

SELECTED FINANCIAL DATA

WELLCHOICE, INC. AND SUBSIDIARIES

The following table sets forth selected financial data and other operating information of WellChoice, Inc. and its subsidiaries. The selected financial data in the table are derived from the consolidated financial statements of WellChoice, Inc. The data should be read in conjunction with the consolidated financial statements, related notes and other financial information included herein.

Year ended December 31	2002	2001	2000	1999	1998
	<i>(dollars in millions, except per share data)</i>				
Revenue:					
Premiums earned	\$4,628.0	\$4,246.2	\$3,876.9	\$3,362.3	\$3,064.4
Administrative service fees	396.2	322.0	264.9	238.9	171.2
Investment income, net	64.8	69.3	65.5	58.7	55.6
Net realized investment gains (losses)	2.6	(12.4)	22.1	0.2	3.8
Other income, net	14.0	6.1	4.3	4.8	3.0
Total revenue	5,105.6	4,631.2	4,233.7	3,664.9	3,298.0
Expenses:					
Cost of benefits provided	3,947.4	3,738.8	3,426.4	2,944.6	2,721.5
Administrative expenses	833.1	742.8	686.2	587.3	533.2
Conversion and IPO expenses	15.4	2.0	0.6	3.7	2.3
Total expenses	4,795.9	4,483.6	4,113.2	3,535.6	3,257.0
Income from continuing operations before income taxes	309.7	147.6	120.5	129.3	41.0
Income tax benefit (expense) ⁽¹⁾	67.9	(0.1)	74.5	(9.1)	1.0
Income from continuing operations Loss from discontinued operations, net of tax	377.6 (1.1)	147.5 (16.5)	195.0 (4.6)	120.2 —	42.0 —
Net income	\$ 376.5	\$ 131.0	\$ 190.4	\$ 120.2	\$ 42.0
Per Share Data:					
Pro forma basic and diluted earnings per share ⁽²⁾	\$ 4.51	\$ 1.57	\$ 2.28	\$ 1.44	\$ 0.50
Additional Data:					
Medical loss ratio ⁽³⁾	85.3%	88.1%	88.4%	87.6%	88.8%
Medical loss ratio, excluding New York City and New York State PPO ⁽⁴⁾	81.8%	86.0%	85.9%	85.1%	86.6%
Administrative expense ratio ⁽⁵⁾	16.9%	16.3%	16.6%	16.4%	16.6%
Administrative expense ratio—premium equivalent basis ⁽⁶⁾	11.5%	11.7%	12.6%	12.7%	N/A
Members (000's at end of period) ⁽⁷⁾	4,608	4,383	4,135	4,161	4,119

(continued)

Year ended December 31	2002	2001	2000	1999	1998
<i>(dollars in millions, except per share data)</i>					
Balance Sheet Data:					
Cash and investments	\$1,783.0	\$1,604.3	\$1,400.6	\$1,330.2	\$1,184.0
Premium related receivables	358.8	403.5	447.5	404.7	399.3
Total assets	2,777.5	2,449.6	2,252.5	1,987.4	1,837.3
Unpaid claims and claims adjustment expense	559.9	634.1	672.4	591.0	597.2
Obligations under capital lease	47.7	50.1	52.0	53.5	54.5
Total liabilities	1,541.2	1,620.3	1,577.8	1,484.7	1,457.8
Stockholders' equity ⁽⁸⁾	1,236.3	829.3	674.7	502.7	379.5

- (1) *The valuation allowance at December 31, 2001 was approximately \$195.7 million. At December 31, 2002, we have eliminated the valuation allowance on our deferred tax assets, based on approval of the conversion and continued, current and projected positive taxable income. As a result of the conversion, WellChoice is a for-profit entity and is subject to state and local taxes as well as federal income taxes at the statutory rate of 35% for the year ended December 31, 2002. As of December 31, 2000, we reduced our valuation allowance on our deferred tax assets by \$71.9 million based on continued, current and projected positive taxable income.*
- (2) *Pro forma basic and diluted earnings per share is calculated using income from continuing operations and net income for each period presented. Shares used to compute pro forma earnings per share are shares outstanding at December 31, 2002 of 83,490,477. Net loss and basic and diluted net loss per common share based on the weighted average shares outstanding for the period from November 7, 2002 (date of initial public offering) to December 31, 2002 were \$38.5 million and \$0.46, respectively.*
- (3) *Medical loss ratio represents cost of benefits provided as a percentage of premiums earned.*
- (4) *We present medical loss ratio, excluding New York City and New York State PPO, because these accounts differ from our standard PPO product in that they are hospital-only accounts which have lower premiums relative to administrative expense and are retrospectively rated with a guaranteed administrative service fee. In addition, the size of these accounts distorts our performance when the total medical loss ratios are presented.*
- (5) *Administrative expense ratio represents administrative and conversion and IPO expenses as a percentage of premiums earned and administrative service fees.*
- (6) *Premium equivalents are obtained by adding to our administrative service fees the amount of paid claims attributable to these service fees, which include our non-Medicare, self-funded (or ASO) health business pursuant to which we provide a range of customer services, including claims administration and billing and membership services. Administrative expense ratio—premium equivalent basis is determined by dividing administrative and conversion and IPO expenses by premium equivalents plus premiums earned for the relevant periods.*
- (7) *Enrollment as of December 31, 2002 includes 175,000 New York State PPO account members who reside in New York State but outside of our service areas. Prior to this time, these members were enrolled in the New York Blue Cross Blue Shield plan licensed in the area where the members resided and, accordingly, the membership was reported by these plans and not by us. Starting in 2002, in accordance with a change to the contract with New York State under which we administer the entire plan, we began including those members enrolled outside of our service area, and all members were therefore enrolled in, and reported by, HealthChoice. New York State PPO account members who reside in New York State but outside of our service areas are excluded from enrollment totals for all other periods presented.*
- (8) *Prior to the conversion, this line item was captioned "Total reserves for policyholders' protection."*