement. In addition, as of December 31, 2003, AMLI had outstanding secured and unsecured loans owing from Mr. Mutz in the aggregate amount of $270,000, the proceeds of which had been used to purchase 108,891 shares of AMLI Residential beneficial interest.

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

As part of modifications to the ESPP adopted by the Company s Board of Directors on January 2, 2001, the Company granted to Mr. Mutz 107,104 shares of UICI common stock, discharged $1.5 million principal amount of the ESPP loan, and paid to Mr. Mutz a one-time cash bonus in the amount of $1.1 million (which was calculated to reimburse Mr. Mutz for income and other taxes payable upon receipt of the UICI stock and discharge of the portion of the ESPP loan). The terms of the ESPP loans were modified to extend the maturity date to January 1, 2007. The amount outstanding under Mr. Mutz ESPP loans at each of December 31, 2002 and 2001 was $1.3 million. The loan was paid off in full in May 2003 with a portion of the proceeds of Mr. Mutz s sale to the Company of shares of UICI common stock. *See Sale of Shares by Mr. Mutz below.*

Sale of Shares by Mr. Mutz. On May 6, 2003, the Company completed the purchase of 207,104 shares of UICI common stock from Mr. Mutz. The shares were purchased for a total purchase price of $2.8 million, or $13.67 per share, which was the closing price of UICI shares on the New York Stock Exchange on May 5, 2003. A portion of the proceeds from the sale was used to repay in full Mr. Mutz s ESPP loans in the amount of $1.3 million.

In a separate transaction, on May 8, 2003, Mr. Mutz sold 265,507 shares of UICI common stock to Mr. Jensen. All of the proceeds of such sale were used by Mr. Mutz to pay in full indebtedness owing to Mr. Jensen, which indebtedness had initially been incurred to acquire shares of UICI stock in 1998.

Separation Agreement. Pursuant to the terms of an agreement, dated as of February 11, 2004, Mr. Mutz agreed to resign from the Board of Directors of the Company effective December 31, 2003 and the Company agreed, among other things, to pay to Mr. Mutz the amount of $510,000, payable in equal monthly installments of $42,500 over the twelve-month period ending December 31, 2004.

Other Loans to Management

In accordance with the Company s Executive Stock Purchase Program (the ESPP), during 1999 the Company extended a loan to Mr. Gedwed (who was then a Vice President of the Company and who is currently the President and Chief Executive Officer and a director of the Company) in the amount of $203,000, the proceeds of which were used to purchase Company common stock. The loan to Mr. Gedwed bears interest at 5.37% per annum. The six-year term loan requires quarterly interest payments, has a six-year term, is full recourse to the borrower and is payable in full upon the occurrence of certain events, including the termination of employment. At December 31, 2003 the amount outstanding under Mr. Gedwed s ESPP loan was $139,000.

On March 10, 2000, the Company extended a loan to Mr. Myhra in the amount of $25,000, pursuant to the terms of a full recourse promissory note bearing interest at the rate of 6.69% per annum. At December 31, 2003, the amount of $25,000 was outstanding under the loan.

Other Transactions

During 2003, the Company paid investment advisory fees in the amount of $199,000 to Emerald Capital Group, Ltd., for which Mr. McLaughlin (who resigned as a director of the Company effective January 27, 2004) serves as a managing director and owner. In accordance with the terms of a Consulting Agreement dated September 14, 1999, as amended, the Company formally retained Emerald Capital Group, Ltd. to perform investment banking and insurance advisory services for an annual fee of $400,000, payable in monthly installments. During 2003, the Company paid an aggregate of $458,000 in fees and expenses to Emerald Capital Group, Ltd. for such investment banking and insurance advisory services.

During 2003, the Company paid investment advisory fees in the amount of $440,000 to The Chicago Trust Company. Stuart D. Bilton (a director of the Company until the 2004 Annual Meeting) serves as Chairman of ABN AMRO Asset Management Holdings, Inc., which in 2001 acquired The Chicago Trust Company.

In September 2003, the Company entered into an agreement with a former executive officer, pursuant to which the former officer resigned as an executive officer of the Company and as an officer of various UICI

affiliates effective September 26, 2003. In accordance with the agreement, the Company agreed, among other things, to pay to the executive severance in the amount of $419,000, of which $109,000 was paid in a lump sum and $310,000 was payable in twelve equal monthly installments in the amount of $25,833 over the period ending on September 1, 2004.

In accordance with the terms of the Company s ESPP, in June 2000 Mr. Mockler (a director of the Company), purchased 2,000 shares of UICI common stock in exchange for cash in the amount of $6,000 and a promissory note in the amount of $8,000. At each of December 31, 2003 and 2002, the amount outstanding on Mr. Mockler s note was $8,000.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee is composed of four directors and operates under a written charter. The Audit Committee held ten meetings in 2003. The meetings facilitated communication with senior management and employees, the Company s internal auditor and KPMG LLP, the Company s independent auditor. The Committee held discussions with the internal and independent auditors, both with and without management present, on the results of their examinations and the overall quality of the Company s financial reporting and internal controls.

The Audit Committee has the sole authority to appoint or replace the independent auditor, and the Committee is responsible for the oversight of the scope of the auditor s role and the determination of its compensation. The Committee regularly evaluates the performance and independence of the Company s independent auditor and, in addition, has reviewed and pre approved all services provided by KPMG LLP during 2003.

The Audit Committee oversees the Company s financial reporting process on behalf of the Board of Directors. Management, however, has the primary responsibility to establish and maintain a system of internal controls over financial reporting, to plan and conduct audits and to prepare consolidated financial statements in accordance with generally accepted accounting principles. KPMG LLP, the Company s independent auditor, is responsible for expressing an opinion on the conformity of the audited financial statements to generally accepted accounting principles and for ensuring generally acceptable auditing standards are met. The Audit Committee is responsible for monitoring and reviewing these procedures. It is not the Committee s duty or responsibility to conduct auditing or accounting reviews or procedures. The members of the Audit Committee are not employees of the Company and are not necessarily accountants or auditors by profession or experts in the fields of accounting or auditing. Therefore, the Audit Committee has relied, without independent verification, on management s representation that the consolidated financial statements of the Company have been prepared with integrity and objectivity and in conformity with generally accepted accounting principles and on the representations of the independent auditors included in their report on the Company s consolidated financial statements.

In fulfilling its oversight responsibilities, the Committee has met and held discussions with management and representatives of KPMG LLP regarding the fair and complete presentation of the Company s financial results, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements. The Committee has discussed significant accounting policies applied by the Company in its financial statements, as well as alternative treatments. The Committee has reviewed and discussed with the Company s management and representatives of KPMG LLP the annual audited and quarterly unaudited consolidated financial statements of the Company for the 2003 fiscal year (including the disclosures contained under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s Annual Report on Form 10-K for the year ended December 31, 2003 and each of the Company s Quarterly Reports on Form 10-Q filed during 2003).

The Committee has also reviewed with representatives of KPMG LLP, such matters as are required to be discussed with the Committee under Statement on Auditing Standards No. 61, *Communications with Audit Committees.* In addition, the Committee has discussed with the independent auditors the auditors indepen-

dence from management and the Company, including the matters in the written disclosures required by the Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees,* and considered the compatibility of non-audit services with the auditors independence. The Audit Committee has determined that the provision of non-audit services should not compromise KPMG LLP s independence.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors (and the Board has approved) that the audited financial statements be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2003 for filing with the Securities and Exchange Commission. The Committee has selected and appointed the Company s independent auditors, subject to shareholder ratification.

Mural R. Josephson, Chairman
Richard T. Mockler
Stuart D. Bilton
Thomas P. Cooper, M.D.

INDEPENDENT AUDITORS

In addition to retaining KPMG LLP to audit UICI s consolidated financial statements for 2003, UICI and its affiliates retained KPMG LLP and other accounting and consulting firms to provide advisory, auditing and consulting services in 2003. The Company understands the need for KPMG LLP to maintain objectivity and independence in its audit of the Company s consolidated financial statements. To minimize relationships that could appear to impair the objectivity of KPMG LLP, the UICI Audit Committee has restricted the non-audit services that KPMG LLP may provide to UICI primarily to tax services and merger and acquisition due diligence and audit services, and the Audit Committee has determined that UICI will obtain non-audit services from KPMG LLP only when the services offered by KPMG LLP are more effective or economical than services available from other service providers.

The Audit Charter provides that the Committee shall approve all non-audit engagement fees and terms with the independent accountants and all other compensation to be paid to the independent accountants. The Committee has the authority to delegate pre-approvals of non-audit services to a single member of the Audit Committee, and the Chairman of the Committee has been authorized to pre-approve non-audit services up to $50,000, not to exceed an aggregate of $100,000 in any one year. Fees for non-audit services exceeding these amounts must be approved by the full Committee.

In determining the appropriateness of a particular non-audit service to be performed by the audit firm, the Audit Committee shall consider whether the service facilitates the performance of the audit, improves the Company s financial reporting process or is otherwise in the public interest.

The aggregate fees billed for professional services by KPMG LLP in 2002 (from August 26, 2002) and 2003 were as follows:

Type of Fees	2003	2002
Audit Fees(a)	$1,505,000	$872,000
Audit-Related Fees		
Tax Fees	358,000	2,100
All Other Fees(b)	555,000	49,000
Total	$2,418,000	$923,100

(a) Amounts for 2003 include 2002 Audit Fees in the amount of $110,000 relating to audit cost overruns.

(b) Amounts for 2003 include fees in the amount of $469,000 for professional services associated with assistance in the process of documenting UICI s internal controls over processes contributing to financial reporting.

For purposes of the table above, audit fees are fees that the Company paid to the accounting firm in question for the audit of the Company s consolidated financial statements included in UICI s Annual Report on Form 10-K and review of financial statements included in Quarterly Reports on Form 10-Q, or for services that are normally provided by the accounting firm in connection with statutory and regulatory filings or engagements; non-audit fees are fees billed by the accounting firm for assurance and related services that are reasonably related to the performance of the audit or review of the Company s financial statements; tax fees are fees for tax compliance, tax advice and tax planning; and all other fees are fees billed by the accounting firm to the Company for any services not included in the first three categories. All fees in each fee category were approved by the Company s Audit Committee.

2. APPROVAL OF UGA AGENT MATCHING STOCK PLANS

The Company sponsors a series of stock accumulation plans established for the benefit of the independent insurance agents and independent sales representatives associated with UGA-Association Field Services (UGA) and New United Agency, Inc. (collectively, the UGA Agent Plans).

Generally, the UGA Agent Plans combine an agent-contribution feature and a Company-match feature. The agent-contribution feature generally provides that eligible participant-agents are permitted to allocate a portion (subject to prescribed limits) of their commissions or other income earned on a monthly basis to purchase shares of UICI common stock at the fair market value of such shares at the time of purchase. Under the Company-match feature of the plans, participants are eligible to have posted to their respective plan accounts book credits in the form of equivalent shares based on the number of shares of UICI common stock purchased by the participant under the agent-contribution feature of the plans. The matching credits vest over time (generally in prescribed increments over a ten-year period, commencing the plan year following the plan year during which contributions are first made under the agent-contribution feature), and vested matching credits in a participant s plan account in January of each year are converted from book credits to an equivalent number of shares of UICI common stock. Matching credits forfeited by participants no longer eligible to participate in the plan are reallocated each year among eligible participants and credited to eligible participants plan accounts.

The UGA Agent Plans do not constitute qualified plans under Section 401(a) of the Internal Revenue Code of 1986 or employee benefit plans under the Employee Retirement Income Security Act of 1974, and the plans are not subject to the vesting, funding, nondiscrimination and other requirements imposed on such plans by the Internal Revenue Code and ERISA.

The Company-match components of the UGA Agent Plans the UICI Agency Matching Total Ownership Plan I (the AMTOP I Plan) and the UICI Agency Matching Total Ownership Plan II (the AMTOP II Plan) constitute equity-compensation plans under the applicable rules of the New York Stock Exchange and, accordingly, are subject to approval by the stockholders of UICI. The full texts of the AMTOP I and AMTOP II Plans (which are collectively referred to herein as the UGA Agent Matching Stock Plans) are attached to this proxy statement as *Appendices B* and *C,* respectively. The discussion below is a summary only of the AMTOP I and AMTOP II Plans and does not cover all aspects of the UGA Agent Matching Stock Plans and, accordingly, stockholders may wish to review *Appendices B* and *C* in their entirety.

Purpose

The AMTOP I Plan was established by UICI, effective January 1, 1987, and amended and restated effective December 1, 2003. The AMTOP II Plan was established by UICI, effective January 1, 1996, and amended and restated effective December 1, 2003. The UGA Agent Matching Stock Plans were established to promote the mutual interests of UICI, its shareholders, and the agents contracted with participating agencies that sell insurance policies issued by or reinsured by insurance company subsidiaries of UICI and ancillary products. Through the UGA Agent Plans, UICI seeks to provide agents with a continuing incentive to sell such insurance policies and ancillary products, thereby providing UICI and its shareholders with the benefit of having agents whose performance is motivated through a closer identity of interests with UICI s shareholders.

Participation

Each UGA agent generally becomes eligible for participation in the AMTOP I Plan after completion of one full calendar year following the date the agent entered into a written contract with the participating agency and has fulfilled all eligibility requirements under the Company s plan for first year agents. Agents completing the service requirements on or after December 31, 1995 are not eligible to participate in the AMTOP I Plan but may participate in the AMTOP II Plan.

Each UGA agent generally becomes eligible for participation in the AMTOP II Plan after completion of one full calendar year following the date the agent entered into a written contract with the participating agency and has fulfilled all eligibility requirements under the Company s plan for first year agents.

Only independent agents and independent sales representatives associated with UGA or New United Agency, Inc. are eligible to participate in the UGA Agent Matching Stock Plans. Such persons are not employees of UICI or any of its subsidiaries and, accordingly, no officer, director or employee of UICI or any of its subsidiaries will receive or be allocated benefits under the UGA Agent Matching Stock Plans.

At March 17, 2004, approximately 1,500 agents associated with UGA and New United Agency, Inc. were eligible to participate in the UGA Agent Matching stock Plans.

Matching Credits, Bonus Credits and Forfeiture Credits

Under the agent-contribution feature of the UGA Agent Plans, a participant is entitled to allocate a portion of his or her commissions or compensation earned on the sale of participating agencies insurance products and/or ancillary products to purchase shares of UICI common stock. All shares so purchased under the agent-contribution feature are always vested. Under the provisions of the UGA Agent Matching Stock Plans, if an agent meets production requirements and makes an agent contribution in a given month, he or she is eligible for a matching credit for that month, which is a book credit in the form of equivalent shares equal to the number of shares purchased by the agent under the agent contribution feature of the UGA Agent Plan for that month. After the end of each year, vested matching credits are transferred from the participant s UGA Agent Matching Stock Plan book account to the participant s vested account in the form of actual shares of UICI common stock or cash. The administrator invests any cash transferred on a participant s behalf from the UGA Agent Matching Stock Plan in UICI shares, which will be newly issued UICI shares, UICI shares acquired in the open market, and/or UICI shares purchased from other UGA Agent Matching Stock Plan participants, as determined by the administrator in its sole discretion.

Participating agencies may also, in their sole discretion, award additional bonus credits to participants. Terminated participants unvested matching credits go into a forfeiture credit pool and reallocated on June 30 of each year among active participants UGA Agent Matching Stock Plan accounts in the form of forfeiture credits. Forfeiture credits are allocated to participants accounts pro rata based on the number of matching credits posted to UGA Agent Matching Stock Plan accounts between July 1 of the previous year and the June 30 allocation date. Unless otherwise directed by the administrator, bonus credits that have not vested when a participant s participation in the Plan terminates do not become part of the forfeiture credit pool.

Matching credits, bonus credits and forfeiture credits generally vest over the course of ten years, as explained further below.

Vesting of Matching Credits, Bonus Credits and Forfeiture Credits

A portion of a participant s previously unvested matching credits, bonus credits and forfeiture credits in his or her UGA Agent Matching Stock Plan account vest on each January 1 based on the participant s consecutive complete years of participation in the UGA Agent Matching Stock Plan on that date. Matching credits, bonus credits and forfeiture credits granted under the AMTOP I Plan vest over a ten year period, as more specifically described in Article 5 of the AMTOP I Plan. *See Appendix B* attached hereto. Matching credits, bonus credits and forfeiture credits granted under the AMTOP II Plan vest over a ten year period, other than matching credits, bonus credits and forfeiture credits granted to participants who previously participated in and were 100% vested in the AMTOP I Plan (in which case such credits granted under the AMTOP II Plan vest over a five year period), all as more specifically described in Article 5 of the AMTOP II Plan. *See Appendix C* attached hereto.

Administration

UICI serves as the administrator of the AMTOP I Plan and the AMTOP II Plan, and the administrator has full power and authority to control and manage the operation and administration of the UGA Agent Matching Stock Plans. Without limitation of the foregoing, the administrator reserves the right to amend or terminate the AMTOP I Plan or the AMTOP II Plan at any time and to determine and adjust, in its sole discretion and without prior notice to the participants or the participating agency, the credits payable under the UGA Agent Matching Stock Plans.

Number of Shares

The Company has designated an aggregate of 100,000 shares of UICI common stock to be delivered to eligible participants accounts under the AMTOP I Plan upon vesting of previously unvested matching, bonus

and forfeiture credits. The Company has designated an aggregate of 3,000,000 shares of UICI common stock to be delivered to eligible participants accounts under the AMTOP II Plan upon vesting of previously unvested matching, bonus and forfeiture credits. The shares of UICI common stock with respect to which awards may be made under the AMTOP I Plan and the AMTOP II Plan may be shares currently authorized but unissued and shares currently held or subsequently acquired by the Company as treasury shares, including shares purchased in the open market or in private transactions.

At February 29, 2004, an aggregate of 69,136 unvested matching, bonus and forfeiture credits had been posted to participants accounts under the AMTOP I Plan. Over the next three years, the Company anticipates crediting approximately 31,000 additional matching, bonus and forfeiture credits to participants accounts under the AMTOP I Plan. At February 29, 2004, an aggregate of 1,298,051 unvested matching, bonus and forfeiture credits had been posted to participants accounts under the AMTOP II Plan. Over the next three years, the Company anticipates crediting approximately 1,700,000 additional matching, bonus and forfeiture credits to participants accounts under the AMTOP II Plan. At February 27, 2004, the closing price per share for UICI common stock on the New York Stock Exchange was $13.64.

Amendment and Termination of UGA Agent Matching Stock Plans

UICI in its capacity as administrator of the UGA Agent Matching Stock Plans has reserved the right to amend and/or terminate the either or both of the UGA Agent Matching Stock Plans at any time. Each of the UGA Agent Matching Stock Plans will terminate as to all participants in such plan on the first to occur of (a) the date the AMTOP I Plan or the AMTOP II Plan, as the case may be, is terminated by UICI; (b) the date that UICI is judicially declared bankrupt or insolvent; or (c) the date of the dissolution, merger, consolidation, or reorganization of UICI, or the sale of all or substantially all of UICI s assets.

Tax Consequences to Participants and UICI

A participant recognizes ordinary taxable income under the UGA Agent Matching Stock Plans when his or her matching credits, bonus credits and forfeiture credits vest, in an amount equal to the closing market value of a share of UICI common stock on the business day coincident with or first preceding the vesting date, multiplied by the number of matching credits, bonus credits and forfeiture credits that vest on such date. The amount of ordinary taxable income so recognized becomes the participant s tax basis in the shares.

UICI is entitled to a tax deduction at the time a participant s matching credits, bonus credits and forfeiture credits vest in an amount equal to the ordinary income recognized by the participant.

Vote Required

The affirmative vote of the holders of a majority of the total voting power present in person or by proxy and entitled to vote at the Annual Meeting will be required for approval of the UGA Agent Matching Stock Plans. Abstentions from voting on this matter are treated as votes against, while broker non-votes are treated as shares not present and entitled to vote. Proxies solicited by the Board of Directors will be voted in favor of the proposal unless a different vote is specified.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE APPROVAL OF THE UGA AGENT MATCHING STOCK PLANS.

3. APPROVAL OF CORNERSTONE AGENT MATCHING STOCK PLANS

The Company sponsors a series of stock accumulation plans established for the benefit of the independent insurance agents and independent sales representatives associated with Cornerstone America (Cornerstone) (collectively, the Cornerstone Agent Plans).

Generally, the Cornerstone Agent Plans combine an agent-contribution feature and a Company-match feature. The agent-contribution feature generally provides that eligible participant-agents are permitted to allocate a portion (subject to prescribed limits) of their commissions or other income earned on a monthly basis to purchase shares of UICI common stock at the fair market value of such shares at the time of

purchase. Under the Company-match feature of the plans, participants are eligible to have posted to their respective plan accounts book credits in the form of equivalent shares based on the number of shares of UICI common stock purchased by the participant under the agent-contribution feature of the plans. The matching credits vest over time (generally in prescribed increments over a ten-year period, commencing the plan year following the plan year during which contributions are first made under the agent-contribution feature), and vested matching credits in a participant s plan account in January of each year are converted from book credits to an equivalent number of shares of UICI common stock. Matching credits forfeited by participants no longer eligible to participate in the plan are reallocated each year among eligible participants and credited to eligible participants plan accounts.

The Cornerstone Agent Plans do not constitute qualified plans under Section 401(a) of the Internal Revenue Code of 1986 or employee benefit plans under the Employee Retirement Income Security Act of 1974, and the plans are not subject to the vesting, funding, nondiscrimination and other requirements imposed on such plans by the Internal Revenue Code and ERISA.

The Company-match components of the UGA Agent Plans the UICI Matching Agency Contribution Plan I (the MAC I Plan) and the UICI Matching Agency Contribution Plan II (the MAC II Plan) constitute equity-compensation plans under the applicable rules of the New York Stock Exchange, and, accordingly, are subject to approval by the shareholders of UICI. The full texts of the MAC I and MAC II Plans (which are collectively referred to herein as the Cornerstone Agent Matching Stock Plans) are attached to this proxy statement as *Appendices D* and *E,* respectively. The discussion below is a summary only of the MAC I and MAC II Plans and does not cover all aspects of the Cornerstone Agent Matching Stock Plans and, accordingly, stockholders may wish to review *Appendices D* and *E* in their entirety.

Purpose

The MAC I Plan was established by UICI, effective February 1, 1991, and amended and restated effective February 1, 2004. The MAC II Plan was established by UICI, to be effective August 1, 2004. The Cornerstone Agent Matching Stock Plans were established to promote the mutual interests of UICI, its shareholders, and the agents contracted with participating agencies that sell insurance policies issued by or reinsured by insurance company subsidiaries of UICI and ancillary products. Through the Cornerstone Agent Plans, UICI seeks to provide agents with a continuing incentive to sell such insurance policies and ancillary products, thereby providing UICI and its shareholders with the benefit of having agents whose performance is motivated through a closer identity of interests with UICI s shareholders.

Participation

Each Cornerstone agent generally becomes eligible for participation in the MAC I Plan after completion of one full calendar year following the date the agent entered into a written contract with the participating agency. Agents who are 100% vested in the MAC I Plan (*see* discussion below) are no longer eligible to participate in the MAC I Plan but may participate in the MAC II Plan.

Each Cornerstone agent generally becomes eligible for participation in the MAC II Plan after completion of one full calendar year following the date the agent entered into a written contract with the participating agency and has fulfilled all eligibility requirements under the Company s plan for first year agents.

Only independent agents and independent sales representatives associated with Cornerstone are eligible to participate in the Cornerstone Agent Matching Stock Plans. Such persons are not employees of UICI or any of UICI s subsidiaries and, accordingly, no officer, director or employee of UICI or any of its subsidiaries will receive or be allocated benefits under the Cornerstone Agent Matching Stock Plans.

At March 12, 2004, approximately 1,100 agents associated with Cornerstone were eligible to participate in the Cornerstone Agent Matching Stock Plans.

Matching Credits, Bonus Credits and Forfeiture Credits

Under the agent-contribution feature of the Cornerstone Agent Plans, a participant is entitled to allocate a portion of his or her commissions or compensation earned on the sale of participating agencies insurance products and/or ancillary products to purchase shares of UICI common stock. All shares so purchased under the agent-contribution feature are always vested. Under the provisions of the Cornerstone Agent Matching Stock Plans, if an agent meets production requirements and makes an agent contribution in a given month, he or she is eligible for a matching credit for that month, which is a book credit in the form of equivalent shares equal to the number of shares purchased by the agent under the agent contribution feature of the Cornerstone Agent Plan for that month. After the end of each year, vested matching credits are transferred from the participant s Cornerstone Agent Matching Stock Plan book account to the participant s vested account in the form of actual shares of UICI common stock or cash. The administrator invests any cash transferred on a participant s behalf from the Cornerstone Agent Matching Stock Plan in UICI shares, which will be newly issued UICI shares, UICI shares acquired in the open market, and/or UICI shares purchased from other Cornerstone Agent Matching Stock Plan participants, as determined by the administrator in its sole discretion.

Participating agencies may also, in their sole discretion, award additional bonus credits to participants. Terminated participants unvested matching credits go into a forfeiture credit pool and reallocated on July 31 of each year among active participants Cornerstone Agent Matching Stock Plan accounts in the form of forfeiture credits. Forfeiture credits are allocated to participants accounts pro rata based on the number of matching credits posted to Cornerstone Agent Matching Stock Plan accounts between August 1 of the previous year and the July 31 allocation date. Unless otherwise directed by the administrator, bonus credits that have not vested when a participant s participation in the Plan terminates do not become part of the forfeiture credit pool.

Matching credits, bonus credits and forfeiture credits generally vest over the course of ten years, as explained further below.

Vesting of Matching Credits, Bonus Credits and Forfeiture Credits

A portion of a participant s previously unvested matching credits, bonus credits and forfeiture credits in his or her Cornerstone Agent Matching Stock Plan account vest on each January 31 based on the participant s consecutive complete years of participation in the Cornerstone Agent Matching Stock Plan on that date. Matching credits, bonus credits and forfeiture credits granted under the MAC I Plan vest over a ten year period, as more specifically described in Article 5 of the MAC I Plan. *See Appendix D* attached hereto. Matching credits, bonus credits and forfeiture credits granted under the MAC II Plan vest over a five year period, provided that participants previously participated in and were 100% vested in the MAC I Plan, all as more specifically described in Article 5 of the MAC II Plan. *See Appendix E* attached hereto.

Administration

UICI serves as the administrator of the MAC I Plan and the MAC II Plan, and the administrator has full power and authority to control and manage the operation and administration of the Cornerstone Agent Matching Stock Plans. Without limitation of the foregoing, the administrator reserves the right to amend or terminate the MAC I Plan or the MAC II Plan at any time and to determine and adjust, in its sole discretion and without prior notice to the participants or the participating agency, the credits payable under the Cornerstone Agent Matching Stock Plans.

Number of Shares

The Company has designated an aggregate of 1,650,000 shares of UICI common stock to be delivered to eligible participants accounts under the MAC I Plan upon vesting of previously unvested matching, bonus and forfeiture credits. The Company has designated an aggregate of 350,000 shares of UICI common stock to be delivered to eligible participants accounts under the MAC II Plan upon vesting of previously unvested matching, bonus and forfeiture credits. The shares of UICI common stock with respect to which awards may be made under the MAC I Plan and the MAC II Plan may be shares currently authorized but unissued and

shares currently held or subsequently acquired by the Company as treasury shares, including shares purchased in the open market or in private transactions.

At February 29, 2004, an aggregate of 809,469 unvested matching, bonus and forfeiture credits had been posted to participants accounts under the MAC I Plan. Over the next three years, the Company anticipates crediting approximately 840,000 additional matching, bonus and forfeiture credits to participants accounts under the MAC I Plan. At February 29, 2004, no matching, bonus and forfeiture credits had been posted to participants accounts under the MAC II Plan. Over the next three years, the Company anticipates crediting 350,000 additional matching, bonus and forfeiture credits to participants accounts under the MAC II Plan. At February 27, 2004, the closing price per share for UICI common stock on the New York Stock Exchange was $13.64.

Amendment and Termination of Cornerstone Agent Matching Stock Plans

UICI in its capacity as administrator of the Cornerstone Agent Matching Stock Plans has reserved the right to amend and/or terminate the either or both of the Cornerstone Agent Matching Stock Plans at any time. Each of the Cornerstone Agent Matching Stock Plans will terminate as to all participants in such plan on the first to occur of (a) the date the MAC I Plan or the MAC II Plan, as the case may be, is terminated by UICI; (b) the date that UICI is judicially declared bankrupt or insolvent; or (c) the date of the dissolution, merger, consolidation, or reorganization of UICI, or the sale of all or substantially all of UICI s assets.

Tax Consequences to Participants and UICI

A participant recognizes ordinary taxable income under the Cornerstone Agent Matching Stock Plans when his or her matching credits, bonus credits and forfeiture credits vest, in an amount equal to the closing market value of a share of UICI common stock on the business day coincident with or first preceding the vesting date, multiplied by the number of matching credits, bonus credits and forfeiture credits that vest on such date. The amount of ordinary taxable income so recognized becomes the participant s tax basis in the shares.

UICI is entitled to a tax deduction at the time a participant s matching credits, bonus credits and forfeiture credits vest in an amount equal to the ordinary income recognized by the participant.

Vote Required

The affirmative vote of the holders of a majority of the total voting power present in person or by proxy and entitled to vote at the Annual Meeting will be required for approval of the Cornerstone Agent Matching Stock Plans. Abstentions from voting on this matter are treated as votes against, while broker non-votes are treated as shares not present and entitled to vote. Proxies solicited by the Board of Directors will be voted in favor of the proposal unless a different vote is specified.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE APPROVAL OF THE CORNERSTONE AGENT MATCHING STOCK PLANS.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth certain information with respect to common stock that may be issued under UICI s equity compensation plans as of December 31, 2003:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders(1)	1,283,421	$10.30	2,374,890
Equity compensation plans not approved by security holders(2)(3)	2,605,963	$ 0.12	-0-
Total	3,889,384		2,374,890

(1) Includes the UICI 1987 Stock Option Plan and the Company s 2001 and 2000 Restricted Stock Plans. Under the terms of the Company s 2001 and 2000 Restricted Stock Plans, the Company may issue an additional 132,068 shares and 44,941 shares of restricted stock, respectively.

(2) Includes options granted under the AMLI Realty Co. employee stock option plan, which options were converted into the right to receive shares of the Company s Common Stock in connection with the Company s acquisition of AMLI Realty Co. in 1996. An aggregate of 25,748 shares of UICI common stock are issuable upon exercise of the options initially granted under the AMLI Realty Co. plan. The options have a weighted average exercise price of $12.43. All unexercised options under the plan expired on January 15, 2004 and no further grants of stock options will be made under this plan.

(3) Includes 2,580,215 unvested credits under the UGA Agent Matching Stock Plans and the Cornerstone Agent Matching Stock Plans, each of which is being submitted for approval by the stockholders at the 2004 Annual Meeting. During January 2004, 699,588 of the unvested credits under the plans vested and 699,588 Company treasury shares were issued to plan participants. At December 31, 2003, the Company held 1,784,730 treasury shares to fund the Company s obligation under the plans.

4. RATIFICATION OF APPOINTMENT OF AUDITORS

Although Delaware law does not require that the selection by the Audit Committee of the Company s auditors be approved each year by the shareholders, the Board of Directors believes it is appropriate to submit the Audit Committee s selection to the shareholders for their approval and to abide by the result of the shareholders vote. Subject to ratification by the shareholders, the Audit Committee reappointed the firm of KPMG LLP as the Company s independent auditors to audit the financial statements of the Company for the fiscal year ending December 31, 2004. In recommending ratification by the shareholders of the appointment of KPMG LLP, the Board of Directors has satisfied itself as to that firm s professional competence and standing.

Representatives of KPMG LLP are expected to be present at the Annual Meeting and will have the opportunity to make a statement if they so desire. Such representatives will also be available to respond to appropriate questions from shareholders at the meeting.

THE AUDIT COMMITTEE AND THE BOARD OF DIRECTORS RECOMMEND THE SHAREHOLDERS VOTE FOR THE PROPOSAL TO RATIFY THE SELECTION OF KPMG LLP AS INDEPENDENT AUDITORS FOR THE FISCAL YEAR ENDING DECEMBER 31, 2004.

5. OTHER MATTERS

The Board of Directors knows of no other matters that are likely to be brought before the Annual Meeting. However, if any other matters should be properly brought before the meeting, it is the intention of

the persons named in the accompanying form of proxy to vote, or otherwise act, with respect to any such matters in accordance with their best judgment. The persons appointed as proxies also will have discretion to vote on a motion to adjourn the Annual Meeting, if such a motion is submitted to a vote of the stockholders.

DEADLINE FOR SUBMISSION OF STOCKHOLDER PROPOSALS

AND NOMINATIONS FOR DIRECTOR
FOR ANNUAL MEETING OF STOCKHOLDERS TO BE HELD IN MAY 2005

In order for stockholder proposals that are submitted pursuant to Rule 14a-8 of the Securities Exchange Act of 1934 (the Exchange Act) to be considered by the Company for inclusion in the proxy material for the Annual Meeting of Stockholders to be held in May 2005, they must be received by the Secretary of the Company by December 10, 2004.

For proposals that stockholders intend to present at the Annual Meeting of Stockholders to be held in May 2005 outside the processes of Rule 14a-8 of the Exchange Act, unless the stockholder notifies the Secretary of the Company of such intent by March 3, 2004, the proposal will be considered untimely, and any proxy that management solicits for such Annual Meeting will confer on the holder of the proxy discretionary authority to vote on the proposal if such proposal is properly presented at the meeting.

In order for suggestions by stockholders for nominees for director to be considered by the Nominating Committee, they must be received by the Secretary of the Company by December 10, 2004. *See* Meetings and Committees of the Board of Directors Nominating & Governance Committee.

All such communications to the Secretary of the Company must be in writing and must be received by the Company at its principal executive offices at 9151 Grapevine Highway, North Richland Hills, Texas 76180-5605 by the applicable date.

Incorporation by Reference

To the extent that this Proxy Statement is incorporated by reference into any other filing by UICI under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, the sections of this Proxy Statement under the captions Audit Committee Report and Executive Compensation Committee Report and the performance graph appearing under the caption Comparison of Total Shareholder Return as well as the exhibits to this Proxy Statement, will not be deemed incorporated, unless and to the extent specifically provided otherwise in such filing.

By Order of the Board of Directors

Peggy G. Simpson
Secretary

Date: April 16, 2004

THE BOARD OF DIRECTORS HOPES THAT STOCKHOLDERS WILL ATTEND THE MEETING. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, ALL STOCKHOLDERS ARE URGED TO PROMPTLY COMPLETE, DATE, SIGN, AND RETURN THE ENCLOSED PROXY IN THE ACCOMPANYING ENVELOPE OR TO VOTE ON THE INTERNET. STOCKHOLDERS WHO ATTEND THE MEETING MAY VOTE THEIR STOCK PERSONALLY EVEN THOUGH THEY HAVE SENT IN THEIR PROXIES.

APPENDIX A

UICI

AUDIT COMMITTEE CHARTER

I. Purpose

The Audit Committee of the Board of Directors of UICI (the Company) will assist the Board of Directors in fulfilling its oversight responsibilities by assessing the processes related to the Company s risks and control environment, overseeing the integrity of the Company s financial statements and financial reporting and compliance with legal and regulatory requirements and evaluating the Company s audit processes. Consistent with this function, the Audit Committee should encourage continuous improvement of, and should foster adherence to, the Company s policies, procedures and practices at all levels.

The Audit Committee s primary duties and responsibilities are to:

Appoint the Company s independent accountants, monitor their qualifications and independence and be responsible for their compensation.

Serve as an independent and objective party to monitor the Company s financial reporting process and internal control system.

Review and appraise the audit efforts of the Company s independent accountants and internal audit staff.

Provide an open avenue of communication between and among the independent accountants, financial and senior management, the internal auditing department and the Board of Directors.

II. Composition of Audit Committee

The Audit Committee shall consist of three or more directors as determined by the Board, each of whom shall have no relationship to the Company that may interfere with the exercise of his or her independence from management and the Company. Members of the Audit Committee shall meet the qualification standards set by the New York Stock Exchange and as set forth in the Securities Exchange Act of 1934, as amended (the Exchange Act), and the rules and regulations promulgated under the Exchange Act, and set by any other regulatory body having jurisdiction over the Company from time to time.

Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Company or an outside consultant.

The members of the Committee shall be elected by the Board at the annual organizational meeting of the Board and shall serve until the next annual organizational meeting and until their successors shall be duly elected and qualified. Directors fees are the only compensation (which may be in the form of stock-based or other compensation if such compensation is available to all directors) that a Committee member may receive from the Company. In making such elections, the Board shall consider the recommendation of the Nominating & Governance Committee, and the views of the Chairman of the Board and the Chief Executive Officer, as appropriate. The Board shall have the power at any time to change the membership of the Audit Committee and to fill vacancies in it, subject to such new member(s) satisfying the qualification requirements referred to in this section. Unless a Chair is elected by the full Board, the members of the Committee may designate a Chair by majority vote of the full Committee membership. Except as expressly provided in this Charter or the by-laws of the Company or the Corporate Governance Guidelines of the Company, or as otherwise provided by law of the rules of the New York Stock Exchange, the Audit Committee shall set its own rules of procedure.

ARTICLE II.

III. Meetings

The Committee shall meet at least four times annually (either by meeting or teleconference), or more frequently as circumstances dictate. As part of its job to foster open communication, the Committee should meet at least annually with management, the internal auditors and the independent accountants in separate executive sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately. In addition, the Committee should review the Company s financial statements on a quarterly basis. Without limiting the generality of the foregoing, the Audit Committee together with management shall develop a formal calendar of activities related to those areas of responsibility prescribed in this Charter.

ARTICLE III.

IV. Authority

The Committee has full authority to conduct its duties and responsibilities as authorized by the Board of Directors.

The Audit Committee shall have the sole authority to appoint, retain, compensate, evaluate and, where appropriate, terminate the independent accountants.

The Audit Committee shall have the authority, to the extent it deems it necessary or appropriate, to retain special legal counsel, accounting or other consultants to advise the committee and carry out its duties, and to conduct or authorize investigations into any matters within its scope of responsibilities.

V. Responsibilities and Duties

1. Update Charter

The Audit Committee shall, no less frequently than annually, review and reassess the adequacy of this Charter and recommend any proposed changes to the Board for its consideration. The annual review and reassessment will be evidenced in the minutes of the Committee or by written affirmation and signature of the Committee membership.

2. Financial Reporting

The Audit Committee will review and discuss with financial management and the independent accountants the Company s annual financial statements and any reports or other financial information submitted to the Securities and Exchange Commission (the SEC) or the public, including any certification, report, opinion, or review rendered by the independent accountants, disclosures made in Management s Discussion and Analysis of Financial Condition and the matters required to be discussed pursuant to Statement on Auditing Standards No. 61, and the Audit Committee shall advise and recommend to the Board whether the audited financial statements should be included in the Company s Annual Report on Form 10-K.

The Audit Committee will discuss with management and the independent accountants the form and content of the Company s Quarterly Reports on Form 10-Q, including disclosures made in Management s Discussion and Analysis of Financial Condition, the matters required to be discussed pursuant to Statement on Auditing Standards No. 61 and the results of the independent accountant s reviews of the quarterly financial statements to the extent applicable prior to their filing and earnings press releases prior to their release. The Chair or any other designated member of the Audit Committee may represent the entire Audit Committee for purposes of this review of quarterly information.

The Audit Committee will review and discuss with management press releases (paying particular attention to any use of pro forma or adjusted non-GAAP information), as well as financial information and earnings guidance provided to analysts and rating agencies, it being understood that the Audit Committee

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may review and discuss the types and contents of presentations to be made generally and not necessarily in advance of each instance in which earnings guidance is provided.

The Audit Committee will review disclosures made by the Company s CEO and CFO regarding compliance with their certification requirements under the Sarbanes-Oxley Act of 2002 and the rules and regulations of the SEC, including with respect to the Company s disclosure controls and procedures and internal controls for financial reporting and evaluations thereof.

The Audit Committee will discuss with management and the independent accountants any correspondence with regulators or governmental agencies and any employee complaints or published reports that raise material issues regarding the Company s financial statements or accounting policies.

The Audit Committee will discuss with management any second opinions sought from an accounting firm other than the independent accountants, including the substance and reasons for seeking any such opinion.

3. Internal Audit

The Audit Committee will ensure that the Company maintains an internal audit function and that there are no unjustified restrictions or limitations on that function.

The Audit Committee will review the internal audit function of the Company, including the competence, staffing adequacy and authority of the internal auditor, the reporting relationships among the internal auditor, financial management and the Audit Committee, the internal audit reporting obligations, the proposed internal audit plans for the coming year, and the coordination of such plans with the independent accountants. The Audit Committee will consider the independent accountants judgments about the quality and appropriateness of the Company s internal auditing function, including its audit plan, responsibilities, budget and staffing.

The Audit Committee will review all internal audit reports to management prepared by the internal auditing department and management s response, and progress reports on the proposed internal audit plan, together with explanations for any deviations from the original plan.

The Audit Committee will review the appointment, reassignment or dismissal of the director of internal audit.

4. Independent Accountants

In connection with its authority to select, evaluate and, where appropriate, replace the independent accountants, the Audit Committee will have the following responsibilities:

The Audit Committee shall select the independent accountants for the Company, considering their qualifications, performance, independence and effectiveness. The Audit Committee shall approve all audit engagement fees and terms, all non-audit engagement fees and terms with the independent accountants and all other compensation to be paid to the independent accountants. The Audit Committee shall consult with management concerning these decisions, but shall not delegate these responsibilities, except that pre-approvals of non-audit services may be delegated to a single member of the Audit Committee. The Audit Committee shall review and evaluate the lead partner of the independent accountants audit team, taking into account the opinions and management and the Company s internal auditors. The Audit Committee will discharge the independent accountants when circumstances warrant.

The Audit Committee shall review and discuss with management and the independent accountants, as applicable (a) major issues regarding accounting principles and financial statement presentations, including and significant changes in the Company s selection or application of accounting principles, and major issues as to the adequacy of the Company s internal controls and any special audit steps adopted in light of material control deficiencies; (b) analyses prepared by management or the public accountants setting forth significant reporting issues and judgments made in connection with the preparation of the financial statements; including analyses of the effects of alternative GAAP methods

on the financial statements; (c) any management letter provided by the independent accountants and the Company s response to that letter; and (d) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company.

The Audit Committee shall (a) ensure that the independent accountant engaged by the Company submits on a periodic basis to the Audit Committee a formal written statement delineating all relationships between the independent accountant and the Company and (b) actively engage in a dialogue with the independent accountant engaged by the Company with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent accountant. In addition, the Audit Committee shall obtain and review and report from the independent accountants at least annually regarding (x) the independent accountant s internal quality-control procedures, (y) any material issues raised by the most recent quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm, and (z) any steps taken to deal with such issues.

The Audit Committee will assure that the lead partner of the independent accountants and the audit partner responsible for reviewing the audits are rotated off the Company s account as required by the rules and regulations of the SEC.

The Audit Committee shall recommend to the Board policies for the Company s hiring of employees or former employees of the independent accountants who were engaged on the Company s account.

The Audit Committee shall discuss with the independent accountants any communications between the audit team and the national office respecting auditing or accounting issues presented by the engagement.

The Audit Committee shall discuss with management and the independent accountants any accounting adjustments that were noted or proposed by the independent accountants but were passed (as immaterial or otherwise).

The Audit Committee shall review any reports made by the independent accountants mandated by Section 10A of the Exchange Act, and obtain from the independent accountants any information with respect to illegal acts in accordance with Section 10A.

5. Internal Controls

The Audit Committee, no less frequently than annually, will consult with the independent accountants out of the presence of management concerning the Company s financial and accounting personnel, internal accounting and disclosure controls and any recommendations for the improvement of such control procedures or particular areas where new or more detailed procedures are desirable or necessary, the fullness and accuracy of the Company s financial statements, and will review the integrity of the Company s financial reporting processes, both internal and external.

The Audit Committee shall obtain no less frequently than annually a written report from management on the effectiveness of the Company s internal controls over financial reporting.

6. Risk Management

The Audit Committee shall discuss with management the Company s major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company s risk assessment and risk management policies.

7. Process Improvements

The Audit Committee will establish regular and separate systems of reporting to the Audit Committee by each of management, the internal auditors and the independent accountants regarding any significant judgments made in management s preparation of the financial statements and the view of each as to the

appropriateness of such judgments. Following completion of the annual audit, the Committee will review separately with each of management, the internal audit department and the independent accountants:

significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information;

significant disagreement among management and the internal auditors or the independent accountants in connection with the preparation of the financial statements; and

the extent to which changes or improvements in financial or accounting practices, as approved by the Audit Committee, have been implemented.

This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as determined by the Audit Committee.

At its discretion, the Audit Committee may request that management, the independent accountants or the internal auditors undertake special projects or investigations that the Audit Committee deems necessary to fulfill its responsibilities.

8. Reports to Board

The Audit Committee shall make regular reports of its activities to the Board. The Board shall annually review the performance of the Audit Committee.

9. Ethical and Legal Compliance and Complaints

The Audit Committee will review and ensure that management has the proper review system in place to ensure that the Company s financial statements, reports and other financial information disseminated to governmental organizations and to the public satisfy all applicable legal requirements.

The Audit Committee will also meet when and as appropriate with the Company s counsel to discuss legal compliance matters, including corporate securities trading policies and legal matters that could have a significant impact on the organization s financial statements.

The Audit Committee will establish procedures for (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

10. New York Stock Exchange Reporting

In accordance with the rules and regulations of the New York Stock Exchange, the Audit Committee will take steps reasonably designed to assure that, no less frequently than annually, the Company will provide to the Exchange the following:

Written confirmation of the Audit Committee s review and reassessment of the adequacy of this Charter.

Written confirmation concerning any determination that the Board has made regarding the independence and qualifications of directors constituting members of the Audit Committee as required by Paragraph II above.

11. Audit Committee Report

The Committee will take all steps reasonably designed to assure compliance with Item 306 of Regulation S-K and Item 7(e)(3) of Schedule 14A promulgated under the Securities Exchange Act of 1934, as amended, which provide that the Audit Committee shall prepare and include in the Company s proxy statement distributed in connection with the solicitation of shareholder proxies with respect to the Company s

Annual Meeting of Stockholders a report (the Audit Committee Report). The Audit Committee Report shall include substantially the following information:

A statement whether the Audit Committee has reviewed and discussed the audited financial statements with management of the Company.

A statement whether the Audit Committee has discussed with the Company s independent accountants the matters required to be discussed by Statement on Accounting Standards No. 61, as such Statement may be modified or supplemented from time to time.

A statement whether the Audit Committee has received the written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1, as such Standard may be modified or supplemented from time to time, and has discussed with the accountants the accountants independence.

A statement whether, based on the review and discussions between the Audit Committee and management and the Company s independent accountants as outlined above, the Audit Committee recommended to the Board that the financial statements of the Company be included in the Company s annual report on Form 10-K.

In accordance with Item 306 of Regulation S-K, the name of each member of the Audit Committee will appear below the disclosure to be contained in the Audit Committee Report included in the Company s annual proxy statement.

VI. Other

The Audit Committee may perform any other activities consistent with this Charter, the Company s By-laws and governing law as the Audit Committee or the Board deems necessary or appropriate.

APPENDIX B

UICI

AGENCY MATCHING TOTAL OWNERSHIP PLAN I (AMTOP I)

ARTICLE I.

DEFINITIONS

The following terms shall have the meaning described in this Article unless the context clearly indicates another meaning.

1.1 *Account* means a separate book account of each Participant s AMTOP I Equivalent Shares, as maintained by the Administrator.

1.2 *Administrator* means UICI, or any person or persons authorized by the Board of Directors of UICI to administer AMTOP I.

1.3 *Agent* means any independent insurance agent or independent sales representative who is a member of or contracted with a Participating Agency and who is not an employee of such Participating Agency.

1.4 *Affiliates* means a wholly owned subsidiary of UICI.

1.5 *AMTOP I* means UICI Agency Matching Total Ownership Plan I, formerly known as UICI Agency Matching Total Ownership Plan (or AMTOP).

1.6 *AMTOP I Credits* means Matching Credits, Bonus Credits, and Forfeiture Credits, which the Administrator posts to Participants Accounts, as set forth in Article IV.

1.7 *AMTOP I Credit Addendum* means the addendum filed with the Administrator by each Participating Agency, which sets forth the production requirements and the Matching Percentage applicable to the Participating Agency s participating Agents. Such AMTOP I Credit Addenda are incorporated by reference into this AMTOP I plan document.

1.8 *AMTOP I Payment* means the vested portion of the AMTOP I Credits transferred to a Participant s ATOP I Account pursuant to Section 5.4.

1.9 *ATOP I* means UICI Agents Total Ownership Plan I, formerly known as UICI Agents Total Ownership Plan (or ATOP).

1.10 *ATOP II* means UICI Agents Total Ownership Plan II.

1.11 *Bonus Credits* means Equivalent Shares which a Participating Agency in its sole discretion may request the Administrator to post to Accounts of certain Participants, including but not limited to any credits under the Initial Total Ownership Plan or any other cash and wealth program of UICI or any Participating Agency or Affiliate transferred to AMTOP I.

1.12 *Calendar Year* means the twelve (12) month period commencing on January 1 and ending on December 31.

1.13 *Contract* means Independent Insurance Agent Commission-Only Contract.

1.14 *Disability* means a Participant s physical or mental disability, on account of which he or she is no longer capable of performing services for the Participating Agency and in the opinion of a physician selected by the Participating Agency, such disability is likely to be permanent and continuous during the remainder of the Participant s lifetime.

1.15 *Equivalent Shares* means a book credit representing the number of whole Shares which would have been purchased had AMTOP I Credits been invested in Shares on the date such credits were posted to each Participant s Account.

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1.16 *Forfeiture Credit Pool* means the pool of Matching Credits which are forfeited under Article V by Participants in AMTOP I who experience a Termination Date between July 1 of the prior Plan Year and June 30 of the current Plan Year.

1.17 *Forfeiture Credits* means Matching Credits transferred by the Administrator from the Forfeiture Credit Pool to the Accounts of Participants who qualify under Section 4.3.

1.18 *Matching Credit* means Equivalent Shares which the Administrator posts to each Participant s Account in any month on behalf of a Participating Agency, pursuant to Section 4.1.

1.19 *Matching Percentage* means the percentage designated from time to time by each Participating Agency on an AMTOP I Credit Addendum for purposes of determining the Matching Credits to post pursuant to Section 4.1 to a Participant s Account on behalf of the Participating Agency; provided, however, that the Matching Percentage is established initially at one hundred percent (100%).

1.20 *Participant* means an Agent who is eligible to participate in AMTOP I.

1.21 *Participating Agency* means any insurance agency, company, or other organization, which, with the consent of the Administrator, adopts AMTOP I.

1.22 *Period of Ineligibility* means a period of twelve (12) calendar months during which a person who was a Participant in AMTOP I prior to the commencement of such period is not eligible to participate in AMTOP I due to such Participant s complete withdrawal from ATOP I under Section 8.3 (a) of ATOP I.

1.23 *Plan Year* means the Calendar Year.

1.24 *Share* means a share of the common stock of UICI, $.01 par value.

1.25 *Termination Date* means the date on which the Participant s contractual relationship with the Participating Agency is terminated due to such Participant s Disability or death, or the actual date on which the Participant otherwise ceases to be a member of or contracted with the Participating Agency.

1.26 *UICI* means UICI, a Delaware corporation.

1.27 *Years of Participation* means the number of consecutive full Plan Years elapsed since the date the Participant first made a contribution under ATOP I subsequent to the end of such Participant s most recent Period of Ineligibility, if any.

ARTICLE II.

GENERAL

2.1 HISTORY AND PURPOSE AMTOP I was established by UICI, effective January 1, 1987, and is amended and restated effective December 1, 2003, to promote the mutual interests of UICI, its shareholders, and the Agents contracted with Participating Agencies that sell insurance policies issued by or reinsured by insurance company subsidiaries of UICI and ancillary products. AMTOP I seeks to provide such Agents with a continuing incentive to sell such insurance policies and ancillary products, thereby providing UICI and its shareholders with the benefit of having Agents whose performance is motivated through a closer identity of interests with UICI S shareholders. AMTOP I is not intended to be a qualified plan under Section 401 (a) of the Internal Revenue Code of 1986 (the Code) or an employee benefit plan under the Employee Retirement Income Security Act of 1974 (ERISA) and is not subject to the vesting, funding, nondiscrimination, or other requirements imposed on such plans by the Code and ERISA.

2.2 AMTOP I ADMINISTRATION The Administrator has full power and authority to control and manage the operation and administration of AMTOP I. Without limitation of the foregoing, the Administrator reserves the right to amend or terminate AMTOP I at any time and to determine and adjust, in its sole discretion and without prior notice to the Participants or the Participating Agency, the AMTOP I Credits and AMTOP I Payments payable hereunder; provided, however, that, subject to Section 5.5, the consequence of

such an adjustment or amendment may not reduce the amount of the AMTOP I Payments that have been transferred to the Participant s ATOP I Account as of the date of such amendment.

2.3 APPLICABLE LAWS AMTOP I shall be construed and administered according to the internal laws of the State of Delaware.

2.4 GENDER AND NUMBER Where the context requires, words in any gender include the other gender, words in the singular include the plural, and words in the plural include the singular.

2.5 EVIDENCE Evidence required of anyone under AMTOP I may include, but is not limited to, valid certificates, affidavits, documents, or other information considered pertinent and reliable by the Administrator.

2.6 ACTION BY ADMINISTRATOR OR PARTICIPATING AGENCY Any action required or permitted to be taken by the Administrator or any Participating Agency under AMTOP I shall be by resolution of the Board of Directors of the Administrator or the Participating Agency, or by any other method determined appropriate by such Board of Directors. If the Participating Agency is not a corporation, any action required or permitted to be taken under AMTOP I shall be by the individual or individuals authorized to take such action on behalf of the Participating Agency, as identified to Administrator. The Administrator shall have no duty to investigate or confirm the validity of such identified individual s authority to act.

ARTICLE III.

PARTICIPATION

3.1 ELIGIBILITY FOR PARTICIPATION Prior to December 31, 1995 and subject to the terms and conditions of AMTOP I, each Agent will become eligible for participation in AMTOP I after completion of one (1) full Calendar Year following the date the Agent entered into a written Contract with the Participating Agency and has fulfilled all ITOP eligibility requirements, provided that such Agent has completed an ATOP I election form and such form has been received and acknowledged by the Administrator. Agents completing the service requirements on or after December 31, 1995 are not eligible to participate in AMTOP I.

3.2 TERMINATION The Participant shall become ineligible to participate in AMTOP I on his or her Termination Date.

3.3 VESTING The Participant shall become ineligible to participate in AMTOP I on the date his or her AMTOP I Account is 100% vested pursuant to Section 5.1 hereof.

3.4 PARTICIPATION NOT CONTRACT OF EMPLOYMENT AMTOP I does not constitute a contract of employment, and participation in AMTOP I will not give any Participant the right to be retained in the service of the Participating Agency or UICI either as an employee or an independent contractor, nor to any right or claim to any benefit under AMTOP I, unless such right or claim has specifically accrued under the terms of AMTOP I.

ARTICLE IV.

AMTOP I CREDITS

4.1 MATCHING CREDIT For any given month, a Participant must meet the production requirement set forth on the applicable AMTOP I Credit Addendum and make an ATOP I contribution to be eligible for the Matching Credit. Each month the Administrator will post on behalf of a Participating Agency a Matching Credit to the AMTOP I Account of each Participant eligible for such Matching Credit. Except as provided in the applicable AMTOP I Credit Addendum, the Matching Credit posted to each Participant s Account, if any, shall equal the number of Shares purchased under ATOP I for that month with the Participant s ATOP I contribution, excluding any Enhancement Amounts (as that term is defined in ATOP I), multiplied by the

Matching Percentage. The posting date of the Matching Credit will be the same day as the Participant s Credit Date (as that term is defined in ATOP I) for the Participant s ATOP I contributions for the month.

4.2 BONUS CREDIT A Participating Agency in its sole discretion may request the Administrator to post Bonus Credits to certain Participants Accounts. Unless otherwise directed by the Administrator in any Plan Year and communicated to Participants, Bonus Credits forfeited under Article V do not become a part of the Forfeiture Credit Pool.

4.3 FORFEITURE CREDIT On June 30 of each Plan Year, the Administrator will determine and post a Forfeiture Credit to each active Participant s Account from the Forfeiture Credit Pool. Each Participant s Forfeiture Credit, to the nearest whole Equivalent Share, shall be determined by multiplying the Forfeiture Credit Pool by a fraction, the numerator of which is the total Matching Credits which were posted to the Participant s Account for the period beginning July 1 of the previous Plan Year and ending June 30 of the current Plan Year, and the denominator of which is the aggregate of the Matching Credits posted to all active Participants Accounts for the same period. For purposes of this Section 4.3, an active Participant is a Participant who is under Contract with the Participating Agency at June 30 of the current Plan Year.

4.4 DIVIDENDS A book credit equal to amount of cash dividends, if any, with respect to a Share, multiplied by the number of AMTOP I Credits in a Participant s Account, shall be credited to such Participant s Account no later than ninety (90) days after the close of the Plan Year in which such dividends are received by the Administrator. Such book credit shall be in the form of Equivalent Shares to the nearest whole Share that could be purchased with such payment.

4.5 SHARES SUBJECT TO AMTOP I The Shares with respect to which awards may be made under AMTOP I shall be shares currently authorized but unissued, currently held or subsequently acquired by UICI as treasury shares, including Shares purchased in the open market or in private transactions. Subject to the provisions of this Section 4.5, the number Shares which may be delivered under the AMTOP I shall not exceed 100,000 Shares in the aggregate. UICI will at all times reserve and keep available a sufficient number of Shares to satisfy the requirements of AMTOP I. In the event that Equivalent Shares are forfeited pursuant to the provisions of AMTOP I, such Equivalent Shares shall again be available for awards under AMTOP I.

ARTICLE V.

VESTING AND PAYMENT TO ATOP I

5.1 VESTING Subject to Section 5.2, a portion of a Participant s previously unvested Account balance shall vest on each January 1 based on the Participant s consecutive Years of Participation on that date in accordance with the following schedule. For purposes of determining the vested percentage of a Participant s Account balance, Years of Participation prior to any Period of Ineligibility will not be counted. Except as set forth in Section 5.2, a Participant s Contract with a Participating Agency must be in effect on December 31 of the prior Plan Year in order to proceed on the vesting schedule on any January 1.

Complete Years of Participation	**Vested Percentage of Previously Unvested AMTOP I Credits on January 1**
Less than 1	0%
1 but less than 5	15%
5 but less than 8	20%
8 but less than 9	25%
9 but less than 10	50%
10	100%

5.2 VESTING ON DEATH OR DISABILITY If a Participant experiences a Termination Date due to death or Disability, the Participant s AMTOP I Credits which have not vested as of such Termination Date will become 100% vested.

5.3 FORFEITURES Subject to Section 5.2, if a Participant s contractual relationship with all Participating Agencies is terminated with or without cause during the current Plan Year, then the nonvested portion of his or her Account shall be forfeited as of his or her Termination Date. Forfeited Matching Credits shall be accumulated into a Forfeiture Credit Pool to be allocated and posted pursuant to Section 4.3.

5.4 AMTOP I PAYMENT As soon as administratively practicable after January 1 of each Plan Year, each Participating Agency will make an AMTOP I Payment to the ATOP I Account of each of its active Agents participating in AMTOP I in an amount equal to the newly vested AMTOP I Credits under his or her Account (to the nearest whole Equivalent Share). The AMTOP I Payment shall be made in the form of Shares or cash equal to the amount necessary to purchase a number of Shares equal to the Participant s then vested AMTOP I Credits. Shares acquired for purposes of the AMTOP I Payment may be newly issued Shares, Shares acquired by open market purchase and/or Shares purchased from ATOP I ATOP II Participants, as determined by the Administrator in its sole discretion. At the time the AMTOP I Payment is made to the Participant s ATOP I Account, the number of such vested AMTOP I Credits will be deducted from the Participant s AMTOP I Account. For purposes of this Section 5.4, an active Agent participating in AMTOP I is a Participant under Contract with a Participating Agency on December 31 of the prior Plan Year.

5.5 REDUCTION OF AMTOP I PAYMENT In the event the Administrator or the Participating Agency shall be held liable under the federal securities laws, the securities laws of any state or otherwise to any Participant for any loss incurred by such Participant s Account in the ATOP I, then the AMTOP I Payment and any prior AMTOP I Payment shall be reduced on a dollar-for-dollar basis by the amount the Administrator or the Participating Agency credits the Participant s ATOP I Account in respect to such liability.

5.6 VALUE OF VESTED AMTOP I CREDITS The value of vested AMTOP I Credits shall be determined as of the January 1 upon which they vest by multiplying the number of AMTOP I Credits vesting on that date by the closing market price for Shares on the business day first preceding such January 1.

ARTICLE VI.

AMENDMENT AND TERMINATION OF PLAN

6.1 AMENDMENT The Administrator reserves the right to amend AMTOP I at any time. Without limitation of the foregoing, subject to Section 5.5, such amendment may not reduce a Participant s AMTOP I Payment to an amount less than what the Participant would be entitled to receive if he or she experienced a Termination Date with the Participating Agency on the day immediately preceding the effective date of the Amendment. The Board of Directors of any Participating Agency may revise any part of its AMTOP I Credit Addendum, including the stated Matching Percentage, by filing an amended AMTOP I Credit Addendum with the Administrator. Amendments will become effective forty-five (45) days after notice of such amendment is distributed to Participants in accordance with procedures established by the Administrator, in its sole discretion, from time to time.

6.2 TERMINATION While UICI expects and intends to continue AMTOP I, it reserves the right to terminate AMTOP I at any time. AMTOP I will terminate as to all Participants on the first to occur of the following:

(a) the date AMTOP I is terminated by UICI;

(b) the date that UICI is judicially declared bankrupt or insolvent; or

(c) the date of the dissolution, merger, consolidation, or reorganization of UICI, or the sale of all or substantially all of UICI s assets, except that arrangements may be made whereby AMTOP I will be continued by any successor to UICI or any purchaser of substantially all of UICI s assets, in which case the successor or purchaser will be substituted for UICI under AMTOP I.

6.3 WITHDRAWAL OF PARTICIPATING AGENCY A Participating Agency may withdraw its participation in AMTOP I, or the Administrator may terminate any Participating Agency s participation in AMTOP I by submitting written notification of such event to the other party at least thirty (30) days prior to the effective date of such withdrawal or termination of participation. In the event a Participating Agency notifies the Administrator that it ceases to adopt AMTOP I, or the Administrator withdraws its consent to the adoption of AMTOP I by a Participating Agency, AMTOP I shall terminate as to all Participants who are members of or contracted with such Participating Agency, as of the effective date of either such notice.

6.4 AMTOP I PAYMENTS ON TERMINATION On termination of AMTOP I in accordance with Sections 6.2 or 6.3, vesting of AMTOP I Credits will be at the sole discretion of the Participating Agency. Each Participant s final AMTOP I Payment, if any, will be made as soon as administratively practicable following the date of such termination in accordance with Section 5.4. Subject to Section 5.5, no termination may retroactively reduce AMTOP I Credits previously transferred to a Participant s ATOP I Account.

6.5 NOTICE OF AMENDMENT The Administrator will notify affected Participants of any material amendment or termination of AMTOP I.

APPENDIX C

UICI

AGENCY MATCHING TOTAL OWNERSHIP PLAN II (AMTOP II)

ARTICLE I.

DEFINITIONS

The following terms shall have the meaning described in this Article unless the context clearly indicates another meaning.

1.1 *Account* means a separate book account of each Participant s AMTOP II Equivalent Shares, as maintained by the Administrator.

1.2 *Administrator* means UICI, or any person or persons authorized by the Board of Directors of UICI to administer AMTOP II.

1.3 *Agent* means any independent insurance agent or independent sales representative who is a member of or contracted with a Participating Agency and who is not an employee of such Participating Agency.

1.4 *Affiliates* means a wholly owned subsidiary of UICI.

1.5 *AMTOP II* means UICI Agency Matching Total Ownership Plan II.

1.6 *AMTOP II Credits* means Matching Credits, Bonus Credits, and Forfeiture Credits, which the Administrator posts to Participants Accounts, as set forth in Article IV.

1.7 *AMTOP II Credit Addendum* means the addendum filed with the Administrator by each Participating Agency, which sets forth the production requirements and the Matching Percentage applicable to the Participating Agency s participating Agents. Such AMTOP II Credit Addenda are incorporated by reference into this AMTOP II plan document.

1.8 *AMTOP II Payment* means the vested portion of the AMTOP II Credits transferred to a Participant s ATOP II Account pursuant to Section 5.6.

1.9 *ATOP I* means UICI Agents Total Ownership Plan I, formerly known as UICI Agents Total Ownership Plan (or ATOP).

1.10 *ATOP II* means UICI Agents Total Ownership Plan II.

1.11 *Bonus Credits* means Equivalent Shares which a Participating Agency in its sole discretion may request the Administrator to post to Accounts of certain Participants, including but not limited to any credits under the Initial Total Ownership Plan or any other cash and wealth program of UICI or any Participating Agency or Affiliate transferred to AMTOP II.

1.12 *Calendar Year* means the twelve (12) month period commencing on January 1 and ending on December 31.

1.13 *Contract* means Independent Insurance Agent Commission-Only Contract.

1.14 *Disability* means a Participant s physical or mental disability, on account of which he or she is no longer capable of performing services for the Participating Agency and in the opinion of a physician selected by the Participating Agency, such disability is likely to be permanent and continuous during the remainder of the Participant s lifetime.

1.15 *Equivalent Shares* means a book credit representing the number of whole Shares which would have been purchased had AMTOP II Credits been invested in Shares on the date such credits were posted to each Participant s Account.

1.16 *Forfeiture Credit Pool* means the pool of Matching Credits which are forfeited under Article V by Participants in AMTOP II who experience a Termination Date between July 1 of the prior Plan Year and June 30 of the current Plan Year.

1.17 *Forfeiture Credits* means Matching Credits transferred by the Administrator from the Forfeiture Credit Pool to the Accounts of Participants who qualify under Section 4.3.

1.18 *Matching Credit* means Equivalent Shares which the Administrator posts to each Participant s Account in any month on behalf of a Participating Agency, pursuant to Section 4.1.

1.19 *Matching Percentage* means the percentage designated from time to time by each Participating Agency on an AMTOP II Credit Addendum for purposes of determining the Matching Credits to post pursuant to Section 4.1 to a Participant s Account on behalf of the Participating Agency; provided, however, that the Matching Percentage is established initially at one hundred percent (100%).

1.20 *Participant* means an Agent who is eligible to participate in AMTOP II.

1.21 *Participating Agency* means any insurance agency, company, or other organization, which, with the consent of the Administrator, adopts AMTOP II.

1.22 *Period of Ineligibility* means a period of twelve (12) calendar months during which a person who was a Participant in AMTOP II prior to the commencement of such period is not eligible to participate in AMTOP II due to such Participant s complete withdrawal from ATOP II under Section 8.3 of that plan.

1.23 *Plan Year* means the Calendar Year.

1.24 *Share* means a share of the common stock of UICI, $.01 par value.

1.25 *Termination Date* means the date on which the Participant s contractual relationship with the Participating Agency is terminated due to such Participant s Disability or death, or the actual date on which the Participant otherwise ceases to be a member of or contracted with the Participating Agency.

1.26 *UICI* means UICI, a Delaware corporation.

1.27 *Years of Participation* means the number of consecutive full Plan Years elapsed since the date the Participant first made a contribution under ATOP II subsequent to the end of such Participant s most recent Period of Ineligibility, if any.

ARTICLE II.

GENERAL

2.1 HISTORY AND PURPOSE AMTOP II was established by UICI, effective January 1, 1996, and is amended and restated effective December 1, 2003, to promote the mutual interests of UICI, its shareholders, and the Agents contracted with Participating Agencies that sell ancillary products and insurance policies issued or reinsured by insurance company subsidiaries of UICI. AMTOP II seeks to provide such Agents with a continuing incentive to sell such insurance policies and ancillary products, thereby providing UICI and its shareholders with the benefit of having Agents whose performance is motivated through a closer identity of interests with UICI S shareholders. AMTOP II is not intended to be a qualified plan under Section 401 (a) of the Internal Revenue Code of 1986 (the Code) or an employee benefit plan under the Employee Retirement Income Security Act of 1974 (ERISA) and is not subject to the vesting, funding, nondiscrimination, or other requirements imposed on such plans by the Code and ERISA.

2.2 AMTOP II ADMINISTRATION The Administrator has full power and authority to control and manage the operation and administration of AMTOP II. Without limitation of the foregoing, the Administrator reserves the right to amend or terminate AMTOP II at any time and to determine and adjust, in its sole discretion and without prior notice to the Participants or the Participating Agency, the AMTOP II Credits and AMTOP II Payments payable hereunder; provided, however, that, subject to Section 5.7, the consequence of

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such an adjustment or amendment may not reduce the AMTOP II Payments that have been transferred to the Participant s ATOP II Account as of the date of such amendment.

2.3 APPLICABLE LAWS AMTOP II shall be construed and administered according to the internal laws of the State of Delaware.

2.4 GENDER AND NUMBER Where the context requires, words in any gender include the other gender, words in the singular include the plural, and words in the plural include the singular.

2.5 EVIDENCE Evidence required of anyone under AMTOP II may include, but is not limited to, valid certificates, affidavits, documents, or other information considered pertinent and reliable by the Administrator.

2.6 ACTION BY ADMINISTRATOR OR PARTICIPATING AGENCY Any action required or permitted to be taken by the Administrator or any Participating Agency under AMTOP II shall be by resolution of the Board of Directors of the Administrator or the Participating Agency, or by any other method determined appropriate by such Board of Directors. If the Participating Agency is not a corporation, any action required or permitted to be taken under AMTOP II shall be by the individual or individuals authorized to take such action on behalf of the Participating Agency, as identified to Administrator. The Administrator shall have no duty to investigate or confirm the validity of such identified individual s authority to act.

ARTICLE III.

PARTICIPATION

3.1 ELIGIBILITY FOR PARTICIPATION Subject to the terms and conditions of AMTOP II, each Agent will become eligible for participation in AMTOP II after completion of one (1) full Calendar Year following the date the Agent entered into a written Contract with the Participating Agency and has fulfilled all ITOP eligibility requirements, provided that such Agent has completed an ATOP II election form and such form has been received and acknowledged by the Administrator.

3.2 TERMINATION The Participant shall become ineligible to participate in AMTOP II on his Termination Date.

3.3 PARTICIPATION NOT CONTRACT OF EMPLOYMENT AMTOP II does not constitute a contract of employment, and participation in AMTOP II will not give any Participant the right to be retained in the service of the Participating Agency or UICI either as an employee or an independent contractor, nor to any right or claim to any benefit under AMTOP II, unless such right or claim has specifically accrued under the terms of AMTOP II.

ARTICLE IV.

AMTOP II CREDITS

4.1 MATCHING CREDIT For any given month, a Participant must meet the production requirement set forth on the applicable AMTOP II Credit Addendum and make an ATOP II contribution to be eligible for the Matching Credit. Each month the Administrator will post on behalf of a Participating Agency a Matching Credit to the AMTOP II Account of each Participant eligible for such Matching Credit. Except as provided in the applicable AMTOP II Credit Addendum, the Matching Credit posted to each Participant s Account, if any, shall equal the number of Shares purchased under ATOP II for that month with the Participant s ATOP II contribution, excluding any Enhancement Amounts (as that term is defined in ATOP II), multiplied by the Matching Percentage. The posting date of the Matching Credit will be the same day as the Participant s Credit Date (as that term is defined in ATOP II) for the Participant s ATOP II contributions for the month.

4.2 BONUS CREDIT A Participating Agency in its sole discretion may request the Administrator to post Bonus Credits to certain Participants Accounts. Unless otherwise directed by the Administrator in any

Plan Year and communicated to Participants, Bonus Credits forfeited under Article V do not become a part of the Forfeiture Credit Pool.

4.3 FORFEITURE CREDIT On June 30 of each Plan Year, the Administrator will determine and post a Forfeiture Credit to each active Participant s Account from the Forfeiture Credit Pool. Each Participant s Forfeiture Credit, to the nearest whole Equivalent Share, shall be determined by multiplying the Forfeiture Credit Pool by a fraction, the numerator of which is the total Matching Credits which were posted to the Participant s Account for the period beginning July 1 of the previous Plan Year and ending June 30 of the current Plan Year, and the denominator of which is the aggregate of the Matching Credits posted to all active Participants Accounts for the same period. For purposes of this Section 4.3, an active Participant is a Participant who is under Contract with the Participating Agency at June 30 of the current Plan Year.

4.4 DIVIDENDS A book credit equal to amount of cash dividends, if any, with respect to a Share, multiplied by the number of AMTOP II Credits in a Participant s Account, shall be credited to such Participant s Account not later than ninety (90) days after the close of the Plan Year in which such dividends are received by the Administrator. Such book credit shall be in the form of Equivalent Shares to the nearest whole Share that could be purchased with such payment.

4.5 SHARES SUBJECT TO AMTOP II The Shares with respect to which awards may be made under AMTOP II shall be shares currently authorized but unissued, currently held or subsequently acquired by UICI as treasury shares, including Shares purchased in the open market or in private transactions. Subject to the provisions of this Section 4.5, the number Shares which may be delivered under the AMTOP II shall not exceed 3,000,000 Shares in the aggregate. UICI will at all times reserve and keep available a sufficient number of Shares to satisfy the requirements of AMTOP II. In the event that Equivalent Shares are forfeited pursuant to the provisions of AMTOP II, such Equivalent Shares shall again be available for awards under AMTOP II.

ARTICLE V.

VESTING AND PAYMENT TO ATOP II

5.1 VESTING Subject to Section 5.2, 5.3, and 5.4, a portion of a Participant s previously unvested Account balance shall vest on each January 1 based on the Participant s consecutive Years of Participation on that date in accordance with the following schedule. For purposes of determining the vested percentage of a Participant s Account balance, Years of Participation prior to any Period of Ineligibility will not be counted. Except as set forth in Section 5.4, a Participant s Contract with a Participating Agency must be in effect on December 31 of the prior Plan Year in order to proceed on the vesting schedule on any January 1.

Complete Years of Participation	**Vested Percentage of Previously Unvested AMTOP II Credits on January 1**
Less than 1	0%
1 but less than 5	15%
5 but less than 8	20%
8 but less than 9	25%
9 but less than 10	50%
10	100%

5.2 ALTERNATE VESTING SCHEDULE FOR CERTAIN PARTICIPANTS WHO PARTICIPATED IN ATOP I If a Participant has completed ten (10) consecutive years of vesting and has not had a complete withdrawal under ATOP I and has not incurred a Period of Ineligibility under ATOP II, then his or her Account balance under ATOP II shall vest on each January 1 based on the Participant s consecutive Years of Participation on that date in accordance with the following schedule. Except as set forth in Section 5.4, a Participant s Contract with the Participating Agency must be in effect on December 31 of the prior Plan Year in order to proceed on the vesting schedule on any January 1.

Complete Years of Participation	Vested Percentage of Previously Unvested AMTOP II Credits on January 1
Less than 1	0%
1 but less than 2	20.00%
2 but less than 3	33.33%
3 but less than 4	45.46%
4 but less than 5	63.64%
5 or more	100.00%

5.3 ALTERNATE VESTING SCHEDULE FOR CERTAIN PARTICIPANTS WHO PARTICIPATED IN ATOP I AND HAVE COMPLETED THE ALTERNATE VESTING SCHEDULE IN 5.2 If a Participant has completed ten (10) consecutive years of vesting under AMTOP I and five (5) additional years of vesting as outlined in Section 5.2 under AMTOP II and has not had a complete withdrawal under ATOP I, and has not incurred a Period of Ineligibility under ATOP II, then his or her Account balance under AMTOP II shall vest 100% each January 1. Except as set forth in Section 5.4, a Participant s Contract with the Participating Agency must be in effect on December 31 of the prior Plan Year in order to proceed on the vesting schedule on any January 1.

5.4 VESTING ON DEATH OR DISABILITY If a Participant experiences a Termination Date due to death or Disability, the Participant s AMTOP II Credits which have not vested as of such Termination Date will become one hundred percent (100%) vested.

5.5 FORFEITURES Subject to Section 5.4, if a Participant s contractual relationship with all Participating Agencies is terminated with or without cause during the current Plan Year, then the nonvested portion of his or her Account shall be forfeited as of his or her Termination Date. Forfeited Matching Credits shall be accumulated into a Forfeiture Credit Pool to be allocated and posted pursuant to Section 4.3.

5.6 AMTOP II PAYMENT As soon as administratively practicable after January 1 of each Plan Year, each Participating Agency will make an AMTOP II Payment to the ATOP II Account of each of its active Agents participating in AMTOP II in an amount equal to the newly vested AMTOP II Credits under his or her Account (to the nearest whole Equivalent Share). The AMTOP II Payment shall be made in the form of Shares or cash equal to the amount necessary to purchase a number of Shares equal to the Participant s then vested AMTOP II Credits. Shares acquired for purposes of the AMTOP II Payment may be newly issued Shares, Shares acquired by open market purchase and/or Shares purchased from ATOP II or ATOP I Participants, as determined by the Administrator in its sole discretion. At the time the AMTOP II Payment is made to the Participant s ATOP II Account, the number of such vested AMTOP II Credits will be deducted from the Participant s AMTOP II Account. For purposes of this Section 5.6, an active Agent participating in AMTOP II is a Participant under contract with a Participating Agency on December 31 of the prior Plan Year.

5.7 REDUCTION OF AMTOP II PAYMENT In the event the Administrator or the Participating Agency shall be held liable under the federal securities laws, the securities laws of any state or otherwise to any Participant for any loss incurred by such Participant s Account in the ATOP II, then the AMTOP II Payment and any prior AMTOP II Payment shall be reduced on a dollar-for-dollar basis by the amount the Administrator or the Participating Agency credits the Participant s ATOP II Account in respect to such liability.

5.8 VALUE OF VESTED AMTOP II CREDITS The value of vested AMTOP II Credits shall be determined as of the January 1 upon which they vest by multiplying the number of AMTOP II Credits vesting on that date by the closing market price for Shares on the business day first preceding such January 1.

ARTICLE VI.

AMENDMENT AND TERMINATION OF PLAN

6.1 AMENDMENT The Administrator reserves the right to amend AMTOP II at any time. Without limitation of the foregoing, subject to Section 5.7, such amendment may not reduce a Participant s AMTOP II Payment to an amount less than what the Participant would be entitled to receive if he or she experienced a Termination Date with the Participating Agency on the day immediately preceding the effective date of the Amendment. The Board of Directors of any Participating Agency may revise any part of its AMTOP II Credit Addendum, including the stated Matching Percentage, by filing an amended AMTOP II Credit Addendum with the Administrator. Amendments will become effective forty-five (45) days after notice of such amendment is distributed to Participants in accordance with procedures established by the Administrator, in its sole discretion, from time to time.

6.2 TERMINATION While UICI expects and intends to continue AMTOP II, it reserves the right to terminate AMTOP II at any time. AMTOP II will terminate as to all Participants on the first to occur of the following:

(a) the date AMTOP II is terminated by UICI;

(b) the date that UICI is judicially declared bankrupt or insolvent; or

(c) the date of the dissolution, merger, consolidation, or reorganization of UICI, or the sale of all or substantially all of UICI s assets, except that arrangements may be made whereby AMTOP II will be continued by any successor to UICI or any purchaser of substantially all of UICI s assets, in which case the successor or purchaser will be substituted for UICI under AMTOP II.

6.3 WITHDRAWAL OF PARTICIPATING AGENCY A Participating Agency may withdraw its participation in AMTOP II, or the Administrator may terminate any Participating Agency s participation in AMTOP II by submitting written notification of such event to the other party at least thirty (30) days prior to the effective date of such withdrawal or termination of participation. In the event a Participating Agency notifies the Administrator that it ceases to adopt AMTOP II, or the Administrator withdraws its consent to the adoption of AMTOP II by a Participating Agency, AMTOP II shall terminate as to all Participants who are members of or contracted with such Participating Agency, as of the effective date of either such notice.

6.4 AMTOP II PAYMENTS ON TERMINATION On termination of AMTOP II in accordance with Sections 6.2 or 6.3, vesting of AMTOP II Credits will be at the sole discretion of the Participating Agency. Each Participant s final AMTOP II Payment, if any, will be made as soon as administratively practicable following the date of such termination in accordance with Section 5.6. Subject to Section 5.7, no termination may retroactively reduce AMTOP II Credits previously transferred to a Participant s ATOP II Account.

6.5 NOTICE OF AMENDMENT The Administrator will notify affected Participants of any material amendment or termination of AMTOP II.

APPENDIX D

UICI

MATCHING AGENCY CONTRIBUTION PLAN I (MAC I PLAN)

ARTICLE I.

DEFINITIONS

The following terms shall have the meaning described in this Article unless the context clearly indicates another meaning.

1.1 *ACE I* means the UICI Agents Contribution to Equity Plan I, formerly known as the UICI Agents Contribution to Equity Plan (or ACE).

1.2 *Account* means a separate record summary of each Participant s Equivalent Shares, as maintained by the Administrator.

1.3 *Administrator* means UICI, or any person or persons authorized by the Board of Directors of UICI or the Executive Committee of the Board of Directors of UICI to administer MAC I.

1.4 *Agent* means any independent insurance agent or independent sales representative who is a member of or contracted with a Participating Agency and who is not an employee of such Participating Agency.

1.5 *ASAP* means the Agents Stock Accumulation Plan.

1.6 *Bonus Credits* means Equivalent Shares that a Participating Agency in its sole discretion may request the Administrator to post to Accounts of certain Participants, including but not limited to any credits under the ASAP or any other cash and wealth program of UICI or any Participating Agency or affiliate transferred to MAC I.

1.7 *Disability* means a Participant s physical or mental disability, on account of which he or she is no longer capable of performing services for the Participating Agency and, in the opinion of a physician selected by the Participating Agency, such disability is likely to be a permanent and continuous during the remainder of the Participant s lifetime.

1.8 *Dynamic Equity Fund I Program* or *DEF I Program* means the equity program maintained by a Participating Agency which includes, collectively, ASAP, ACE I and MAC I.

1.9 *Equivalent Shares* means a book credit representing the number of whole Shares that would have been purchased had MAC Credits been invested in Shares on the date such credits were posted to each Participant s Account.

1.10 *Forfeiture Credit Pool* means the pool of Matching Credits that are forfeited under Article V by Participants who experience a Termination Date between August 1 of the prior Plan Year and July 31 of the current Plan Year.

1.11 *Forfeiture Credits* means Matching Credits attributable to renewal commissions transferred by the Administrator from the Forfeiture Credit Pool tpx;padding-bottom:2px;">

%
Financial Services
19
%

28
%

22
%

27
%
Technology Services
57
%

41
%

52
%

39
%
Consolidated revenue
59
%

59
%

59
%

60
%

For the six months ended June 30, 2015 and 2014, we generated revenue from Ocwen of $301.0 million and $319.8 million, respectively ($159.6 million and $175.1 million for the second quarter of 2015 and 2014, respectively). Services provided to Ocwen during such periods and reported in the Mortgage Services segment included real estate asset management and sales, residential property valuation, trustee management services, property inspection and preservation and insurance services. Services provided to Ocwen and reported in the Financial Services segment included charge-off mortgage collections. Services provided to Ocwen and reported in the Technology Services segment included IT infrastructure management and software applications including our software platforms. As of June 30, 2015, accounts receivable from Ocwen totaled $42.1 million, $27.7 million of which is billed and $14.4 million of which is unbilled (see Note 7).

We earn additional revenue related to the portfolios serviced by Ocwen when a party other than Ocwen selects Altisource as the service provider. For the six months ended June 30, 2015 and 2014, we recognized revenue of $108.0 million and $133.1 million respectively ($54.5 million and $78.4 million for the second quarter of 2015 and 2014, respectively), related to the portfolios serviced by Ocwen when a party other than Ocwen selected Altisource as the service provider. These amounts are not included in arriving at revenue from Ocwen as a percentage of revenue in the table above.

NOTE 3 — TRANSACTIONS WITH RELATED PARTIES

Through January 16, 2015, William C. Erbey served as our Chairman as well as the Executive Chairman of Ocwen and Chairman of each of Home Loan Servicing Solutions, Ltd. (“HLSS”), Altisource Residential Corporation (“Residential”) and Altisource Asset Management Corporation (“AAMC”). Effective January 16, 2015, Mr. Erbey stepped down as the Executive Chairman of Ocwen and Chairman of each of Altisource, HLSS, Residential and AAMC and is no longer a member of the Board of Directors for any of these companies. Consequently, these companies are no longer related parties of Altisource, as defined by FASB Accounting Standards Codification (“ASC”) Topic 850, Related Party Disclosures. The disclosures in this note are limited to the periods that each of Ocwen, HLSS, Residential and AAMC were related parties of Altisource.

Ocwen

Revenue
For the six months ended June 30, 2014 and second quarter of 2014, we generated revenue from Ocwen of $319.8 million and $175.1 million, respectively. For the period from January 1, 2015 through January 16, 2015, we estimate that we generated revenue from Ocwen of $22.9 million. Services provided to Ocwen during such periods included real estate asset management and sales, residential property valuation, trustee management services, property inspection and preservation, insurance services, charge-off mortgage collections, IT infrastructure management and software applications including our software platforms. As of December 31, 2014, accounts receivable from Ocwen totaled $37.4 million, $22.8 million of which is billed and $14.6 million of which is unbilled (see Note 7).

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
Notes to Condensed Consolidated Financial Statements (Continued)

We record revenue we earn from Ocwen under the Service Agreements at rates we believe to be comparable market rates as we believe they are consistent with the fees we charge to other customers and/or fees charged by our competitors for comparable services.

Cost of Revenue and Selling, General and Administrative Expenses

At times, we use Ocwen's contractors and/or employees to support Altisource related services. Ocwen generally bills us for these contractors and/or employees based on their fully-allocated cost. Additionally, through March 31, 2015, we purchased certain data relating to Ocwen's servicing portfolio in connection with a Data Access and Services Agreement. Based upon our previously provided notice, the Data Access and Services Agreement was terminated effective March 31, 2015. For the six months ended June 30, 2014 and second quarter of 2014, Ocwen billed us $16.8 million and $9.6 million, respectively, for these items. For the period from January 1, 2015 through January 16, 2015, we estimate that we incurred $1.9 million of expenses related to these items. These amounts are reflected as a component of cost of revenue in the condensed consolidated statements of operations.

We provide certain other services to Ocwen and Ocwen provides certain other services to us in connection with Support Services Agreements. Prior to January 1, 2015, these services included such areas as human resources, vendor management, vendor oversight, corporate services, facilities related services, quality assurance, quantitative analytics, tax and treasury. Billings for these services were generally based on the fully-allocated cost of providing the service based on an estimate of the time and expense of providing the service or estimates thereof. For the six months ended June 30, 2014 and the second quarter of 2014, we billed Ocwen $2.2 million and $1.2 million, respectively, for these items. In addition, for the six months ended June 30, 2014 and the second quarter of 2014, Ocwen billed us $2.4 million and $1.2 million, respectively, for these items. Of the January 2015 billings to Ocwen, we estimate that $0.1 million relates to the period from January 1, 2015 through January 16, 2015. Of the January 2015 billings from Ocwen, we estimate that $0.3 million relates to the period from January 1, 2015 through January 16, 2015. These amounts are reflected as a component of selling, general and administrative expenses in the condensed consolidated statements of operations.

As of December 31, 2014, accounts payable and accrued expenses payable to Ocwen totaled $11.6 million (see Note 12).

HLSS

Prior to April 2015, HLSS was a publicly traded company whose primary objective was the acquisition of mortgage servicing rights and related servicing advances, loans held for investment and other residential mortgage related assets. We provided HLSS certain finance, human resources, tax and facilities services and sold information technology services to HLSS under a support services agreement. For the six months ended June 30, 2014 and second quarter of 2014, we billed HLSS $0.4 million and $0.2 million, respectively. These amounts are immaterial for the period from January 1, 2015 through January 16, 2015. These amounts are reflected as a reduction of selling, general and administrative expenses in the condensed consolidated statements of operations. As of December 31, 2014, accounts receivable from HLSS was $0.1 million (see Note 7).

Residential and AAMC

Residential and AAMC were separated from Altisource on December 21, 2012 and their equity was distributed to our shareholders on December 24, 2012, and they are each separate publicly traded companies. Residential is engaged in the acquisition and ownership of single family rental assets. Their primary sourcing strategy to acquire these assets includes purchase of sub-performing and non-performing mortgages as well as single family homes at or following the foreclosure sale. They pursue opportunities to acquire single family rental assets throughout the United States as long as such assets meet their desired property characteristics and provide acceptable long term returns. AAMC's primary business is to provide asset management and certain corporate governance services to institutional investors. Currently, its primary client is Residential.

For purposes of governing certain ongoing relationships between Altisource, Residential and AAMC, we entered into certain agreements with Residential and AAMC. We have agreements, which extend through 2027, to provide Residential with renovation management, lease management, property management and real estate owned asset management services. In addition, we have agreements with Residential and AAMC to provide services such as finance, human resources, facilities, technology and insurance risk management. Further, we have separate agreements for certain services related to income tax matters, trademark licenses and technology products and services.

For the six months ended June 30, 2014 and the second quarter of 2014, we generated revenue from Residential of $4.7 million and $3.9 million, respectively, under these services agreements. For the period from January 1, 2015 through January 16, 2015, we estimate that we generated revenue from Residential of $1.0 million. These amounts are reflected in revenue in the condensed

consolidated statements of operations. This excludes revenue from services we provide to Residential's loans serviced by Ocwen where we are retained by Ocwen. That revenue is included in Ocwen related party revenue for the six months ended June 30, 2014 and the second quarter of 2014. As of December 31, 2014, accounts receivable from Residential was $11.3 million (see Note 7).

For the six months ended June 30, 2014 and the second quarter of 2014, we billed AAMC $0.6 million and $0.3 million, respectively, under these services agreements. Of these amounts, less than $0.1 million in each period is reflected in revenue in the condensed consolidated statements of operations. For the six months ended June 30, 2014 and the second quarter of 2014, $0.5 million and $0.3 million, respectively, is reflected as a component of selling, general and administrative expenses in the condensed consolidated statements of operations. These amounts are immaterial for the period from January 1, 2015 through January 16, 2015. As of December 31, 2014, accounts receivable from AAMC was $0.1 million (see Note 7).

NOTE 4 — ACQUISITIONS

Mortgage Builder Acquisition

On September 12, 2014, we acquired certain assets and assumed certain liabilities of Mortgage Builder Software, Inc. ("Mortgage Builder") pursuant to a Purchase and Sale Agreement dated July 18, 2014 (the "Purchase and Sale Agreement"). Mortgage Builder is a provider of residential mortgage loan origination and servicing software systems. Pursuant to the terms of the Purchase and Sale Agreement, we paid $15.7 million at closing in cash (net of closing working capital adjustments). Additionally, the Purchase and Sale Agreement provides for the payment of up to $7.0 million in potential additional consideration (the "MB Earn-Out") based on Adjusted Revenue (as defined in the Purchase and Sale Agreement) in the three consecutive 12-month periods following closing. At closing, we estimated the fair value of the MB Earn-Out to be $1.6 million determined based on the present value of future estimated MB Earn-Out payments. The Mortgage Builder acquisition is not material in relation to the Company's results of operations or financial position.

The preliminary allocation of the purchase price is as follows:
(in thousands)

Cash	$726
Accounts receivable, net	1,120
Prepaid expenses	38
Premises and equipment, net	553
Software	1,509
Trademarks and trade names	209
Customer relationship	4,824
Goodwill	9,135
	18,114
Accounts payable and accrued expenses	(881)
Purchase price	$17,233

Owners Acquisition

On November 21, 2014, we acquired certain assets and assumed certain liabilities of Owners Advantage, LLC (“Owners”). Owners is a self-directed online real estate marketplace. We paid $19.8 million at closing in cash plus contingent consideration of up to an additional $7.0 million over two years (“Owners Earn Out”), based on Adjusted Revenue (as defined in the purchase agreement). At closing, we estimated the fair value of the Owners Earn Out to be $1.9 million determined based on the present value of future estimated Owners Earn Out payments. The Owners acquisition is not material in relation to the Company’s results of operations or financial position.

The preliminary allocation of the purchase price is as follows:
(in thousands)

Accounts receivable, net	$41
Prepaid expenses	32
Software	501
Trademarks and trade names	1,431
Goodwill	19,775
	21,780
Accounts payable	(41)
Purchase price	$21,739

NOTE 5 — FAIR VALUE

Fair Value Measurements on a Recurring Basis

In accordance with FASB ASC Topic 805, Business Combinations, the liability for contingent consideration is reflected at fair value and adjusted each reporting period with the change in fair value recognized in earnings. Liabilities for acquisition related contingent consideration were recorded in connection with the acquisitions of Equator, LLC ("Equator") in 2013 and Mortgage Builder and Owners in 2014. As of June 30, 2015 and December 31, 2014, the fair value of acquisition related contingent consideration was $3.8 million and $11.6 million, respectively (see Note 14). We measure the liabilities for acquisition related contingent consideration using Level 3 inputs as they are determined based on the present value of future estimated payments, which included sensitivities pertaining to discount rates and financial projections.

In the second quarter of 2015, we paid the former owners of Equator $0.5 million to extinguish any liability for Equator related contingent consideration ("Equator Earn Out"). In connection with this settlement, we reduced the liability for the Equator Earn Out to $0 and recognized a $7.6 million increase in earnings. This is reflected as a reduction in selling, general and administrative expenses in the condensed consolidated statements of operations (see Note 17).

During the second quarter of 2014, the fair value of the Equator Earn Out was reduced by $37.9 million with a corresponding increase in earnings based on management's revised estimates that expected earnings of Equator were lower than projected at the time of acquisition. The reduction in fair value was recorded in the second quarter of 2014 and is reflected as a reduction of selling, general and administrative expenses in the condensed consolidated statements of operations (see Note 17).

There were no transfers between different levels during the periods presented.

Fair Value of Financial Instruments

The following table presents the carrying amount and estimated fair value of financial instruments held by the Company at June 30, 2015 and December 31, 2014 that are not carried at fair value. The fair values are estimated using market information and what the Company believes to be appropriate valuation methodologies under GAAP:

(in thousands)	June 30, 2015 Carrying amount	Fair value			December 31, 2014 Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Cash and cash equivalents	$130,079	$130,079	$—	$—	$161,361	$161,361	$—	$—
Restricted cash	3,026	3,026	—	—	3,022	3,022	—	—
Long-term debt	572,571	—	511,020	—	591,543	—	467,319	—

Our financial assets and liabilities primarily include cash and cash equivalents, restricted cash and long-term debt. Cash and cash equivalents and restricted cash are carried at amounts that approximate their fair value due to the short-term nature of these instruments and were measured using Level 1 inputs. The fair value of our long-term debt is based on quoted market prices. We

do not believe that there is an active market for our debt, based on the frequency of trading. Therefore, the quoted prices are considered Level 2 inputs.

NOTE 6 — AVAILABLE FOR SALE SECURITIES - INVESTMENT IN HLSS

From March 10, 2015 to March 17, 2015, we purchased 1.6 million shares of HLSS common stock in the open market for $30.0 million (1,613,125 shares at an average price per share of $18.58). This investment was classified as available for sale. Unrealized gains and losses on available for sale securities are reflected in other comprehensive income, unless there is an impairment that is other than temporary. In the event that a decline in market value is other than temporary, we record a charge to earnings and a new cost basis in the investment is established.

On April 6, 2015, HLSS completed the sale of substantially all of its assets to New Residential Investment Corp. (“NRZ”) and adopted a plan of complete liquidation and dissolution. Accordingly, we determined that our investment in HLSS was other than
temporarily impaired and we recognized an other than temporary impairment loss on HLSS equity securities of $3.3 million during the three months ended March 31, 2015.

This amount reflected the difference between the cost and fair value of the HLSS equity securities as of March 31, 2015 (based on 1,613,125 shares at $16.54 per share).

During April 2015, we received liquidating dividends and other dividends from HLSS totaling $20.4 million. Between April 22, 2015 and April 29, 2015, we sold all of our 1.6 million shares of HLSS common stock in the open market for $7.7 million (1,613,125 shares at an average price per share of $4.75).

As a result of these transactions, we recognized a net loss of $1.9 million for the six months ended June 30, 2015 (no comparative amount for the six months ended June 30, 2014) and a gain of $1.4 million for the second quarter of 2015 (no comparative amount for the second quarter of 2014) in connection with our investment in HLSS.

NOTE 7 — ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consists of the following:

(in thousands)	June 30, 2015	December 31, 2014
Billed	$75,896	$73,532
Unbilled	65,407	61,326
	141,303	134,858
Less: allowance for doubtful accounts	(24,537)	(22,675)
Total	$116,766	$112,183

Unbilled receivables consist primarily of asset management and default management services for which we recognize revenues over the service delivery period but bill following completion of the service. We also include in unbilled receivables amounts that are earned during a month and billed in the following month.

NOTE 8 — PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

(in thousands)	June 30, 2015	December 31, 2014
Maintenance agreements, current portion	$5,642	$6,367
Income taxes receivable	2,814	5,258
Prepaid expenses	5,484	6,989
Other current assets	5,147	4,953
Total	$19,087	$23,567

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
Notes to Condensed Consolidated Financial Statements (Continued)

NOTE 9 — PREMISES AND EQUIPMENT, NET

Premises and equipment, net consist of the following:

(in thousands)	June 30, 2015	December 31, 2014
Computer hardware and software	$158,937	$140,799
Office equipment and other	32,870	36,032
Furniture and fixtures	13,305	12,231
Leasehold improvements	35,026	34,069
	240,138	223,131
Less: accumulated depreciation and amortization	(113,501)	(95,372)
Total	$126,637	$127,759

Depreciation and amortization expense amounted to $18.4 million and $13.4 million for the six months ended June 30, 2015 and 2014, respectively ($9.6 million and $7.2 million for the second quarter of 2015 and 2014, respectively), and is included in cost of revenue for operating assets and in selling, general and administrative expenses for non-operating assets in the accompanying condensed consolidated statements of operations.

NOTE 10 — GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill

The following is a summary of goodwill by segment:

(in thousands)	Mortgage Services	Financial Services	Technology Services	Total
Balance, June 30, 2015 and December 31, 2014	$32,733	$2,378	$55,740	$90,851

During the second quarter of 2015, management evaluated goodwill and determined that there were no impairments.

During the second quarter of 2014, management evaluated and determined that Equator goodwill should be tested for impairment as a result of the decline in the fair value of the Equator Earn Out (see Note 5). Consequently, we initiated a quantitative two-step goodwill impairment test by comparing the carrying value of the net assets of Equator to its fair value based on a discounted cash flow analysis. Based on our assessment, we determined that the fair value of Equator was less than its carrying value and goodwill was impaired. Consequently, we recorded an impairment loss of $37.5 million in the second quarter of 2014, which is reflected as a component of selling, general and administrative expenses in the condensed consolidated statements of operations (see Note 17).

Intangible Assets, net

Intangible assets, net consist of the following:

(in thousands)	Weighted average	Gross carrying amount	Accumulated amortization	Net book value

	estimated useful life (in years)	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Definite lived intangible assets:							
Trademarks and trade names	13	$13,889	$ 13,889	$(5,999)	$ (5,016)	$7,890	$ 8,873
Customer related intangible assets	10	289,308	289,308	(95,610)	(79,606)	193,698	209,702
Operating agreement	20	35,000	35,000	(9,479)	(8,604)	25,521	26,396
Intellectual property	10	300	300	(40)	(25)	260	275
Total		$338,497	$ 338,497	$(111,128)	$ (93,251)	$227,369	$ 245,246

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Amortization expense for definite lived intangible assets was $17.9 million and $19.6 million for the six months ended June 30, 2015 and 2014, respectively ($9.0 million and $10.1 million for the second quarter of 2015 and 2014, respectively). Expected annual definite lived intangible asset amortization for 2015 through 2019 is $38.0 million, $34.6 million, $30.4 million, $26.5 million and $23.3 million, respectively.

NOTE 11 — OTHER ASSETS

Other assets consist of the following:

(in thousands)	June 30, 2015	December 31, 2014
Security deposits, net	$6,000	$7,277
Debt issuance costs, net	7,281	8,099
Maintenance agreements, non-current portion	2,888	3,324
Restricted cash	3,026	3,022
Other	1,037	545
Total	$20,232	$22,267

NOTE 12 — ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accounts payable and accrued expenses consist of the following:

(in thousands)	June 30, 2015	December 31, 2014
Accounts payable	$10,207	$28,280
Income taxes payable	6,139	7,643
Accrued expenses - general	29,267	31,693
Accrued salaries and benefits	33,505	44,150
Total	$79,118	$111,766

Other current liabilities consist of the following:

(in thousands)	June 30, 2015	December 31, 2014
Book overdrafts	$6,814	$4,788
Other	6,319	8,439
Total	$13,133	$13,227

NOTE 13 — LONG-TERM DEBT

Long-term debt consists of the following:
(in thousands)

	June 30, 2015	December 31, 2014
Senior secured term loan	$572,571	$591,543
Less: unamortized discount, net	(2,633)	(2,929)
Net long-term debt	569,938	588,614
Less: current portion	(5,945)	(5,945)
Long-term debt, less current portion	$563,993	$582,669

On November 27, 2012, Altisource Solutions S.à r.l., a wholly-owned subsidiary of the Company, entered into a senior secured term loan agreement with Bank of America, N.A., as administrative agent, and certain lenders. The Company and certain wholly-owned subsidiaries are guarantors of the term loan (collectively, the "Guarantors"). We subsequently amended the senior secured

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term loan agreement to increase the principal amount of the senior secured term loan and, among other changes, re-establish the $200.0 million incremental term loan facility accordion, lower the interest rate, extend the maturity date by approximately one year and increase the maximum amount of Restricted Junior Payments (as defined in the senior secured term loan agreement; other capitalized terms, unless defined herein, are defined in the senior secured term loan agreement). As of June 30, 2015, $569.9 million, net of unamortized discount of $2.6 million, was outstanding under the senior secured term loan agreement, as amended, compared to $588.6 million, net of unamortized discount of $2.9 million, as of December 31, 2014.

After giving effect to the third amendment entered into on August 1, 2014, the term loan must be repaid in equal consecutive quarterly principal installments of $1.5 million, which commenced on September 30, 2014, with the balance due at maturity. All amounts outstanding under the senior secured term loan agreement will become due on the earlier of (i) December 9, 2020 and (ii) the date on which the loans are declared to be due and owing by the administrative agent at the request (or with the consent) of the Required Lenders upon the occurrence of any event of default under the senior secured term loan agreement.

In addition to the scheduled principal payments, the term loan is (with certain exceptions) subject to mandatory prepayment upon issuances of debt, casualty and condemnation events and sales of assets, as well as from a percentage of Consolidated Excess Cash Flow if the leverage ratio is greater than 3.00 to 1.00. No mandatory prepayments were owed for the six months ended June 30, 2015.

In June 2015, the Company repurchased a portion of its senior secured term loan with a par value of $16.0 million at a 9% discount, recognizing a net gain of $1.1 million on the early extinguishment of a portion of the debt. The net gain is included in other income (expense), net in the condensed consolidated statements of operations.

The term loan bears interest at rates based upon, at our option, the Adjusted Eurodollar Rate or the Base Rate. Adjusted Eurodollar Rate loans bear interest at a rate per annum equal to the sum of (i) the greater of (x) the Adjusted Eurodollar Rate for the applicable interest period and (y) 1.00% plus (ii) a 3.50% margin. Base Rate loans bear interest at a rate per annum equal to the sum of (i) the greater of (x) the Base Rate and (y) 2.00% plus (ii) a 2.50% margin. The interest rate at June 30, 2015 was 4.50%.

Term loan payments are guaranteed by the Guarantors and are secured by a pledge of all equity interests of certain subsidiaries as well as a lien on substantially all of the assets of Altisource Solutions S.à r.l. and the Guarantors, subject to certain exceptions.

The senior secured term loan agreement includes covenants that restrict or limit, among other things, our ability to: create liens and encumbrances; incur additional indebtedness; sell, transfer or dispose of assets; make Restricted Junior Payments including share repurchases; change lines of business; amend material debt agreements or other material contracts; engage in certain transactions with affiliates; enter into sale/leaseback transactions; grant negative pledges or agree to such other restrictions relating to subsidiary dividends and distributions; make changes to its fiscal year and engage in mergers and consolidations.

The senior secured term loan agreement contains certain events of default, including (i) failure to pay principal when due or interest or any other amount owing on any other obligation under the senior secured term loan agreement within five days of becoming due, (ii) material incorrectness of representations and warranties when made, (iii) breach of covenants, (iv) failure to pay principal or interest on any other debt that equals or exceeds $40.0 million when due,

(v) default on any other debt that equals or exceeds $40.0 million that causes, or gives the holder or holders of such debt the ability to cause, an acceleration of such debt, (vi) occurrence of a Change of Control, (vii) bankruptcy and insolvency events, (viii) entry by a court of one or more judgments against us in an amount in excess of $40.0 million that remain unbonded, undischarged or unstayed for a certain number of days after the entry thereof, (ix) the occurrence of certain ERISA events and (x) the failure of certain Loan Documents to be in full force and effect. If any event of default occurs and is not cured within applicable grace periods set forth in the senior secured term loan agreement or waived, all loans and other obligations could become due and immediately payable and the facility could be terminated.

At June 30, 2015, debt issuance costs were $7.3 million, net of $3.0 million of accumulated amortization. At December 31, 2014, debt issuance costs were $8.1 million, net of $2.2 million of accumulated amortization. Debt issuance costs are included in other assets in the accompanying condensed consolidated balance sheets.

Interest expense on the term loans, including amortization of debt issuance costs and the net debt discount, totaled $14.4 million and $9.6 million for the six months ended June 30, 2015 and 2014, respectively ($7.2 million and $4.8 million for the second quarter of 2015 and 2014, respectively).

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
Notes to Condensed Consolidated Financial Statements (Continued)

NOTE 14 — OTHER NON-CURRENT LIABILITIES

Other non-current liabilities consist of the following:

(in thousands)	June 30, 2015	December 31, 2014
Acquisition related contingent consideration	$3,770	$11,616
Other non-current liabilities	9,435	9,032
Total	$13,205	$20,648

NOTE 15 — SHAREHOLDERS' EQUITY AND SHARE-BASED COMPENSATION

Stock Repurchase Plan

On May 20, 2015, our shareholders approved a new stock repurchase program, which replaced the previous stock repurchase program. Under the new program, we are authorized to purchase up to 3.0 million shares of our common stock, based on a limit of 15% of the outstanding shares of common stock on the date of approval, in the open market, at a minimum price of $1.00 per share and a maximum price of $500.00 per share. This is in addition to amounts previously purchased under the prior programs. We purchased 1.6 million shares of our common stock at an average price of $28.02 per share during the six months ended June 30, 2015 and 0.7 million shares at an average price of $109.00 per share during the six months ended June 30, 2014 (1.4 million shares at an average price of $28.57 per share for the second quarter of 2015 and 0.4 million shares at an average price of $108.24 per share for the second quarter of 2014). As of June 30, 2015, approximately 2.0 million shares of common stock remain available for repurchase under the new program. Our senior secured term loan limits the amount we can spend on share repurchases and may prevent repurchases in certain circumstances. As of June 30, 2015, approximately $220 million was available to repurchase our common stock under our senior secured term loan.

Share-Based Compensation

We issue share-based awards in the form of stock options and certain other equity-based awards for certain employees and officers. We recorded share-based compensation expense of $1.3 million and $1.1 million for the six months ended June 30, 2015 and 2014, respectively ($0.9 million and $0.5 million for the second quarter of 2015 and 2014, respectively). As of June 30, 2015, estimated unrecognized compensation costs related to share-based awards amounted to $14.1 million, which we expect to recognize over a weighted average remaining requisite service period of approximately 2.41 years.

Stock Options

Outstanding share-based compensation currently consists primarily of stock option grants that are a combination of service-based and market-based options.

Service-Based Options. These options are granted at fair value on the date of grant. The options generally vest over three or four years with equal annual cliff-vesting and expire on the earlier of ten years after the date of grant or following termination of service. A total of 1.3 million service-based awards were outstanding at June 30, 2015.

Market-Based Options. These option grants have two components, each of which vests only upon the achievement of certain criteria. The first component, which we refer to internally as "ordinary performance" grants, consists of two-thirds of the market-based grant and begins to vest if the stock price is at least double the exercise price, as long as the stock price realizes a compounded annual gain of at least 20% over the exercise price. The remaining third of the market-based options, which we refer to internally as "extraordinary performance" grants, begins to vest if the stock price is at least triple the exercise price, as long as the stock price realizes a compounded annual gain of at least 25% over the exercise price. The vesting schedule for all market-based awards is 25% upon achievement of the criteria and the remaining 75% in three equal annual installments. A total of 2.0 million market-based awards were outstanding at June 30, 2015.

The Company granted 0.7 million stock options (at a weighted average exercise price of $23.17 per share) and less than 0.1 million stock options (at a weighted average exercise price of $105.11 per share) during the six months ended June 30, 2015 and June 30, 2014, respectively.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
Notes to Condensed Consolidated Financial Statements (Continued)

The fair value of the service-based options was determined using the Black-Scholes option pricing model and the fair value of the market-based options was determined using a lattice (binomial) model. The following assumptions were used to determine the fair value as of the grant date:

	Six months ended June 30, 2015		Six months ended June 30, 2014
	Black-Scholes	Binomial	Black-Scholes
Risk-free interest rate (%)	1.50 - 1.78	0.02 - 2.26	1.80
Expected stock price volatility (%)	55.06 - 57.60	55.06 - 57.60	37.57
Expected dividend yield	—	—	—
Expected option life (in years)	6.00 - 6.25	—	6.25
Contractual life (in years)	—	13.00 - 14.00	—
Fair value	$10.01 - $16.05	$9.91 - $16.13	$41.79

The following table summarizes the weighted average grant date fair value of stock options granted, the total intrinsic value of stock options exercised and the grant date fair value of stock options that vested during the period presented:

	Six months ended June 30,	
(in thousands, except per share amounts)	2015	2014
Weighted average grant date fair value of options granted per share	$12.49	$41.79
Intrinsic value of options exercised	176	4,124
Grant date fair value of options that vested during the period	530	950

The following table summarizes the activity related to our stock options:

	Number of options	Weighted average exercise price	Weighted average contractual term (in years)	Aggregate intrinsic value (in thousands)
Outstanding at December 31, 2014	2,601,892	$21.21	4.44	$47,805
Granted	710,410	23.17		
Exercised	(21,984)	9.19		
Forfeited	(30,031)	64.66		
Outstanding at June 30, 2015	3,260,287	21.45	5.22	46,119
Exercisable at June 30, 2015	2,281,382	14.34	3.49	40,448

Other Share-Based Awards

The Company's other share-based awards consist of restricted shares and Equity Appreciation Rights ("EARs").

The restricted shares are service-based awards that vest over one to four years with either annual cliff-vesting, vesting of all of the restricted shares at the end of the vesting period or vesting beginning after two years of service. Restricted

shares are granted at fair value on the date of grant. The Company granted 0.2 million restricted shares (at a weighted average price of $19.06 per share) during the six months ended June 30, 2015 (no comparative amount for the six months ended June 30, 2014). A total of 0.3 million service-based restricted shares were outstanding at June 30, 2015.

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The following table summarizes the activity related to our restricted shares:

	Number of restricted shares
Outstanding at December 31, 2014	26,224
Granted	243,438
Issued	(2,836)
Outstanding at June 30, 2015	266,826

EARs provide participating employees of certain divisions of the Company with the potential to receive a percentage of the increase in the value of the applicable division during the term of the EARs. The Company has established EAR plans for three divisions: Consumer Analytics, Document Solutions and Marketplace Solutions. These EAR plans allow for the issuance of EARs representing up to 15% of each of these divisions. The EARs consist of service-based awards and performance-based awards. Service-based EARs vest in equal installments on the first, second, third and fourth anniversaries of the grant date. Performance-based EARs begin to vest on the date certain performance criteria are achieved by the applicable division of the Company. EARs are granted at fair value on the date of grant.

The participating employee will have the opportunity at certain times specified in the award agreement to exercise EARs that have vested and in exchange will receive share equivalency units, the number of which will be based on the increase in value of the division and the amount of EARs awarded to the participating employee. After a holding period of six months and one day, the Company, the applicable division or an affiliate of the Company may redeem the share equivalency units for a payment equal to the then fair market value of the share equivalency units. At the Company’s option, the share equivalency units may be redeemed for cash, shares of Altisource’s common stock, a subordinated note payable or, under certain circumstances where the division has been converted into a company form, shares of that company. Upon the occurrence of certain corporate transactions, including the sale of the division, a qualified initial public offering of the equity of the division or a spin-off of the division, the Company will have the right to repurchase and cancel any redeemed share equivalency units or shares of the division that have been issued in payment of redeemed share equivalency units, and the applicable plan administrator will have the discretion to adjust the terms of the applicable division equity appreciation rights plan and any outstanding EARs.

The Company granted EARs with a total grant date fair value of $0.2 million during the second quarter of 2015 (no comparative amount for the second quarter of 2014) related to the Company's Consumer Analytics, Document Solutions, and Marketplace Solutions divisions, representing the right to potentially receive 1.0% of an increase in the value of such divisions. The Company intends to issue additional EARs to employees of these divisions. 25% of these EARs are service-based and 75% of these EARs are performance-based.

Share-based compensation expense for stock options, restricted shares and EARs is recorded net of estimated forfeiture rates ranging from 0% to 10%.

NOTE 16 — COST OF REVENUE

Cost of revenue principally includes payroll and employee benefits associated with personnel employed in customer service and operations roles, fees paid to external providers related to the provision of services, reimbursable expenses, technology and telecommunications expenses as well as depreciation and amortization of operating assets.

The components of cost of revenue were as follows:

(in thousands)	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Compensation and benefits	$64,890	$63,121	$134,216	$115,771
Outside fees and services	54,822	71,365	108,069	124,193
Reimbursable expenses	30,830	32,276	62,786	61,071
Technology and telecommunications	10,355	11,849	22,248	20,690
Depreciation and amortization	7,262	5,388	13,666	10,079
Total	$168,159	$183,999	$340,985	$331,804

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
Notes to Condensed Consolidated Financial Statements (Continued)

NOTE 17 — SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses include payroll for personnel employed in executive, finance, law, compliance, human resources, vendor management, risk, sales and marketing roles. This category also includes occupancy costs, professional fees and depreciation and amortization on non-operating assets. The components of selling, general and administrative expenses were as follows:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2015	2014	2015	2014
Compensation and benefits	$13,636	$11,111	$26,399	$20,100
Occupancy related costs	10,047	9,496	20,701	18,807
Amortization of intangible assets	8,986	10,107	17,877	19,573
Professional services	6,639	2,808	14,629	6,790
Marketing costs	5,920	7,667	11,273	12,784
Depreciation and amortization	2,344	1,741	4,766	3,296
Change in the fair value of Equator Earn Out	(7,591)	(37,924)	(7,591)	(37,924)
Goodwill impairment	—	37,473	—	37,473
Other	3,994	6,542	8,327	11,656
Total	$43,975	$49,021	$96,381	$92,555

NOTE 18 — OTHER INCOME (EXPENSE), NET

Other income (expense), net consists of the following:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2015	2014	2015	2014
Gain on early extinguishment of debt	$1,114	$—	$1,114	$—
Interest income	31	14	62	26
Other, net	(324)	(57)	(352)	(22)
Total	$821	$(43)	$824	$4

NOTE 19 — EARNINGS PER SHARE

Basic earnings per share (“EPS”) is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the assumed conversion of all dilutive securities using the treasury stock method.

Basic and diluted EPS are calculated as follows:

	Three months ended June 30,		Six months ended June 30,	
(in thousands, except per share data)	2015	2014	2015	2014

Net income attributable to Altisource	$45,950	$54,101	$49,648	$93,732
Weighted average common shares outstanding, basic	19,571	22,089	19,870	22,301
Dilutive effect of stock options and restricted shares	1,098	2,077	960	2,114
Weighted average common shares outstanding, diluted	20,669	24,166	20,830	24,415
Earnings per share:				
Basic	$2.35	$2.45	$2.50	$4.20
Diluted	$2.22	$2.24	$2.38	$3.84

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For the six months ended June 30, 2015 and 2014, 0.7 million options and less than 0.1 million options, respectively, that were anti-dilutive have been excluded from the computation of diluted EPS (0.7 million options and less than 0.1 million options for the second quarter of 2015 and 2014, respectively). These options were anti-dilutive because their exercise price was greater than the average market price of our common stock. Also excluded from the computation of diluted EPS for the six months ended June 30, 2015 and 2014 are 0.3 million options and 0.1 million options, respectively (0.3 million options and 0.1 million options for the second quarter of 2015 and 2014, respectively), granted for shares that are issuable upon the achievement of certain market and performance criteria related to our common stock price and an annualized rate of return to investors that have not yet been met.

NOTE 20 — COMMITMENTS, CONTINGENCIES AND REGULATORY MATTERS

Litigation

From time to time, we are involved in legal and administrative proceedings arising in the course of our business. We record a liability for these matters if an unfavorable outcome is probable and the amount of loss can be reasonably estimated, including expected insurance coverage. For proceedings where the reasonable estimate of loss is a range, we record a best estimate of loss within the range.

On September 8, 2014, the West Palm Beach Firefighter's Pension Fund filed a putative securities class action suit against Altisource and certain of its officers and directors in the United States District Court for the Southern District of Florida alleging violations of the Securities Exchange Act of 1934 and Rule 10b-5 with regard to disclosures concerning pricing and transactions with related parties that allegedly inflated Altisource share prices. The court subsequently appointed the Pension Fund of the International Union of Painters and Allied Trades District Council 35 and the Annuity Fund of the International Union of Painters and Allied Trades District Council 35 as Lead Plaintiffs. On January 30, 2015, Lead Plaintiffs filed an amended class action complaint which adds Ocwen Financial Corporation as a defendant, and seeks a determination that the action may be maintained as a class action on behalf of purchasers of the Company's securities between April 25, 2013 and December 21, 2014 and an unspecified amount of damages. Altisource intends to vigorously defend this lawsuit and moved to dismiss it on March 23, 2015.

On February 11, 2015, W.A. Sokolowski, an alleged shareholder of Ocwen Financial Corporation, filed an amended shareholder derivative complaint in the United States District Court for the Southern District of Florida against Ocwen Financial Corporation, certain of its officers and directors, Altisource and other companies. The suit seeks recovery of an unspecified amount of damages for alleged breaches of fiduciary duty by Ocwen's current and former officers and directors, which were allegedly aided and abetted by Altisource and other defendants. Ocwen has moved to stay this action, and if the litigation proceeds, Altisource intends to vigorously defend the lawsuit.

On March 26, 2015, Robert Moncavage, an alleged shareholder of Ocwen Financial Corporation, filed an amended shareholder derivative complaint in the Circuit Court of the Fifteenth Judicial Circuit in and for Palm Beach County, Florida against Ocwen Financial Corporation, certain of its current and former officers and directors, Altisource and other companies. The suit seeks recovery of an unspecified amount of damages for alleged breaches of fiduciary duty by Ocwen's current and former officers and directors, which were allegedly aided and abetted by Altisource and other defendants. Ocwen has moved to stay this action, and if the litigation proceeds, Altisource intends to vigorously defend the lawsuit.

Altisource is unable to predict the outcomes of these lawsuits or reasonably estimate the potential loss, if any, arising from the suits, given that a motion to dismiss was filed but has not yet been adjudicated in the first case, motions to stay have been filed in the second and third cases, discovery has not commenced in any of the cases and significant legal and factual issues remain to be determined in all three cases.

In addition to the matters referenced above, we are involved in legal actions in the course of our business, some of which seek monetary damages. We do not believe that the outcome of these proceedings, both individually and in the aggregate, will have a material impact on our financial condition, results of operations or cash flows.

Regulatory Matters

Our business is subject to regulation and oversight by federal, state and local governmental authorities. We periodically receive subpoenas, civil investigative demands or other requests for information from regulatory agencies in connection with their regulatory or investigative authority. We are currently responding to such inquiries from federal and state agencies relating to certain aspects of our business. We believe it is premature to predict the potential outcome or to estimate any potential financial impact in connection with these inquiries.

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Ocwen Related Matters

Ocwen is our largest customer and 59% of our revenue for the six months ended June 30, 2015 (59% of our revenue for the second quarter of 2015) was recorded from Ocwen. Additionally, 21% of our revenue for the six months ended June 30, 2015 (20% of our revenue for the second quarter of 2015) was earned on the portfolios serviced by Ocwen, when a party other than Ocwen selects Altisource as the service provider. Ocwen has been and is subject to a number of pending federal and state regulatory investigations, inquiries and requests for information that have or could result in adverse regulatory actions against Ocwen. For example, as a result of various regulatory actions, Ocwen is (i) subject to an independent auditor's review of compliance with California servicing laws and has agreed not to obtain any new servicing rights in California until the regulator is satisfied with future document requests, (ii) operating under the oversight of an on-site operations monitor imposed by the New York Department of Financial Services ("NYDFS"), which is assessing the adequacy and effectiveness of Ocwen's operations, including information technology systems, (iii) required to perform benchmarking pricing studies for transactions with related parties, which are subject to periodic review by the monitor imposed by the NYDFS and (iv) subject to requirements under an agreement with the Consumer Finance Protection Bureau and various states attorneys general and agencies that imposed specific servicing guidelines and oversight by an independent national monitor, who is investigating the reliability of information Ocwen has provided. In addition to these matters, Ocwen continues to be subject to other regulatory investigations, inquiries and requests for information and pending legal proceedings, and Ocwen may become subject to future federal and state regulatory investigations, inquiries and requests for information, any of which could also result in adverse regulatory or other actions against Ocwen.

In connection with HLSS' sale of substantially all of its assets to NRZ on April 6, 2015, Ocwen and HLSS/NRZ amended their agreement to, among other things, eliminate HLSS/NRZ's ability to transfer servicing away from Ocwen for a servicer rating downgrade for two years (unless HLSS/NRZ determine in good faith that a trustee, or other party entitled to terminate, intends to terminate Ocwen as the servicer). The amendment also extends the term of the initial six-year agreements by up to an additional two years. NRZ owns the right to approximately 77% of Ocwen's non-government-sponsored enterprise ("non-GSE") servicing rights.

If Ocwen is not able to increase its servicer ratings prior to the expiration of the suspension of the HLSS/NRZ rights to transfer servicing, HLSS/NRZ could choose to transfer servicing away from Ocwen pursuant to its contract. Further, certain bondholders of Ocwen-serviced residential mortgage-backed securities ("RMBS") have alleged that Ocwen, as servicer of certain mortgage-backed securities trusts, defaulted on these servicing agreements. Bondholders of RMBS may attempt to replace Ocwen as servicer as a result of such ratings downgrades or the alleged defaults.

The foregoing may have significant and varied effects on Ocwen's business and our continuing relationships with Ocwen. For example, Ocwen may be required to alter the way it conducts business, including the parties it contracts with for services (including information technology services), it may be required to seek changes to its existing pricing structure with us or otherwise, it may lose or sell some or all of its non-GSE servicing rights or subservicing arrangements or may lose one or more of its state servicing licenses. Additional regulatory actions may impose additional restrictions on or require changes in Ocwen's business that would require it to sell assets or change its business operations. Any or all of these effects could result in our eventual loss of Ocwen as a customer or a reduction in the volume of services they purchase from us or the loss of other customers.

If any of the following events occurred, Altisource's revenue would be significantly lower and our results of operations would be materially adversely affected, including from the impairment or write-off of goodwill, intangible assets,

property and equipment, other assets and accounts receivable:

- Altisource loses Ocwen as a customer or there is a significant reduction in the volume of services they purchase from us
- Ocwen loses or sells a significant portion or all of its non-GSE servicing rights or subservicing arrangements
- Ocwen loses its state servicing licenses in states with a significant number of loans in Ocwen's servicing portfolio
- The contractual relationship between Ocwen and Altisource changes significantly or there are significant changes to our pricing to Ocwen for services from which we generate material revenue

Management cannot predict the outcome of the Ocwen related matters or the impact they may have on Altisource. However, in the event these Ocwen related matters materially negatively impact Altisource, we believe the impact to Altisource would occur over an extended period of time and the variable nature of our cost structure allows us to realign our cost structure in line with remaining revenue.

In this regard, we have a plan that allows us to efficiently execute on this realignment. We believe that transfers of Ocwen's servicing rights to a successor servicer(s) would take an extended period of time because of the approval required from many parties, including regulators, rating agencies, RMBS trustees, lenders and others. During this period of time, we believe we would

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continue to generate revenue from the services we provide to the portfolio. Additionally, we have several growth initiatives that focus on diversifying and growing our revenue and customer base. Our major growth initiatives include:

- Attracting new clients to our comprehensive default related businesses
- Growing our origination services and technology businesses
- Expanding our innovative online real estate marketplaces
- Growing our property management and renovation services businesses

We have an established sales and marketing strategy to support each of these initiatives.

Management believes our plans, together with current liquidity and cash flows from operations will be sufficient to meet working capital, capital expenditures, debt service and other cash needs for at least the next year. However, there can be no assurance that our plans would be successful or our operations would be profitable.

Escrow and Trust Balances

We hold customers' assets in escrow and trust accounts at various financial institutions pending completion of certain real estate activities. We also hold cash in trust accounts at various financial institutions where contractual obligations mandate maintaining dedicated bank accounts for Financial Services collections. These amounts are held in escrow and trust accounts for limited periods of time and are not included in the condensed consolidated balance sheets. Amounts held in escrow and trust accounts were $67.0 million and $62.5 million at June 30, 2015 and December 31, 2014, respectively.

NOTE 21 — SEGMENT REPORTING

Our business segments are based upon our organizational structure, which focuses primarily on the services offered, and are consistent with the internal reporting used by our Chief Executive Officer (our Chief Operating Decision Maker) to evaluate operating performance and to assess the allocation of our resources.
We classify our businesses into three reportable segments. The Mortgage Services segment provides services that span the mortgage and real estate lifecycle and are typically outsourced by loan servicers, loan originators, investors and other sellers of single family homes. The Financial Services segment provides collection and customer relationship management services primarily to debt originators and servicers (e.g., credit card, auto lending, retail credit and mortgage) and the utility, insurance and hotel industries. The Technology Services segment provides a portfolio of software, data analytics and infrastructure management services that support the efficient and compliant management of mortgage and real estate activities and marketplace transactions across the lifecycle. In addition, Corporate Items and Eliminations include eliminations of transactions between the reportable segments, interest expense and costs related to corporate support functions including executive, finance, law, compliance, human resources, vendor management, risk, sales and marketing. Intercompany transactions primarily consist of information technology infrastructure services.

Financial information for our segments is as follows:

	Three months ended June 30, 2015				
(in thousands)	Mortgage Services	Financial Services	Technology Services	Corporate Items and	Consolidated Altisource

				Eliminations	
Revenue	$197,361	$23,389	$55,992	$(8,421)	$268,321
Cost of revenue	112,710	15,537	47,423	(7,511)	168,159
Gross profit (loss)	84,651	7,852	8,569	(910)	100,162
Selling, general and administrative expenses	25,228	4,588	(345)	14,504	43,975
Income (loss) from operations	59,423	3,264	8,914	(15,414)	56,187
Other income (expense), net	23	2	(18)	(4,950)	(4,943)
Income (loss) before income taxes and non-controlling interests	$59,446	$3,266	$8,896	$(20,364)	$51,244

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
Notes to Condensed Consolidated Financial Statements (Continued)

	Three months ended June 30, 2014				
(in thousands)	Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue	$222,216	$25,476	$57,111	$(8,731)	$296,072
Cost of revenue	129,411	16,058	46,414	(7,884)	183,999
Gross profit (loss)	92,805	9,418	10,697	(847)	112,073
Selling, general and administrative expenses	23,503	4,773	7,502	13,243	49,021
Income (loss) from operations	69,302	4,645	3,195	(14,090)	63,052
Other income (expense), net	80	12	(106)	(4,813)	(4,827)
Income (loss) before income taxes and non-controlling interests	$69,382	$4,657	$3,089	$(18,903)	$58,225

	Six months ended June 30, 2015				
(in thousands)	Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue	$374,367	$45,743	$107,962	$(19,269)	$508,803
Cost of revenue	227,514	30,640	100,146	(17,315)	340,985
Gross profit (loss)	146,853	15,103	7,816	(1,954)	167,818
Selling, general and administrative expenses	45,789	9,303	6,970	34,319	96,381
Income (loss) from operations	101,064	5,800	846	(36,273)	71,437
Other income (expense), net	19	(10)	(17)	(15,377)	(15,385)
Income (loss) before income taxes and non-controlling interests	$101,083	$5,790	$829	$(51,650)	$56,052

	Six months ended June 30, 2014				
(in thousands)	Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue	$398,647	$49,761	$103,960	$(17,027)	$535,341
Cost of revenue	232,648	30,671	83,746	(15,261)	331,804
Gross profit (loss)	165,999	19,090	20,214	(1,766)	203,537
Selling, general and administrative expenses	42,676	9,436	14,117	26,326	92,555
Income (loss) from operations	123,323	9,654	6,097	(28,092)	110,982
Other income (expense), net	128	11	(122)	(9,573)	(9,556)

Income (loss) before income taxes and non-controlling interests	$123,451	$9,665	$5,975	$(37,665)	$101,426

(in thousands)	Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Total assets:					
June 30, 2015	$277,759	$53,286	$244,978	$159,985	$736,008
December 31, 2014	313,550	56,096	250,059	168,516	788,221

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Our services are provided to customers primarily located in the United States. Premises and equipment, net consist of the following, by country:

(in thousands)	June 30, 2015	December 31, 2014
United States	$88,273	$88,274
India	24,756	27,082
Luxembourg	10,753	9,059
Philippines	2,855	3,344
Total	$126,637	$127,759

NOTE 22 — SUBSEQUENT EVENT

On July 17, 2015, we acquired CastleLine Holdings, LLC ("CastleLine"), a specialty risk management and insurance services firm, for $37.1 million. The purchase price is comprised of $12.3 million of cash at acquisition, $10.5 million of cash payable over the next four years and $14.3 million of the Company's common shares, or 495 thousand shares. A portion of the consideration to the founders is contingent on future employment. With the acquisition of CastleLine, Altisource strengthens its origination related offerings with products and services focused on mitigating risk in the origination, underwriting, purchase and securitization of residential mortgages. The CastleLine acquisition is not material in relation to the Company's results of operations or financial position.

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

Management's discussion and analysis of financial condition and results of operations ("MD&A") is a supplement to the accompanying interim condensed consolidated financial statements and is intended to provide a reader of our financial statements with a narrative from the perspective of management on our businesses, current developments, financial condition, results of operations and liquidity. Our MD&A should be read in conjunction with our Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission ("SEC") on March 2, 2015.

FORWARD-LOOKING STATEMENTS

Certain statements in this Form 10-Q regarding anticipated financial outcomes, business and market conditions, outlook and other similar statements related to Altisource's future financial and operational performance are "forward-looking statements" made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may be identified by the use of terminology such as "anticipate," "intend," "expect," "may," "could," "should," "would," "plan," "estimate," "believe," "predict," "potential" or "continue" or the negativ and other comparable terminology. Forward-looking statements are not guarantees of future performance and involve a number of assumptions, risks and uncertainties that could cause actual results to differ materially. The following are examples of such items and are not intended to be all inclusive:

- assumptions related to the sources of liquidity and the adequacy of financial resources;
- assumptions about our ability to grow our business;
- assumptions about our ability to improve margins;
- expectations regarding collection rates and placements in our Financial Services segment;
- assumptions regarding the impact of seasonality;
- estimates regarding the calculation of our effective tax rate; and
- estimates regarding our reserves and valuations.

Important factors that could cause actual results to differ materially from those suggested by the forward-looking statements include, but are not limited to, the risks discussed in the "Risk Factors" section of our Form 10-K for the year ended December 31, 2014 and include the following:

- if, as a result of difficulties faced by Ocwen Financial Corporation and its subsidiaries ("Ocwen"), we were to lose Ocwen as a customer or there is a significant reduction in the volume of services they purchase from us;

- our ability to retain our existing customers, expand relationships and attract new customers;
- the level of loan delinquencies and charge-offs;
- the level of origination volume;
- technology failures;
- the trend toward outsourcing;
- our ability to raise debt;
- our ability to retain our directors, executive officers and key personnel; and
- our ability to comply with and burdens imposed by governmental regulations, taxes and policies and any changes in such
regulations, taxes and policies.

We caution you not to place undue reliance on these forward-looking statements as they reflect our view only as of the date of this report. We are under no obligation (and expressly disclaim any obligation) to update or alter any forward-looking statements

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contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.
OVERVIEW

Our Business

When we refer to "we," "us," "our," the "Company" or "Altisource" we mean Altisource Portfolio Solutions S.A., a Luxembou société anonyme, or public limited company, and its wholly-owned subsidiaries.
We are a premier marketplace and transaction solutions provider for the real estate, mortgage and consumer debt industries. Altisource's proprietary business processes, vendor and electronic payment management software and behavioral science-based analytics improve outcomes for marketplace participants.

We classify our businesses into the following three reportable segments:

Mortgage Services: Provides services that span the mortgage and real estate lifecycle and are typically outsourced by loan servicers, loan originators, investors and other sellers and buyers of single family homes. We provide most of these services primarily for loan portfolios serviced by Ocwen. We also have longstanding relationships with commercial banks, insurance companies and mortgage bankers. Within the Mortgage Services segment, we provide the following services:
Asset management - Asset management services principally include property preservation, property inspection, real estate owned ("REO") asset management, the Hubzu® and Owners.com® consumer real estate portals and real estate brokerage services. We also provide property management, lease management and renovation management services for single family rental properties.

Insurance services - Insurance services include an array of insurance services including pre-foreclosure, REO and refinance title searches, title insurance agency services, settlement and escrow services and loss draft claims processing. Prior to the November 11, 2014 discontinuation, we provided insurance program management and insurance brokerage services for REO and lender placed insurance companies.

Residential property valuation - Residential property valuation services principally include traditional appraisal products through our licensed appraisal management company and alternative valuation products, some of which are through our network of real estate professionals. We generally provide these services for residential loan servicers, residential lenders and investors in single family homes.

Default management services - Default management services principally include foreclosure trustee services for loan servicers and non-legal processing and related services for and under the supervision of foreclosure, bankruptcy and eviction attorneys.

Origination management services - Origination management services principally include Mortgage Partnership of America, L.L.C. ("MPA") and our contract underwriting and quality control businesses. MPA serves as the manager of Best Partners Mortgage Cooperative, Inc., doing business as the Lenders One® Mortgage Cooperative ("Lenders One"), a national alliance of independent mortgage bankers that provides its members with education and training along with revenue enhancing, cost reducing and market share expanding opportunities. We provide other origination related services in the residential property valuation business and insurance services businesses. In September 2014, Best Partners Mortgage Brokers Cooperative, Inc. was launched, doing business as the Wholesale One™ Mortgage Cooperative ("Wholesale One"), for the wholesale mortgage industry. Wholesale One assists mortgage brokers and other third party originators with tools to improve their businesses. In April 2015, Best Partners Residential Investor Cooperative, Inc. was launched, doing business as the Residential Investor One™ Cooperative ("Residential Investor One"). Residential Investor One was formed to deliver savings and efficiencies to individual and institutional

residential real estate investors.

Financial Services: Provides collection and customer relationship management services primarily to debt originators and servicers (e.g., credit card, auto lending, retail credit and mortgage) and the utility, insurance and hotel industries. Within the Financial Services segment, we provide the following services:

Asset recovery management - Asset recovery management principally includes post-charge-off debt collection services on a contingency fee basis.

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Customer relationship management - Customer relationship management principally includes customer care, technical support and early stage collections services as well as insurance call center services and administrative support.

Technology Services: Provides a portfolio of software, data analytics and infrastructure management services that support the efficient and compliant management of mortgage and real estate activities and marketplace transactions across the mortgage and real estate lifecycles. We currently provide our information technology ("IT") infrastructure management services to Ocwen, Altisource Residential Corporation ("Residential") and Altisource Asset Management Corporation ("AAMC") through managed services agreements, and our other segments in a shared services model. Our software and analytics solutions primarily include REALSuite™, Equator® and Mortgage Builder ® software solutions, as described briefly below:

The REALSuite platform provides a fully integrated set of software applications and technologies that manage the end-to-end lifecycle for residential and commercial mortgage loan servicing including the automated management and payment of a distributed network of vendors.

REALServicing® - An enterprise residential mortgage loan servicing platform that offers an efficient and compliant platform for loan servicing including default administration. This solution spans the loan servicing lifecycle from loan boarding to satisfaction including automation for collections, borrower communications, payment processing and reporting. We also offer the REALSynergy® enterprise commercial loan servicing system.

REALResolution™ - A technology platform that provides servicers with an automated default management and home retention solution for delinquent and defaulted loans.

REALTrans® - A patented electronic services marketplace platform that automates and simplifies vendor selection, ordering, tracking and fulfilling of vendor provided services principally related to real estate and mortgage marketplaces. This technology solution, whether accessed through the web or integrated into existing business processing applications, connects to a marketplace of services through a single platform and delivers an efficient method for managing a large scale network of vendors.

REALRemit® - A patented electronic invoicing and payment system that provides vendors with the ability to submit invoices electronically, provides payors with the ability to automatically adjudicate invoices according to compliance rules and for electronic payments to be fulfilled subject to approval review rules and workflows.

REALDoc® - An automated document management platform that consists of three primary modules: REALDoc Capture, which converts document images into processable data, indexes documents and provides customizable workflows based on data attributes; REALDoc Correspondence, which provides a scalable correspondence generation, management and delivery platform; and REALDoc Vault, which provides a scalable and distributed storage platform and secure document viewer.

REALAnalytics™ - A data analytics and delivery platform that utilizes advanced econometric modeling and behavioral economics to assist mortgage and real estate service providers in optimizing risk management, value measurement, loss mitigation and consumer behavior outcomes across the mortgage and real estate lifecycle.

Equator - Includes the EQ Workstation®, EQ Marketplace®, EQ Midsource® and EQ Portal™ platforms and can be used separately or together as an end-to-end solution. EQ Workstation provides comprehensive, end-to-end workflow and transaction services to manage real estate and foreclosure related activities. EQ Marketplace provides a coordinated means of purchasing a variety of real estate services from vendors including real estate brokerage, title, closing, inspection and valuation. EQ Midsource allows users of EQ Workstation to outsource all or specific components of

real estate related activities. EQ Portal provides realtors direct access to process real estate transactions with secure exchange of data and documents along with realtor marketing, training and certification.

Mortgage Builder - Includes the Architect®, Surveyance®, Colonnade® and LoanXEngine™ technologies, which are software solutions for mortgage banks, community banks, credit unions and other financial institutions. The Architect platform is a cloud based all-inclusive origination platform that manages loans from prequalification through interim servicing and delivery. The Surveyance platform is a mobile origination solution that provides originators with the ability to service their clients remotely. The Colonnade platform is a loan servicing solution and the LoanXEngine platform provides customer relationship management and product pricing and eligibility solutions.

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Corporate Items and Eliminations: Includes interest expense and costs related to corporate support functions including executive, finance, law, compliance, human resources, vendor management, risk, sales and marketing, and also includes eliminations of transactions between the reportable segments. Corporate Items and Eliminations also include the cost of facilities until approximately 40% of the facilities are occupied by the business unit(s), at which time costs are charged to the business unit(s).
We classify revenue in three categories: service revenue, revenue from reimbursable expenses and non-controlling interests. In evaluating our performance, we focus on service revenue. Service revenue consists of amounts attributable to our fee-based services. Reimbursable expenses and non-controlling interests are pass-through items for which we earn no margin. Reimbursable expenses consist of amounts we incur on behalf of our customers in performing our fee-based services, but we pass such costs directly on to our customers without any additional markup. Non-controlling interests represent the earnings of Lenders One, a consolidated entity not owned by Altisource, and are included in revenue and reduced from net income to arrive at net income attributable to Altisource.

Stock Repurchase Plan

On May 20, 2015, our shareholders approved a new stock repurchase program, which replaced the previous stock repurchase program. Under the new program, we are authorized to purchase up to 3.0 million shares of our common stock, based on a limit of 15% of the outstanding shares of common stock on the date of approval, in the open market, at a minimum price of $1.00 per share and a maximum price of $500.00 per share. This is in addition to amounts previously purchased under the prior programs. We purchased 1.6 million shares of our common stock at an average price of $28.02 per share during the six months ended June 30, 2015 and 0.7 million shares at an average price of $109.00 per share during the six months ended June 30, 2014 (1.4 million shares at an average price of $28.57 per share for the second quarter of 2015 and 0.4 million shares at an average price of $108.24 per share for the second quarter of 2014). As of June 30, 2015, approximately 2.0 million shares of common stock remain available for repurchase under the new program. Our senior secured term loan limits the amount we can spend on share repurchases and may prevent repurchases in certain circumstances. As of June 30, 2015, approximately $220 million was available to repurchase our common stock under our senior secured term loan.

Altisource's Vision and Growth Initiatives

Altisource provides a suite of mortgage, real estate and consumer debt services, leveraging our technology and global operations. Our relationship with Ocwen provided a foundation on which we built our business and Ocwen, as our largest customer, remains an important priority for us. Leveraging the services we have built through Ocwen and other relationships, Altisource is focused on becoming the premier provider of real estate and mortgage marketplaces to a diversified customer base. Within the real estate and mortgage markets, we are facilitating transactions related to home sales, home rentals, home maintenance, mortgage origination and mortgage servicing.

While we expect our revenue from Ocwen's servicing portfolio to decline in the future, we believe we have opportunities to continue to build our business from our revenue and diversification initiatives. Ocwen remains a very important component of our business, and we believe that its existing non-government-sponsored enterprise ("non-GSE") portfolio provides continuing long-term revenue for Altisource. Recognizing the importance of further diversifying our customer base, we have increased our focus on our strategic growth initiatives. Our strategic growth initiatives are:

Mortgage market:

- attract new clients to our comprehensive default related businesses
- grow our origination services and technologies

Real estate market:

- expand our innovative online real estate marketplace
- grow our property management and renovation services business

Ocwen Related Matters

Revenue from Ocwen represents 59% of consolidated revenue for the six months ended June 30, 2015 (59% of consolidated revenue for the second quarter of 2015). Additionally, 21% of consolidated revenue for the six months ended June 30, 2015 (20% of consolidated revenue for the second quarter of 2015) was earned on the portfolios serviced by Ocwen, when a party other than Ocwen selects Altisource as the service provider.

Ocwen has been and is subject to a number of pending federal and state regulatory investigations, inquiries and requests for information that have or could result in adverse regulatory actions against Ocwen. Also, Ocwen may become subject to future federal and state regulatory investigations, inquiries and requests for information, any of which could also result in adverse regulatory or other actions against Ocwen (see Note 20 to the condensed consolidated financial statements). Management cannot predict the outcome of the Ocwen related matters or the impact they may have on Altisource. However, in the event these Ocwen related matters materially negatively impact Altisource, we believe the impact to Altisource would occur over an extended period of time and the variable nature of our cost structure allows us to realign our cost structure in line with remaining revenue.

In this regard, we have a plan that allows us to efficiently execute on this realignment. We believe that transfers of Ocwen's servicing rights to a successor servicer(s) would take an extended period of time because of the approval required from many parties, including regulators, rating agencies, residential mortgage-backed securities trustees, lenders and others. During this period of time, we believe we would continue to generate revenue from the services we provide to the portfolio. Additionally, we have several growth initiatives that focus on diversifying and growing our revenue and customer base. Our major growth initiatives are described in Altisource's Vision and Growth Initiatives section above. We have an established sales and marketing strategy to support each of these initiatives.

Management believes our plans, together with current liquidity and cash flows from operations will be sufficient to meet working capital, capital expenditures, debt service and other cash needs for at least the next year. However, there can be no assurance that our plans would be successful or our operations would be profitable.

Factors Affecting Comparability

The following items may impact the comparability of our results:

- The average number of loans serviced by Ocwen on REALServicing was 2.3 million for the six months ended June 30, 2015 compared to 2.1 million for the six months ended June 30, 2014 (2.2 million for the second quarter of 2015 and 2.3 million for the second quarter of 2014). The average number of delinquent non-GSE loans serviced by Ocwen on REALServicing was 295 thousand for the six months ended June 30, 2015 compared to 359 thousand for the six months ended June 30, 2014 (279 thousand for the second quarter of 2015 and 350 thousand for the second quarter of 2014);
- In the second quarter of 2015, we paid the former owners of Equator, LLC ("Equator") $0.5 million to extinguish any liability for Equator related contingent consideration ("Equator Earn Out"). In connection with this settlement, we reduced the liability for the Equator Earn Out to $0 and recognized a $7.6 million increase in earnings;
- In the second quarter of 2015, we repurchased a portion of our senior secured term loan with a par value of $16.0 million at a 9% discount, recognizing a net gain of $1.1 million;
- In the first quarter of 2015, we recognized an other than temporary impairment loss of $3.3 million on our investment in Home Loan Servicing Solutions, Ltd. ("HLSS") equity securities. In the second quarter of 2015, we recognized a gain of $1.4 million related to the sale of, and liquidating and other dividends received from, our investment in HLSS. This resulted in a net reduction to our earnings of $1.9 million for the six months ended June 30, 2015;
- We terminated the Data Access and Services Agreement with Ocwen effective March 31, 2015;
- On November 21, 2014, we acquired certain assets and assumed certain liabilities of Owners Advantage, LLC ("Owners"), a leading self-directed online real estate marketplace, for an initial purchase price of $19.8 million plus contingent earn out consideration of up to an additional $7.0 million over two years, subject to Owners achieving annual performance targets;
- In the fourth quarter of 2014, we discontinued our lender placed insurance brokerage line of business;
- On September 12, 2014, we completed the acquisition of certain assets and assumed certain liabilities of Mortgage Builder Software, Inc. ("Mortgage Builder"), a provider of mortgage loan origination and servicing software systems,

for an initial purchase price of $15.7 million plus contingent earn out consideration of up to an additional $7.0 million over three years, subject to Mortgage Builder achieving annual performance targets; and

- On August 1, 2014, we amended our senior secured term loan agreement and increased our borrowings by $200.0 million to $594.5 million. Interest expense totaled $14.4 million and $9.6 million for the six months ended June 30, 2015 and 2014, respectively ($7.2 million and $4.8 million for the second quarter of 2015 and 2014, respectively).

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CONSOLIDATED RESULTS OF OPERATIONS

Summary Consolidated Results

The following is a discussion of our consolidated results of operations for the periods indicated. For a more detailed discussion of the factors that affected the results of our business segments in these periods, see “Segment Results of Operations” below.

The following table sets forth information regarding our results of operations:

	Three months ended June 30,			Six months ended June 30,		
(in thousands, except per share data)	2015	2014	% Increase (decrease)	2015	2014	% Increase (decrease)
Service revenue						
Mortgage Services	$165,674	$189,349	(13)	$310,055	$336,498	(8)
Financial Services	23,350	25,436	(8)	45,663	49,693	(8)
Technology Services	55,992	57,111	(2)	107,962	103,960	4
Eliminations	(8,421)	(8,731)	(4)	(19,269)	(17,027)	13
Total service revenue	236,595	263,165	(10)	444,411	473,124	(6)
Reimbursable expenses	30,830	32,276	(4)	62,786	61,071	3
Non-controlling interests	896	631	42	1,606	1,146	40
Total revenue	268,321	296,072	(9)	508,803	535,341	(5)
Cost of revenue	168,159	183,999	(9)	340,985	331,804	3
Gross profit	100,162	112,073	(11)	167,818	203,537	(18)
Selling, general and administrative expenses	43,975	49,021	(10)	96,381	92,555	4
Income from operations	56,187	63,052	(11)	71,437	110,982	(36)
Other income (expense), net:						
Interest expense	(7,195)	(4,784)	50	(14,355)	(9,560)	50
Other than temporary impairment loss on HLSS equity securities	—	—	N/M	(3,285)	—	N/M
Gain on sale of and dividends from HLSS equity securities	1,431	—	N/M	1,431	—	N/M
Other income (expense), net	821	(43)	N/M	824	4	N/M
Total other income (expense), net	(4,943)	(4,827)	2	(15,385)	(9,556)	61
Income before income taxes and non-controlling interests	51,244	58,225	(12)	56,052	101,426	(45)
Income tax provision	(4,398)	(3,493)	26	(4,798)	(6,548)	(27)
Net income	46,846	54,732	(14)	51,254	94,878	(46)
Net income attributable to non-controlling interests	(896)	(631)	42	(1,606)	(1,146)	40
Net income attributable to Altisource	$45,950	$54,101	(15)	$49,648	$93,732	(47)

Margins:						
Gross profit/service revenue	42 %	43 %		38 %	43 %	
Income from operations/service revenue	24 %	24 %		16 %	23 %	
Earnings per share:						
Basic	$2.35	$2.45	(4)	$2.50	$4.20	(40)
Diluted	$2.22	$2.24	(1)	$2.38	$3.84	(38)

N/M — not meaningful.

Revenue

We recognized service revenue of $444.4 million for the six months ended June 30, 2015, a 6% decrease compared to the six months ended June 30, 2014 ($236.6 million for the second quarter of 2015, a 10% decrease compared to the second quarter of 2014). The decline in service revenue was primarily due to the discontinuation of the lender placed insurance brokerage line of business in the fourth quarter of 2014, fewer property valuation services referrals, lower mortgage charge-off collections and lower

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Equator revenue from the full amortization of acquisition related deferred revenue in 2014. These declines were partially offset by revenue expansion in the asset management services businesses primarily from growth in the number of non-Ocwen homes and Ocwen REO sold on Hubzu, a higher percentage of homes sold through auction and increased REALSuite software sales.

Certain of our revenues are impacted by seasonality. More specifically, Mortgage Services' revenue is impacted by REO sales and lawn maintenance, which tend to be at their lowest level during the fall and winter months and highest during the spring and summer months. Financial Services' asset recovery management revenue tends to be higher in the first quarter, as borrowers may utilize tax refunds and bonuses to pay debts, and generally declines throughout the rest of the year.

Cost of Revenue and Gross Profit

Cost of revenue principally includes payroll and employee benefits associated with personnel employed in customer service and operations roles, fees paid to external providers related to the provision of services, reimbursable expenses, technology and telecommunications expenses and depreciation and amortization of operating assets.
We recognized cost of revenue of $341.0 million for the six months ended June 30, 2015, a 3% increase compared to the six months ended June 30, 2014 ($168.2 million for the second quarter of 2015, a 9% decrease compared to the second quarter of 2014). The increase in cost of revenue for the six months ended June 30, 2015 is primarily attributable to increased compensation and benefits, partially offset by lower outside fees and services cost. The decrease in cost of revenue for the second quarter of 2015 is primarily attributable to lower outside fees and services cost. Compensation and benefits increased for the six months ended June 30, 2015 primarily due to increased headcount and related benefits, contractor costs and severance costs incurred in connection with cost reduction initiatives implemented during the first half of 2015. Outside fees and services cost decreased for the six months ended June 30, 2015 and the second quarter of 2015 primarily due to the termination of the Data Access and Services Agreement with Ocwen, as of March 31, 2015 and lower costs in 2015 due to prior year costs incurred to build and develop our insurance services business. Recognizing that our service revenue from Ocwen is not expected to grow in the near term due to challenges faced by Ocwen in late 2014 and early 2015, we developed and executed on a plan that included eliminating certain non-revenue generating businesses, reducing vendor costs and eliminating staff. During the six months ended June 30, 2015, we recognized severance expense of $4.3 million related to the elimination of staff ($0.3 million during the second quarter of 2015).

Gross profit decreased to $167.8 million, representing 38% of service revenue, for the six months ended June 30, 2015 compared to $203.5 million, representing 43% of service revenue, for the six months ended June 30, 2014 (decreased to $100.2 million, representing 42% of service revenue, for the second quarter of 2015 compared to $112.1 million, representing 43% of service revenue for the second quarter of 2014). Gross profit as a percentage of service revenue for the six months ended June 30, 2015 was lower, particularly in the first quarter of 2015, due largely to lower revenue from Mortgage Services' higher gross profit margin businesses and higher compensation and benefits costs without corresponding revenue growth principally within the Technology Services segment. Following the implementation of our cost reduction initiatives in the first quarter of 2015 and the termination of the Data Access and Services Agreement with Ocwen as of March 31, 2015, along with seasonally higher revenue our gross profit margin improved in the second quarter of 2015.

Selling, General and Administrative Expenses and Income from Operations

Selling, general and administrative expenses ("SG&A") includes payroll for personnel employed in executive, finance, law, compliance, human resources, vendor management, risk, sales and marketing roles. This category also includes occupancy costs, professional fees and depreciation and amortization of intangible assets.

We recognized SG&A of $96.4 million for the six months ended June 30, 2015, a 4% increase compared to the six months ended June 30, 2014 ($44.0 million for the second quarter of 2015, a 10% decrease compared to the second quarter of 2014). The increase for the six months ended June 30, 2015 is driven primarily by an increase in legal costs related to legal and regulatory matters, an increase in compensation and benefits costs from an expansion of certain support functions and severance costs incurred in connection with the cost reduction initiatives. These costs were partially offset by the second quarter of 2015 settlement of the Equator Earn Out which resulted in a reduction in SG&A of $7.6 million. The decrease for the second quarter of 2015 is driven primarily by the benefit resulting from the Equator Earn Out settlement discussed above, partially offset by an increase in compensation and benefits costs, severance costs and higher legal costs related to regulatory and litigation matters also discussed above.

During the second quarter of 2014, the Equator Earn Out was reduced by $37.9 million with a corresponding increase in earnings. As a result of the adjustment in the fair value of the Equator contingent consideration and based on our preliminary assessment,

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in the second quarter of 2014 we estimated that the Equator goodwill was impaired and recorded an impairment loss of $37.5 million.

The following table presents the impact of the change in the fair value of the Equator Earn Out and Equator goodwill impairment for the second quarter of 2014 and for the six months ended June 30, 2014 and are included in SG&A in the condensed consolidated statements of operations:
(in thousands)

Change in the fair value of Equator Earn Out	$(37,924	)
Goodwill impairment	37,473	
	$(451	)

Income from operations decreased to $71.4 million, representing 16% of service revenue, for the six months ended June 30, 2015 compared to $111.0 million, representing 23% of service revenue, for the six months ended June 30, 2014 (decreased to $56.2 million, representing 24% of service revenue, for the second quarter of 2015 compared to $63.1 million, representing 24% of service revenue, for the second quarter of 2014). The decrease in operating income margin for the six months ended June 30, 2015 is primarily driven by the lower first quarter 2015 gross profit margin and higher first quarter 2015 SG&A, as discussed above. The operating margins for the second quarter of 2015 returned to 2014 levels as we realigned our costs in line with revenue in connection with our cost reduction initiatives and recognized a benefit from the Equator Earn Out settlement, as discussed above.

Other Income (Expense), net
Other income (expense), net principally includes interest expense, interest income, an other than temporary impairment loss on HLSS equity securities, dividends and gain on sale of HLSS equity securities and a gain on the early extinguishment of debt. Interest expense was $14.4 million for the six months ended June 30, 2015, an increase of $4.8 million compared to the six months ended June 30, 2014 ($7.2 million for the second quarter of 2015, an increase of $2.4 million compared to the second quarter of 2014), resulting from the additional $200.0 million senior secured term loan borrowings on August 1, 2014.
During the first quarter of 2015, we purchased 1.6 million shares of HLSS common stock in the open market for $30.0 million (1,613,125 shares at an average price per share of $18.58). This investment was classified as available for sale. Based on HLSS' sale of substantially all of its assets and plan of complete liquidation and dissolution on April 6, 2015, we determined that our investment in HLSS was other than temporarily impaired. Accordingly, we recognized an other than temporary impairment loss of $3.3 million during the first quarter of 2015. This amount reflected the difference between the cost and fair value of the HLSS equity securities as of March 31, 2015.

During the second quarter of 2015, we received liquidating dividends and other dividends from HLSS totaling $20.4 million and sold all of our 1.6 million shares of HLSS common stock in the open market for $7.7 million (1,613,125 shares at an average price per share of $4.75).

As a result of these transactions, we recognized a net loss of $1.9 million for the six months ended June 30, 2015 (no comparative amount for the six months ended June 30, 2014) and a gain of $1.4 million for the second quarter of 2015 (no comparative amount for the second quarter of 2014) in connection with our investment in HLSS.

In June 2015, we repurchased a portion of our senior secured term loan with a par value of $16.0 million at a 9% discount, recognizing a net gain of $1.1 million on the early extinguishment of a portion of the debt.

Income Tax Provision

We recognized an income tax provision of $4.8 million for the six months ended June 30, 2015 compared to $6.5 million for the six months ended June 30, 2014 ($4.4 million and $3.5 million for the second quarter of 2015 and 2014, respectively). Our effective tax rate was 8.6% and 6.5% for the six months ended June 30, 2015 and June 30, 2014, respectively (8.6% and 6.0% for the second quarter of 2015 and 2014, respectively). Our effective tax rate differs from the Luxembourg statutory tax rate of 29.2% primarily due to the effect of certain deductions in Luxembourg from a tax ruling, which expires in 2019 unless extended or renewed, and the mix of income and losses with varying tax rates in multiple taxing jurisdictions. Our consolidated effective income tax rate for financial reporting purposes may change periodically due to changes in enacted tax rates, fluctuations in the mix of income earned from our domestic and international operations and our ability to utilize net operating loss and tax credit carryforwards.

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SEGMENT RESULTS OF OPERATIONS

The following section provides a discussion of pre-tax results of operations of our business segments. Transactions between segments are accounted for as third party arrangements for purposes of presenting segment results of operations. Intercompany transactions primarily consist of IT infrastructure services. We reflect these as service revenue in the Technology Services segment and technology and telecommunications expense within cost of revenue and SG&A in the segment receiving the services.
Financial information for our segments is as follows:

	Three months ended June 30, 2015				
(in thousands)	Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue					
Service revenue	$165,674	$23,350	$55,992	$(8,421)	$236,595
Reimbursable expenses	30,791	39	—	—	30,830
Non-controlling interests	896	—	—	—	896
	197,361	23,389	55,992	(8,421)	268,321
Cost of revenue	112,710	15,537	47,423	(7,511)	168,159
Gross profit (loss)	84,651	7,852	8,569	(910)	100,162
Selling, general and administrative expenses	25,228	4,588	(345)	14,504	43,975
Income (loss) from operations	59,423	3,264	8,914	(15,414)	56,187
Other income (expense), net	23	2	(18)	(4,950)	(4,943)
Income (loss) before income taxes and non-controlling interests	$59,446	$3,266	$8,896	$(20,364)	$51,244
Margins:					
Gross profit/service revenue	51%	34%	15%	N/M	42%
Income from operations/service revenue	36%	14%	16%	N/M	24%

N/M — not meaningful.

	Three months ended June 30, 2014				
(in thousands)	Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue					
Service revenue	$189,349	$25,436	$57,111	$(8,731)	$263,165
Reimbursable expenses	32,236	40	—	—	32,276
Non-controlling interests	631	—	—	—	631
	222,216	25,476	57,111	(8,731)	296,072
Cost of revenue	129,411	16,058	46,414	(7,884)	183,999
Gross profit (loss)	92,805	9,418	10,697	(847)	112,073
Selling, general and administrative expenses	23,503	4,773	7,502	13,243	49,021
Income (loss) from operations	69,302	4,645	3,195	(14,090)	63,052
Other income (expense), net	80	12	(106)	(4,813)	(4,827)

Income (loss) before income taxes and non-controlling interests	$69,382		$4,657		$3,089		$(18,903	)	$58,225	
Margins:										
Gross profit/service revenue	49	%	37	%	19	%	N/M		43	%
Income from operations/service revenue	37	%	18	%	6	%	N/M		24	%

N/M — not meaningful.

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(in thousands)	Six months ended June 30, 2015 Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue					
Service revenue	$310,055	$45,663	$107,962	$(19,269)	$444,411
Reimbursable expenses	62,706	80	—	—	62,786
Non-controlling interests	1,606	—	—	—	1,606
	374,367	45,743	107,962	(19,269)	508,803
Cost of revenue	227,514	30,640	100,146	(17,315)	340,985
Gross profit (loss)	146,853	15,103	7,816	(1,954)	167,818
Selling, general and administrative expenses	45,789	9,303	6,970	34,319	96,381
Income (loss) from operations	101,064	5,800	846	(36,273)	71,437
Other income (expense), net	19	(10)	(17)	(15,377)	(15,385)
Income (loss) before income taxes and non-controlling interests	$101,083	$5,790	$829	$(51,650)	$56,052
Margins:					
Gross profit/service revenue	47 %	33 %	7 %	N/M	38 %
Income from operations/service revenue	33 %	13 %	1 %	N/M	16 %

N/M — not meaningful.

(in thousands)	Six months ended June 30, 2014 Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue					
Service revenue	$336,498	$49,693	$103,960	$(17,027)	$473,124
Reimbursable expenses	61,003	68	—	—	61,071
Non-controlling interests	1,146	—	—	—	1,146
	398,647	49,761	103,960	(17,027)	535,341
Cost of revenue	232,648	30,671	83,746	(15,261)	331,804
Gross profit (loss)	165,999	19,090	20,214	(1,766)	203,537
Selling, general and administrative expenses	42,676	9,436	14,117	26,326	92,555
Income (loss) from operations	123,323	9,654	6,097	(28,092)	110,982
Other income (expense), net	128	11	(122)	(9,573)	(9,556)
Income (loss) before income taxes and non-controlling interests	$123,451	$9,665	$5,975	$(37,665)	$101,426
Margins:					
Gross profit/service revenue	49 %	38 %	19 %	N/M	43 %
Income from operations/service revenue	37 %	19 %	6 %	N/M	23 %

N/M — not meaningful.

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Mortgage Services

Revenue

Revenue by service line was as follows:

(in thousands)	Three months ended June 30, 2015	2014	% Increase (decrease)	Six months ended June 30, 2015	2014	% Increase (decrease)
Service revenue:						
Asset management services	$114,435	$105,948	8	$204,019	$180,673	13
Insurance services	24,837	49,684	(50)	48,479	84,649	(43)
Residential property valuation	13,994	23,908	(41)	33,441	51,104	(35)
Default management services	7,074	5,554	27	13,768	11,391	21
Origination management services	5,334	4,255	25	10,348	8,681	19
Total service revenue	165,674	189,349	(13)	310,055	336,498	(8)
Reimbursable expenses:						
Asset management services	27,835	30,975	(10)	57,838	58,137	(1)
Insurance services	1,833	867	111	3,182	1,516	110
Default management services	1,087	362	200	1,628	1,279	27
Origination management services	36	32	13	58	71	(18)
Total reimbursable expenses	30,791	32,236	(4)	62,706	61,003	3
Non-controlling interests	896	631	42	1,606	1,146	40
Total revenue	$197,361	$222,216	(11)	$374,367	$398,647	(6)

We recognized service revenue of $310.1 million for the six months ended June 30, 2015, an 8% decrease compared to the six months ended June 30, 2014 ($165.7 million for the second quarter of 2015, a 13% decrease compared to the second quarter of 2014), primarily due to the discontinuation of the lender placed insurance brokerage line of business in the fourth quarter of 2014 and fewer property valuation services referrals. These declines were partially offset by revenue expansion in the asset management services businesses primarily from growth in the number of non-Ocwen homes and Ocwen REO sold on Hubzu and a higher percentage of homes sold through auction.

Certain of our Mortgage Services businesses are impacted by seasonality. REO sales and lawn maintenance services within the asset management services business are generally lowest during the fall and winter months and highest during the spring and summer months.

Cost of Revenue and Gross Profit

Cost of revenue consists of the following:

(in thousands)	Three months ended June 30, 2015	2014	% Increase (decrease)	Six months ended June 30, 2015	2014	% Increase (decrease)
Compensation and benefits	$20,199	$19,200	5	$41,004	$34,652	18
Outside fees and services	54,129	70,268	(23)	106,722	122,550	(13)
Reimbursable expenses	30,791	32,236	(4)	62,706	61,003	3

Technology and telecommunications	6,663	7,061	(6)	15,337	13,265	16
Depreciation and amortization	928	646	44	1,745	1,178	48
Cost of revenue	$112,710	$129,411	(13)	$227,514	$232,648	(2)

Cost of revenue for the six months ended June 30, 2015 of $227.5 million decreased by 2% compared to the six months ended June 30, 2014 ($112.7 million for the second quarter of 2015, a 13% decrease compared to the second quarter of 2014), primarily due to the decrease in outside fees and services partially offset by an increase in compensation and benefits costs. The decrease in outside fees and services was primarily due to the termination of the Data Access and Services Agreement with Ocwen effective March 31, 2015 and non-recurring costs in 2014 related to the development of our insurance business. Compensation and benefits

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costs increased in the second quarter of 2014 to support growth in certain of our Mortgage Services businesses and our growth initiatives. In connection with our cost reduction initiatives during the six months ended June 30, 2015, we recognized severance expense in the Mortgage Services segment of $1.1 million related to the elimination of staff. Gross profit decreased to $146.9 million, representing 47% of service revenue, for the six months ended June 30, 2015 compared to $166.0 million, representing 49% of service revenue, for the six months ended June 30, 2014 (decreased to $84.7 million, representing 51% of service revenue, for the second quarter of 2015 compared to $92.8 million, representing 49% of service revenue, for the second quarter of 2014). Gross profit as a percentage of service revenue decreased for the six months ended June 30, 2015 primarily due to service revenue mix with no revenue in 2015 from the higher margin lender placed insurance brokerage business, partially offset by reduced outside fees and services from the termination of the Data Access and Services Agreement with Ocwen. Gross profit as a percentage of service revenue for the second quarter of 2015 increased as the termination of the Data Access and Services Agreement with Ocwen was effective for the full quarter, partially offset by revenue mix.

Our margins can vary substantially depending upon service revenue mix.
Selling, General and Administrative Expenses and Income from Operations

SG&A expenses consist of the following:

	Three months ended June 30,			Six months ended June 30,		
(in thousands)	2015	2014	% Increase (decrease)	2015	2014	% Increase (decrease)
Compensation and benefits	$629	$449	40	$1,167	$691	69
Professional services	3,568	1,424	151	8,110	2,471	228
Occupancy related costs	2,803	2,505	12	5,403	4,883	11
Amortization of intangible assets	6,779	7,411	(9)	13,217	14,496	(9)
Depreciation and amortization	600	466	29	1,154	893	29
Marketing costs	4,349	7,621	(43)	8,283	12,623	(34)
Other/allocations from Corp.	6,500	3,627	79	8,455	6,619	28
Selling, general and administrative expenses	$25,228	$23,503	7	$45,789	$42,676	7

SG&A for the six months ended June 30, 2015 of $45.8 million increased by 7% compared to the six months ended June 30, 2014 ($25.2 million for the second quarter of 2015, a 7% increase compared to the second quarter of 2014), primarily driven by an increase in legal and regulatory related costs. This increase was partially offset by lower Hubzu marketing costs as we continue to optimize our marketing spend.

Income from operations decreased to $101.1 million, representing 33% of service revenue, for the six months ended June 30, 2015 compared to $123.3 million, representing 37% of service revenue, for the six months ended June 30, 2014 (decreased to $59.4 million, representing 36% of service revenue for the second quarter of 2015 compared to $69.3 million, representing 37% of service revenue, for the second quarter of 2014). The decrease in operating income margin is primarily the result of the lower gross profit margins and higher legal and regulatory related costs, partially offset by lower Hubzu marketing costs, as discussed above. Operating income margins for the second quarter of 2015 were slightly lower than the same period in 2014 from higher gross profit margins offset by higher legal and regulatory related costs.

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Financial Services

Revenue

Revenue by service line was as follows:

(in thousands)	Three months ended June 30, 2015	2014	% Increase (decrease)	Six months ended June 30, 2015	2014	% Increase (decrease)
Service revenue:						
Customer relationship management	$13,789	$13,334	3	$25,185	$26,309	(4)
Asset recovery management	9,561	12,102	(21)	20,478	23,384	(12)
Total service revenue	23,350	25,436	(8)	45,663	49,693	(8)
Reimbursable expenses:						
Asset recovery management	39	40	(3)	80	68	18
Total reimbursable expenses	39	40	(3)	80	68	18
Total revenue	$23,389	$25,476	(8)	$45,743	$49,761	(8)

We recognized service revenue of $45.7 million for the six months ended June 30, 2015, an 8% decrease compared to the six months ended June 30, 2014 ($23.4 million for the second quarter of 2015, an 8% decrease compared to the second quarter of 2014), primarily due to lower mortgage charge-off collections driven by a decline in referrals. For the six months ended June 30, 2015, the customer relationship management revenue declined primarily due to lower business from an existing customer, due to its vendor diversification initiatives, partially offset by the addition of a new customer. The increase in customer relationship management revenue for the second quarter of 2015 is primarily the result of the addition of a new customer and expansion of services provided to existing clients.

Certain of our Financial Services businesses are impacted by seasonality. Revenue in the asset recovery management business tends to be higher in the first quarter, as borrowers may utilize tax refunds and bonuses to pay debts, and generally declines throughout the rest of the year.

Cost of Revenue and Gross Profit

Cost of revenue consists of the following:

(in thousands)	Three months ended June 30, 2015	2014	% Increase (decrease)	Six months ended June 30, 2015	2014	% Increase (decrease)
Compensation and benefits	$11,967	$12,049	(1)	$22,954	$23,088	(1)
Outside fees and services	733	888	(17)	1,430	1,705	(16)
Reimbursable expenses	39	40	(3)	80	68	18
Technology and telecommunications	2,332	2,727	(14)	5,240	5,167	1
Depreciation and amortization	466	354	32	936	643	46
Cost of revenue	$15,537	$16,058	(3)	$30,640	$30,671	—

Cost of revenue for the six months ended June 30, 2015 of $30.6 million remained flat compared to the six months ended June 30, 2014 ($15.5 million for the second quarter of 2015, a 3% decrease compared to the second quarter of 2014). The decrease in cost of revenue for the second quarter of 2015 was primarily due to lower technology and

telecommunications costs resulting from the implementation of cost savings initiatives in 2015.

Gross profit decreased to $15.1 million, representing 33% of service revenue, for the six months ended June 30, 2015 compared to $19.1 million, representing 38% of service revenue, for the six months ended June 30, 2014 (decreased to $7.9 million, representing 34% of service revenue, for the second quarter of 2015 compared to $9.4 million, representing 37% of service revenue, for the second quarter of 2014). Gross profit margin decreased primarily due to revenue mix as revenue declined in the higher margin mortgage charge-off collections business.

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Selling, General and Administrative Expenses and Income from Operations

SG&A expenses consist of the following:

(in thousands)	Three months ended June 30, 2015	2014	% Increase (decrease)	Six months ended June 30, 2015	2014	% Increase (decrease)
Compensation and benefits	$208	$176	18	$221	$330	(33)
Professional services	428	363	18	639	606	5
Occupancy related costs	1,951	1,857	5	3,846	3,685	4
Amortization of intangible assets	945	1,454	(35)	2,072	2,908	(29)
Depreciation and amortization	635	375	69	1,214	669	81
Other/allocations from Corp.	421	548	(23)	1,311	1,238	6
Selling, general and administrative expenses	$4,588	$4,773	(4)	$9,303	$9,436	(1)

SG&A for the six months ended June 30, 2015 of $9.3 million decreased by 1% compared to the six months ended June 30, 2014 ($4.6 million for the second quarter of 2015, a 4% decrease compared to the second quarter of 2014). The decrease is primarily due to the decrease in amortization of intangible assets, partially offset by an increase in depreciation and amortization expense from 2014 leasehold improvements in connection with facility relocations.

Income from operations decreased to $5.8 million, representing 13% of service revenue, for the six months ended June 30, 2015 compared to $9.7 million, representing 19% of service revenue, for the six months ended June 30, 2014 (decreased to $3.3 million, representing 14% of service revenue, for the second quarter of 2015 compared to $4.6 million, representing 18% of service revenue, for the second quarter of 2014). The decrease in operating income as a percentage of service revenue is primarily the result of lower gross profit margins as discussed above.

Technology Services

Revenue

Revenue by service line was as follows:

(in thousands)	Three months ended June 30, 2015	2014	% Increase (decrease)	Six months ended June 30, 2015	2014	% Increase (decrease)
Service revenue:						
Software services	$38,587	$39,426	(2)	$71,211	$74,029	(4)
IT infrastructure services	17,405	17,685	(2)	36,751	29,931	23
Total revenue	$55,992	$57,111	(2)	$107,962	$103,960	4

We recognized service revenue of $108.0 million for the six months ended June 30, 2015, a 4% increase compared to the six months ended June 30, 2014 ($56.0 million for the second quarter of 2015, a 2% decrease compared to the second quarter of 2014). The increase for the six months ended June 30, 2015 is primarily due to an increase in IT infrastructure services revenue, which is typically billed on a cost plus basis. Costs in the IT infrastructure business were higher than the same period in 2014 as we were investing in support of our growth; however, we reduced these investments during the second quarter of 2015 to better align our costs with revenue. Within the software services business, lower Equator revenue from the full amortization of acquisition related deferred revenue in 2014 was partially offset by an increase in REALSuite development revenue and a higher number of loans serviced by Ocwen on REALServicing. For the second quarter of 2015, both the software services and IT infrastructure services revenues decreased slightly compared to the second quarter of 2014 from a decrease in Equator revenues and lower related IT infrastructure costs, largely offset by increased REALSuite development revenue.

For segment presentation purposes, revenue from services provided by Technology Services to our other reportable segments is eliminated in consolidation. This inter-segment revenue is included as revenue in the Technology Services segment and as technology and telecommunications expense, a component of cost of revenue and SG&A, in our other reportable segments.

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Cost of Revenue and Gross Profit

Cost of revenue consists of the following:

(in thousands)	Three months ended June 30, 2015	2014	% Increase (decrease)	Six months ended June 30, 2015	2014	% Increase (decrease)
Compensation and benefits	$32,724	$31,872	3	$70,258	$58,031	21
Outside fees and services	13	—	N/M	13	—	N/M
Technology and telecommunications	8,818	10,154	(13)	18,890	17,457	8
Depreciation and amortization	5,868	4,388	34	10,985	8,258	33
Cost of revenue	$47,423	$46,414	2	$100,146	$83,746	20

N/M - not meaningful.

Cost of revenue for the six months ended June 30, 2015 of $100.1 million increased by 20% compared to the six months ended June 30, 2014 ($47.4 million for the second quarter of 2015, a 2% increase compared to the second quarter of 2014). The increase was primarily due to increases in compensation and benefits costs and depreciation and amortization expenses. A portion of the increase in costs relates to the September 2014 acquisition of Mortgage Builder. The remaining increase relates to businesses we have been investing in to support our growth; however, we reduced these investments during the second quarter of 2015 to better align our costs with revenue. The decrease in technology and telecommunications costs for the second quarter of 2015 is the result of the implementation of cost savings initiatives. Recognizing that our service revenue from Ocwen is not expected to grow in the near term due to challenges faced by Ocwen, in late 2014 and early 2015, we developed and executed on a plan that included eliminating certain non-revenue generating businesses, reducing vendor costs and eliminating staff. Cost of revenue increased slightly for the second quarter of 2015 compared to the second quarter of 2014 as we benefited from the implementation of our cost savings initiatives. During the six months ended June 30, 2015, we recognized severance expense in the Technology Services segment of $3.1 million related to the elimination of staff ($0.3 million for the second quarter of 2015).

Gross profit decreased to $7.8 million, representing 7% of service revenue, for the six months ended June 30, 2015 compared to $20.2 million, representing 19% of service revenue, for the six months ended June 30, 2014 (decreased to $8.6 million, representing 15% of service revenue, for the second quarter of 2015 compared to $10.7 million, representing 19% of service revenue, for the second quarter of 2014). Gross profit margins for the six months ended June 30, 2015 decreased primarily due to service revenue mix, as lower margin IT infrastructure service revenue increased. In addition, gross profit margins for both the six months ended June 30, 2015 and the second quarter of 2015 were impacted by lower Equator revenue from the full amortization of acquisition related deferred revenue in 2014 and higher costs, as described above.

Selling, General and Administrative Expenses and Income from Operations

SG&A expenses consist of the following:

(in thousands)	Three months ended June 30, 2015	2014	% Increase (decrease)	Six months ended June 30, 2015	2014	% Increase (decrease)
Compensation and benefits	$755	$1,531	(51)	$1,633	$2,473	(34)
Professional services	255	127	101	438	214	105
Occupancy related costs	3,350	2,861	17	7,129	5,494	30
Amortization of intangible assets	1,262	1,242	2	2,588	2,169	19

Depreciation and amortization	529	326	62	840	646	30
Change in the fair value of Equator Earn Out	(7,591)	(37,924)	(80)	(7,591)	(37,924)	(80)
Goodwill impairment	—	37,473	(100)	—	37,473	(100)
Other/allocations from Corp.	1,095	1,866	(41)	1,933	3,572	(46)
Selling, general and administrative expenses	$(345)	$7,502	(105)	$6,970	$14,117	(51)

SG&A for the six months ended June 30, 2015 of $7.0 million decreased by 51% compared to the six months ended June 30, 2014 ($(0.3) million for the second quarter of 2015, a 105% decrease compared to the second quarter of 2014). The decrease is primarily

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due to the second quarter of 2015 settlement of the Equator Earn Out which resulted in a reduction in SG&A of $7.6 million and lower bad debt expense. The decrease was partially offset by an increase in occupancy related costs driven by facility expansions and relocations.

Income from operations decreased to $0.8 million, representing 1% of service revenue, for the six months ended June 30, 2015 compared to $6.1 million, representing 6% of service revenue, for the six months ended June 30, 2014 (increased to $8.9 million, representing 16% of service revenue, for the second quarter of 2015 compared to $3.2 million, representing 6% of service revenue, for the second quarter of 2014). Income from operations as a percentage of service revenue decreased for the six months ended June 30, 2015 primarily due to the decline in gross profit margin, partially offset by recognition of the change in fair value of the Equator Earn Out, as discussed above. Income from operations as a percentage of service revenue increased for the second quarter of 2015 primarily due to the settlement of the Equator Earn Out, as discussed above.

Corporate Items and Eliminations

Corporate Items and Eliminations include interest expense, other than temporary impairment loss on HLSS equity securities, dividends and gain on sale of HLSS equity securities, gain on early extinguishment of debt and costs related to corporate support functions including executive, finance, law, compliance, human resources, vendor management, risk, sales and marketing. It also includes eliminations of transactions between the reportable segments. Corporate costs consist of the following:

	Three months ended June 30,			Six months ended June 30,		
(in thousands)	2015	2014	% Increase (decrease)	2015	2014	% Increase (decrease)
Compensation and benefits	$12,044	$8,955	34	$23,378	$16,606	41
Professional services	2,388	894	167	5,442	3,499	56
Occupancy related costs	1,943	2,273	(15)	4,323	4,745	(9)
Depreciation and amortization	580	574	1	1,558	1,088	43
Marketing costs	1,480	10	N/M	2,782	28	N/M
Other/allocations to segments	(3,931)	537	N/M	(3,164)	360	N/M
Selling, general and administrative expenses	14,504	13,243	10	34,319	26,326	30
Other expense, net	4,950	4,813	3	15,377	9,573	61
Total corporate costs	$19,454	$18,056	8	$49,696	$35,899	38

N/M - not meaningful.

Corporate costs for the six months ended June 30, 2015 of $49.7 million increased by 38% compared to the six months ended June 30, 2014 ($19.5 million for the second quarter of 2015, an 8% increase compared to the second quarter of 2014) primarily due to higher compensation and benefits costs, legal and compliance costs related to regulatory and litigation matters, interest expense and a loss on HLSS equity securities, partially offset by the allocation of the costs incurred at certain new support groups to the segments. We incurred higher compensation and benefits costs as we expanded certain corporate functions, strengthening our sales and marketing functions. In addition, we incurred $0.6 million of severance costs in connection with cost reduction initiatives implemented during the six months ended June 30, 2015 ($0.1 million for the second quarter of 2015).

Interest expense for the six months ended June 30, 2015 of $14.4 million increased by 50% compared to the six months ended June 30, 2014 ($7.2 million for the second quarter of 2015, a 50% increase compared to the second quarter of 2014), resulting from the additional $200.0 million senior secured term loan borrowings on August 1, 2014.

During the first quarter of 2015, we purchased 1.6 million shares of HLSS common stock in the open market for $30.0 million (1,613,125 shares at an average price per share of $18.58). This investment was classified as available for sale. Based on HLSS' sale of substantially all of its assets and plan of complete liquidation and dissolution on April 6, 2015, we determined that our investment in HLSS was other than temporarily impaired. Accordingly, we recognized an other than temporary impairment loss of $3.3 million during the first quarter of 2015. This amount reflected the difference between the cost and fair value of the HLSS equity securities as of March 31, 2015.

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During the second quarter of 2015, we received liquidating dividends and other dividends from HLSS totaling $20.4 million and sold all of our 1.6 million shares of HLSS common stock in the open market for $7.7 million (1,613,125 shares at an average price per share of $4.75).

As a result of these transactions, we recognized a net loss of $1.9 million for the six months ended June 30, 2015 (no comparative amount for the six months ended June 30, 2014) and a gain of $1.4 million for the second quarter of 2015 (no comparative amount for the second quarter of 2014) in connection with our investment in HLSS.

In June 2015, we repurchased a portion of our senior secured term loan with a par value of $16.0 million at a 9% discount, recognizing a net gain of $1.1 million on the early extinguishment of debt.
Intercompany revenue that is eliminated in consolidation increased for the six months ended June 30, 2015 compared to the six months ended June 30, 2014 and decreased for the second quarter of 2015 compared to the second quarter of 2014. These intercompany transactions primarily consisted of IT infrastructure services. While the expenses are recognized in the Mortgage Services and Financial Services segments above, the elimination of these expenses is reflected in Corporate Items and Eliminations.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Our primary source of liquidity is cash flows from operations. We seek to deploy excess cash generated in a disciplined manner. Principally, we intend to use excess cash to develop complementary services and businesses that we believe will generate attractive margins in line with our core capabilities and strategy. We may consider business acquisitions and other opportunities that may arise from time to time. From January 2015 through June 2015, we used $61.7 million to repurchase Altisource common stock, repurchase a portion of the senior secured term loan and make contractual repayments of our senior secured term loan.

Our relationship with Ocwen is subject to a number of risks and uncertainties that could result in changes to our relationship and have an adverse effect on our liquidity. We intend to closely monitor the Ocwen related uncertainties and to modify our business plan as needed in response. As a result of these uncertainties, we intend to closely monitor our cash and cash equivalents position throughout 2015. Based on market conditions, we may continue repurchasing our common stock and/or our debt if we believe conditions are favorable.

Senior Secured Term Loan

On November 27, 2012, Altisource Solutions S.à r.l., a wholly-owned subsidiary of the Company, entered into a senior secured term loan agreement with Bank of America, N.A., as administrative agent, and certain lenders. The Company and certain wholly-owned subsidiaries are guarantors of the term loan. We subsequently amended the senior secured term loan agreement to increase the principal amount of the senior secured term loan and, among other changes, re-establish the $200.0 million incremental term loan facility accordion, lower the interest rate, extend the maturity date by approximately one year and increase the maximum amount of Restricted Junior Payments (as defined in the senior secured term loan agreement; other capitalized terms, unless defined herein, are defined in the senior secured term loan agreement). The lenders of the senior secured term loan, as amended, have no obligation to provide any such additional debt under the accordion provision. As of June 30, 2015, $569.9 million, net of unamortized discount of $2.6 million, was outstanding under the senior secured term loan agreement, as amended, compared to $588.6 million, net of unamortized discount of $2.9 million, as of December 31, 2014.

After giving effect to the third amendment entered into on August 1, 2014, the term loan must be repaid in equal consecutive quarterly principal installments of $1.5 million, which commenced on September 30, 2014, with the balance due at maturity. All amounts outstanding under the senior secured term loan agreement will become due on

the earlier of (i) December 9, 2020 and (ii) the date on which the loans are declared to be due and owing by the administrative agent at the request (or with the consent) of the Required Lenders upon the occurrence of any event of default under the senior secured term loan agreement. However, if leverage ratios exceed 3.00 to 1.00, a percentage of cash flows must be used to repay principal. No mandatory prepayments were required for the six months ended June 30, 2015. The interest rate as of June 30, 2015 was 4.50%.

In June 2015, the Company repurchased a portion of its senior secured term loan with a par value of $16.0 million at a 9% discount, recognizing a net gain of $1.1 million on the early extinguishment of a portion of the debt. The net gain is included in other income (expense), net in the condensed consolidated statements of operations.

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The debt covenants in the senior secured term loan agreement limit, among other things, our ability to incur additional debt, pay dividends and repurchase stock. In the event we require additional liquidity, our ability to obtain it may be limited by the senior secured term loan.

Cash Flows

The following table presents our cash flows for the six months ended June 30:

(in thousands)	2015	2014	% Increase (decrease)
Net income adjusted for non-cash items	$85,280	$133,888	(36)
Changes in operating assets and liabilities	(30,473)	(22,361)	(36)
Net cash flows provided by operating activities	54,807	111,527	(51)
Net cash flows used in investing activities	(23,279)	(30,816)	24
Net cash flows used in financing activities	(62,810)	(83,256)	25
Decrease in cash and cash equivalents	(31,282)	(2,545)	N/M
Cash and cash equivalents at beginning of period	161,361	130,429	24
Cash and cash equivalents at end of period	$130,079	$127,884	2

N/M — not meaningful.

Cash Flows from Operating Activities

Cash flows from operating activities generally consist of the cash effects of transactions and events that enter into the determination of net income. For the six months ended June 30, 2015, we generated cash flows from operating activities of $54.8 million, or approximately $0.12 for every dollar of service revenue ($0.30 for every dollar of service revenue for the second quarter of 2015) compared to cash flows from operating activities of $111.5 million, or approximately $0.24 for every dollar of service revenue for the six months ended June 30, 2014 ($0.29 for every dollar of service revenue for the second quarter of 2014). The decrease in cash flows from operations for the six months ended June 30, 2015 compared to the six months ended June 30, 2014 is principally driven by lower first quarter 2015 net income, after adding back depreciation and amortization including amortization of intangible assets, and unfavorable working capital changes. Changes in working capital for the six months ended June 30, 2015 compared to the six months ended June 30, 2014 were principally due to a decrease in accounts payable and accrued expenses due to the timing of payments, including higher annual incentive compensation payments.
Operating cash flows per service revenue dollar can be negatively impacted because of the nature of some of our services. Certain services are performed immediately following or shortly after the referral, but the collection of the receivable does not occur until a specific event occurs (e.g., the foreclosure is complete, the REO asset is sold, etc.) and our cash flows from operations may be negatively impacted when comparing one interim period to another.
Cash Flows from Investing Activities

Cash flows from investing activities include capital expenditures of $21.4 million and $30.5 million for the six months ended June 30, 2015 and 2014, respectively, primarily related to facility build-outs and investments in IT infrastructure and the development of certain software applications. In addition, from March 10, 2015 to March 17, 2015, we purchased 1.6 million shares of HLSS common stock in the open market for $30.0 million. During April 2015, we received liquidating dividends and other dividends from HLSS totaling $20.4 million. Between April 22, 2015 and April 29, 2015, we sold all of our 1.6 million shares of HLSS common stock in the open market for $7.7 million. Cash proceeds from the dividends and sale of the HLSS common stock totaled $28.1 million during the second quarter of 2015.

Cash Flows from Financing Activities

Cash flows from financing activities for the six months ended June 30, 2015 and 2014 include activity associated with share repurchases, debt repurchases and repayments, stock option exercises and payments to non-controlling interests. During the six months ended June 30, 2015 and 2014, we spent $44.0 million and $80.7 million, respectively, to repurchase our common stock. During the six months ended June 30, 2015 and 2014, we repurchased and repaid $17.7 million and $2.0 million, respectively, of the borrowings under the senior secured term loan, including the repurchase of a portion of our senior secured term loan with a par value of $16.0 million at a 9% discount. Stock option exercises provided proceeds of $0.2 million and $0.6 million for the six

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months ended June 30, 2015 and 2014, respectively. Distributions to non-controlling interests were $1.3 million and $1.2 million for the six months ended June 30, 2015 and 2014, respectively.

Liquidity Requirements after June 30, 2015

On September 12, 2014, we acquired Mortgage Builder. The Mortgage Builder purchase agreement provides for the payment of up to $7.0 million in potential additional consideration based on Adjusted Revenue (as defined in the purchase agreement). We have estimated the fair value of the Mortgage Builder potential additional consideration to be $1.7 million as of June 30, 2015. The amount ultimately paid will depend on Mortgage Builder's Adjusted Revenue in the three consecutive 12-month periods following closing.

On November 21, 2014, we acquired Owners. The Owners purchase agreement provides for a payment of up to $7.0 million of potential additional consideration based on Adjusted Revenue (as defined in the purchase agreement) earned in the two consecutive 12-month periods following closing. We have estimated the fair value of the Owners contingent consideration to be $2.1 million as of June 30, 2015. The amount ultimately paid will depend on Owners' Adjusted Revenue earned in the two consecutive 12-month periods following closing.

On July 17, 2015, we acquired CastleLine Holdings, LLC, a specialty risk management and insurance services firm, for $37.1 million. The purchase price is comprised of $12.3 million of cash at acquisition, $10.5 million of cash payable over the next four years and $14.3 million of the Company's common shares, or 495 thousand shares. A portion of the consideration to the founders is contingent on future employment.

During the third quarter of 2015, we expect to distribute $0.9 million to the Lenders One members representing non-controlling interests and repay $1.5 million of the senior secured term loan.

We believe that we will generate sufficient cash flows from operations to fund capital expenditures and required debt and interest payments for the next twelve months.

Contractual Obligations, Commitments and Contingencies

For the six months ended June 30, 2015, there were no significant changes to our contractual obligations from those identified in our Form 10-K for the fiscal year ended December 31, 2014, other than those that occur in the normal course of business. See also Note 20 to the interim condensed consolidated financial statements.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND RECENT ACCOUNTING PRONOUNCEMENT

We prepare our interim condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In applying many of these accounting principles, we need to make assumptions, estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses in our interim condensed consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates and judgments, however, are often subjective. Actual results may be negatively affected based on changing circumstances. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts become known.

Our critical accounting policies are described in the MD&A section of our Form 10-K for the year ended December 31, 2014 filed with the SEC on March 2, 2015. Those policies have not changed during the six months ended June 30, 2015.

Future Adoption of New Accounting Pronouncements

In May 2014, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers. This standard establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The core principle of the new standard is an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This new standard will be effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted, although not prior to annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact this new guidance may have on its results of operations and financial position.

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In February 2015, FASB issued ASU No. 2015-02, Consolidation: Amendments to the Consolidation Analysis. This standard addresses the consolidation of certain legal entities relative to current requirements under GAAP of a reporting entity to consolidate another legal entity in situations in which the reporting entity's contractual rights do not give it the ability to act primarily on its own behalf, the reporting entity does not hold a majority of the legal entity's voting rights or the reporting entity is not exposed to a majority of the legal entity's economic benefits or obligations. This standard will be effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the standard in an interim period, any adjustments should be reflected as of the beginning of the year that includes that interim period. The Company is currently evaluating the impact this new guidance may have on its results of operations and financial position.

In April 2015, FASB issued ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This revised standard changes the presentation of debt issuance costs in financial statements. Under the ASU, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. This standard will be effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted for financial statements that have not been previously issued. The Company does not expect the adoption of this standard to have a material impact on its results of operations or financial position.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market Risk

Our financial market risk consists primarily of interest rate and foreign currency exchange risk.

Interest Rate Risk

As of June 30, 2015, the interest rate charged on the senior secured term loan was 4.50%. The interest rate is calculated based on the Adjusted Eurodollar Rate (as defined in the senior secured term loan agreement) with a minimum floor of 1.00% plus 3.50%.

Based on the principal amount outstanding at June 30, 2015, a one percentage point increase in the Eurodollar Rate would increase our annual interest expense by approximately $1.6 million, based on the June 30, 2015 Adjusted Eurodollar Rate. There would be no change in our annual interest expense if there was a one percentage point decrease in the Eurodollar Rate.

Foreign Currency Exchange Risk

We are exposed to currency risk from potential changes in currency values of our foreign currency denominated expenses, assets, liabilities and cash flows. Our most significant foreign currency exposure relates to the Indian rupee. Based on expenses incurred in Indian rupees during the six months ended June 30, 2015, a one percentage point increase or decrease in value of the Indian rupee in relation to the United States dollar would increase or decrease our annual expenses by approximately $1.2 million.

Item 4. Controls and Procedures

a) Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this quarterly report. Based on such evaluation, such officers have concluded that our disclosure controls and procedures as of the end of the period covered by this quarterly report were effective to ensure that information required to be disclosed by us in the reports that we file or

submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and to ensure that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

b) Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the quarter ended June 30, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION
Item 1. Legal Proceedings

From time to time, we are involved in legal and administrative proceedings arising in the course of our business. We record a liability for these matters if an unfavorable outcome is probable and the amount of loss can be reasonably estimated, including expected insurance coverage. For proceedings where the reasonable estimate of loss is a range, we record a best estimate of loss within the range.

On September 8, 2014, the West Palm Beach Firefighter's Pension Fund filed a putative securities class action suit against Altisource and certain of its officers and directors in the United States District Court for the Southern District of Florida alleging violations of the Securities Exchange Act of 1934 and Rule 10b-5 with regard to disclosures concerning pricing and transactions with related parties that allegedly inflated Altisource share prices. The court subsequently appointed the Pension Fund of the International Union of Painters and Allied Trades District Council 35 and the Annuity Fund of the International Union of Painters and Allied Trades District Council 35 as Lead Plaintiffs. On January 30, 2015, Lead Plaintiffs filed an amended class action complaint which adds Ocwen Financial Corporation as a defendant, and seeks a determination that the action may be maintained as a class action on behalf of purchasers of the Company's securities between April 25, 2013 and December 21, 2014 and an unspecified amount of damages. Altisource intends to vigorously defend this lawsuit and moved to dismiss it on March 23, 2015.

On February 11, 2015, W.A. Sokolowski, an alleged shareholder of Ocwen Financial Corporation, filed an amended shareholder derivative complaint in the United States District Court for the Southern District of Florida against Ocwen Financial Corporation, certain of its officers and directors, Altisource and other companies. The suit seeks recovery of an unspecified amount of damages for alleged breaches of fiduciary duty by Ocwen's current and former officers and directors, which were allegedly aided and abetted by Altisource and other defendants. Ocwen has moved to stay this action, and if the litigation proceeds, Altisource intends to vigorously defend the lawsuit.

On March 26, 2015, Robert Moncavage, an alleged shareholder of Ocwen Financial Corporation, filed an amended shareholder derivative complaint in the Circuit Court of the Fifteenth Judicial Circuit in and for Palm Beach County, Florida against Ocwen Financial Corporation, certain of its current and former officers and directors, Altisource and other companies. The suit seeks recovery of an unspecified amount of damages for alleged breaches of fiduciary duty by Ocwen's current and former officers and directors, which were allegedly aided and abetted by Altisource and other defendants. Ocwen has moved to stay this action, and if the litigation proceeds, Altisource intends to vigorously defend the lawsuit.

Altisource is unable to predict the outcomes of these lawsuits or reasonably estimate the potential loss, if any, arising from the suits, given that a motion to dismiss was filed but has not yet been adjudicated in the first case, motions to stay have been filed in the second and third cases, discovery has not commenced in any of the cases and significant legal and factual issues remain to be determined in all three cases.

In addition to the matters referenced above, we are involved in legal actions in the course of our business, some of which seek monetary damages. We do not believe that the outcome of these proceedings, both individually and in the aggregate, will have a material impact on our financial condition, results of operations or cash flows.

Regulatory Matters

Our business is subject to regulation and oversight by federal, state and local governmental authorities. We periodically receive subpoenas, civil investigative demands or other requests for information from regulatory agencies in connection with their regulatory or investigative authority. We are currently responding to such inquiries from federal and state agencies relating to certain aspects of our business. We believe it is premature to predict the potential

outcome or to estimate any potential financial impact in connection with these inquiries.

Item 1A. Risk Factors

As of the date of this filing, there have been no material changes in our risk factors from those disclosed in Part I, Item 1A, of our Form 10-K for the year ended December 31, 2014 filed with the SEC on March 2, 2015.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Equity securities repurchased by us:

The following table presents information related to our repurchases of our equity securities during the three months ending June 30, 2015:

Period	Total number of shares purchased[1]	Weighted average price paid per share	Total number of shares purchased as part of publicly announced plans or programs[2]	Maximum number of shares that may yet be purchased under the plans or programs[2]
Common stock:				
April 1 – 30, 2015	138,389	$24.37	138,389	831,249
May 1 – 31, 2015	681,000	29.00	681,000	2,576,831
June 1 – 30, 2015	579,294	29.08	579,294	1,997,537
	1,398,683	$28.57	1,398,683	1,997,537

(1) May include shares withheld from employees to satisfy tax withholding obligations that arose from the exercise of stock options.

(2) On February 28, 2014, our shareholders authorized a share repurchase program that replaced the prior program and authorized us to purchase up to 3.4 million shares of our common stock in the open market. On May 20, 2015, our shareholders authorized a new share repurchase program that replaces the prior program and authorizes us to purchase up to 3.0 million shares of our common stock in the open market.

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Item 6. Exhibits

	10.1	Form of Cash Retention Award Agreement (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on April 21, 2015)
	10.2	Form of Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on April 21, 2015)
*	10.3	Form of Non-Qualified Stock Option Award Agreement
*	10.4	Consumer Analytics Division Equity Appreciation Rights Plan, made effective as of May 19, 2015
*	10.5	Document Solutions Division Equity Appreciation Rights Plan, made effective as of May 19, 2015
*	10.6	Marketplace Solutions Division Equity Appreciation Rights Plan, made effective as of May 19, 2015
*	10.7	Consumer Analytics Division Equity Appreciation Rights Award Agreement between the Company and Mark J. Hynes, dated May 19, 2015
*	10.8	Document Solutions Division Equity Appreciation Rights Award Agreement between the Company and Mark J. Hynes, dated May 19, 2015
*	10.9	Marketplace Solutions Division Equity Appreciation Rights Agreement between the Company and Mark J. Hynes, dated May 19, 2015
*	31.1	Section 302 Certification of the Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a)
*	31.2	Section 302 Certification of the Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a)
*	32.1	Certification by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*	101	Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2015 is formatted in XBRL interactive data files: (i) Condensed Consolidated Balance Sheets at June 30, 2015 and December 31, 2014; (ii) Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2015 and 2014; (iii) Condensed Consolidated Statements of Equity for the six months ended June 30, 2015 and 2014; (iv) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014; and (v) Notes to Condensed Consolidated Financial Statements.
*	Filed herewith	

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SIGNATURES

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

ALTISOURCE PORTFOLIO SOLUTIONS S.A.
(Registrant)

Date:	July 23, 2015	By:	/s/ Michelle D. Esterman
			Michelle D. Esterman
			Chief Financial Officer
			(On behalf of the Registrant and as its Principal Financial Officer)