

# financial

## Selected Financial Data

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	2003	2002	2001	2000	1999
	<i>(\$ in millions except share and per share data)</i>				
<b>Revenue:</b>					
Premiums earned	<b>\$4,875.4</b>	\$4,628.0	\$4,246.2	\$3,876.9	\$3,362.3
Administrative service fees	<b>445.8</b>	396.2	322.0	264.9	238.9
Investment income, net	<b>51.2</b>	64.8	69.3	65.5	58.7
Net realized investment gains (losses)	<b>11.8</b>	2.6	(12.4)	22.1	0.2
Other (expense) income, net	<b>(1.7)</b>	14.0	6.1	4.3	4.8
Total revenue	<b>5,382.5</b>	5,105.6	4,631.2	4,233.7	3,664.9
<b>Expenses:</b>					
Cost of benefits provided	<b>4,162.2</b>	3,947.4	3,738.8	3,426.4	2,944.6
Administrative expenses	<b>876.7</b>	833.1	742.8	686.2	587.3
Conversion and IPO expenses	<b>—</b>	15.4	2.0	0.6	3.7
Total expenses	<b>5,038.9</b>	4,795.9	4,483.6	4,113.2	3,535.6
Income from continuing operations before income taxes	<b>343.6</b>	309.7	147.6	120.5	129.3
Income tax expense (benefit) <sup>(1)</sup>	<b>142.5</b>	(67.9)	0.1	(74.5)	9.1
Income from continuing operations	<b>201.1</b>	377.6	147.5	195.0	120.2
Loss from discontinued operations, net of tax	<b>—</b>	(1.1)	(16.5)	(4.6)	—
Net income	<b>\$ 201.1</b>	\$ 376.5	\$ 131.0	\$ 190.4	\$ 120.2
<b>Per share data<sup>(2)</sup>:</b>					
Basic and diluted earnings per share	<b>\$ 2.41</b>	\$ 4.51	\$ 1.57	\$ 2.28	\$ 1.44
<b>Additional data—</b>					
<b>for the year ended:</b>					
Medical loss ratio <sup>(3)</sup>	<b>85.4%</b>	85.3%	88.1%	88.4%	87.6%
Medical loss ratio, excluding New York City and New York State PPO <sup>(4)</sup>	<b>82.2%</b>	81.8%	86.0%	85.9%	85.1%
Administrative expense ratio <sup>(5)(6)</sup>	<b>16.5%</b>	16.9%	16.3%	16.6%	16.4%
Members (000's at end of period) <sup>(7)</sup>	<b>4,754</b>	4,608	4,383	4,135	4,161
<b>Balance sheet data:</b>					
Cash and investments	<b>\$2,059.3</b>	\$1,783.0	\$1,604.3	\$1,400.6	\$1,330.2
Premium related receivables	<b>378.2</b>	358.8	403.5	447.5	404.7
Total assets	<b>3,043.0</b>	2,777.5	2,449.6	2,252.5	1,987.4
Unpaid claims and claims adjustment expense	<b>609.5</b>	559.9	634.1	672.4	591.0
Obligations under capital lease	<b>48.3</b>	47.7	50.1	52.0	53.5
Total liabilities	<b>1,610.7</b>	1,541.2	1,620.3	1,577.8	1,484.7
Stockholders' equity <sup>(8)</sup>	<b>1,432.3</b>	1,236.3	829.3	674.7	502.7

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- (1) Our deferred tax asset allowance at December 31, 2001 was approximately \$195.7 million. At December 31, 2002, we 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) The weighted-average shares outstanding of 83,490,478 and the effect of dilutive securities for the period January 1 through December 31, 2003 was used to calculate 2003 basic and diluted earnings per share amounts. There were no shares or dilutive securities outstanding prior to November 7, 2002 (date of conversion and initial public offering). Accordingly, amounts prior to 2003 represent pro forma earnings per share. For comparative pro forma earnings per share presentation, shares outstanding at December 31, 2002 of 83,490,478 was used to calculate pro forma earnings per share for all periods prior to 2003. 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 our 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 than accounts with full medical and hospital coverage and are retrospectively rated with a guaranteed administrative service fee. The lower premiums and the size of these accounts distort 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) As presented, our administrative expense ratio does not take into account a significant portion of our activity generated by self-funded, or ASO, business, which represents approximately 36.5% of our total members. Therefore, in the following table, we provide the information needed to calculate the administrative expense ratio on a "premium equivalent" basis because that ratio measures administrative expenses relative to the entire volume of insured and self-funded business serviced by us and is commonly used in the health insurance industry to compare operating efficiency among companies. Administrative expense ratio on a premium equivalent basis is calculated by dividing administrative and conversion and IPO expenses by "premium equivalents" for the relevant periods. Premium equivalents is the sum of premium earned, administrative service fees and the amount of paid claims attributable to our self-funded business pursuant to which we provide a range of customer services, including claims administration and billing and membership services.

## Selected Financial Data *(continued)*

Claims paid for our self-funded health business is not our revenue. The premium equivalents for the years indicated were as follows:

Year ended December 31	2003	2002	2001	2000	1999
	<i>(\$ in millions)</i>				
<b>Revenue:</b>					
Premiums earned	<b>\$4,875.4</b>	\$4,628.0	\$4,246.2	\$3,876.9	\$3,362.3
Administrative service fees	<b>445.8</b>	396.2	322.0	264.9	238.9
Claims paid for our self-funded health business	<b>2,955.3</b>	2,347.9	1,791.9	1,328.4	1,046.4
Premium equivalents	<b>\$8,276.5</b>	\$7,372.1	\$6,360.1	\$5,470.2	\$4,647.6

(7) Enrollment as of December 31, 2003 and 2002 includes 177,000 and 175,000 New York State PPO account members who reside in New York State but outside of our service areas. Prior to January 1, 2002, 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."