WEBMD CORP /NEW/
Form 10-K
March 27, 2003

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2002

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number: 0-24975

WebMD Corporation
(Exact name of registrant as specified in its charter)

Delaware	**94-3236644**
(State of incorporation)	*(I.R.S. employer identification no.)*
669 River Drive, Center 2 Elmwood Park, New Jersey	**07407-1361**
(Address of principal executive office)	*(Zip code)*

(Registrant s telephone number including area code): (201) 703-3400

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $.0001 per share

(Title of each class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference into Part III of this

Form 10-K or any amendment to this Form 10-K. o

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

As of June 28, 2002, the aggregate market value of the registrant s common stock held by non-affiliates was approximately $1,533,835,956 (based on the closing price of the common stock of $5.63 per share on that date, as reported on the Nasdaq Stock Market s National Market and, for purposes of this computation only, the assumption that all of the registrant s directors and executive officers are affiliates). As of March 7, 2003, there were 303,935,066 shares of WebMD common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information in the registrant s definitive proxy statement to be filed with the Commission relating to the registrant s 2003 Annual Meeting of Stockholders is incorporated by reference into Part III.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. These forward-looking statements are not based on historical facts, but rather reflect management s current expectations concerning future results and events. These forward-looking statements generally can be identified by use of expressions such as believe, expect, anticipate, intend, plan, foresee, likely, will or other similar words or phras statements that describe our objectives, plans or goals are or may be forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be different from any future results, performance and achievements expressed or implied by these statements. In addition to the risk factors described in Management s Discussion and Analysis of Financial Condition and Results of Operations Factors That May Affect Our Future Financial Condition or Results of Operations beginning on page 58, the following important risks and uncertainties could affect future results, causing these results to differ materially from those expressed in our forward-looking statements:

- the failure to achieve sufficient levels of customer utilization and market acceptance of new services or newly integrated services,
- the inability to successfully deploy new applications or newly integrated applications,
- difficulties in forming and maintaining mutually beneficial relationships with customers and strategic partners,
- the inability to attract and retain qualified personnel, and
- general economic, business or regulatory conditions affecting the healthcare, information technology, Internet and plastic industries being less favorable than expected.

These factors and the risk factors described in Management s Discussion and Analysis of Financial Condition and Results of Operations Factors That May Affect Our Future Financial Condition or Results of Operations beginning on page 58 are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could have material adverse effects on our future results. The forward-looking statements included in this Annual Report on Form 10-K are made only as of the date of this Annual Report. We expressly disclaim any intent or obligation to update any forward-looking statements to reflect subsequent events or circumstances.

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PART I

Item 1. ***Business***

INTRODUCTION

General Information

WebMD Corporation is a Delaware corporation that was incorporated in December 1995 and commenced operations in January 1996 as Healtheon Corporation. Our common stock has traded on the Nasdaq National Market under the symbol HLTH since February 11, 1999.

Our principal executive offices are located at 669 River Drive, Center 2, Elmwood Park, New Jersey 07407-1361 and our telephone number is (201) 703-3400.

We make available free of charge at www.webmd.com (in the About WebMD section) copies of materials we file with, or furnish to, the Securities and Exchange Commission, including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the SEC.

Overview of Our Businesses

Our business is comprised of four segments. Three of our business segments, Portal Services or WebMD Health, Transaction Services or WebMD Envoy and Physician Services or WebMD Medical Manager, provide various types of healthcare information services and technology solutions. Our fourth business segment, Plastic Technologies, is known as Porex. The following overview describes our key products, services and markets:

Healthcare Information Services and Technology Solutions. We provide a range of information services and technology solutions for participants across the entire continuum of healthcare, including physicians and other healthcare providers, payers, suppliers and consumers. Our products and services promote administrative efficiency and assist in reducing the cost of healthcare and creating better patient outcomes.

WebMD Health. Our Portal Services segment, WebMD Health, offers a variety of online resources and services for consumers and healthcare professionals. Our online offerings for consumers help them become better informed about healthcare choices and assist them in playing an active role in managing their own health. Our offerings for healthcare professionals help them improve their clinical knowledge, as well as their communication with patients regarding treatment options for specific health conditions.

We reach a large audience of health-involved consumers and clinically active healthcare professionals. We work closely with pharmaceutical, medical device and other healthcare companies to develop innovative online channels of communication to our audience, or targeted portions of our audience, that complement their offline education, marketing and customer service programs.

In addition, through WellMed from WebMD, we provide employers and health plans with access to a suite of online tools and related services, for use by their employees and plan members. These tools and services provide a framework for better decision-making by healthcare consumers and can assist employers and plans in managing demand while improving quality of care.

We generate revenue by selling advertising on our portals and the online and offline properties of our strategic partners, by selling sponsorships of specific pages, sections or events on our portal and related e-mailed newsletters, and by licensing our content and our online tools and related software and services. The majority of our WebMD Health revenues come from a small number of customers. Our WebMD Health customers include pharmaceutical, biotech and

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medical device companies, employers and health plans and media distribution companies. In 2002, WebMD Health revenues were $84.3 million.

WebMD Envoy. Our Transaction Services segment, WebMD Envoy, transmits electronic transactions between healthcare payers and physicians, pharmacies, dentists, hospitals, laboratory companies and other healthcare providers. The use of electronic transactions significantly reduces processing time and costs, as compared to mail, fax or telephone, and increases productivity for both payers and providers. The transactions that we facilitate include:

- administrative transactions, such as claims submission and status inquiry, eligibility and patient coverage verification, referrals and authorizations, and electronic remittance advice, and
- clinical transactions, such as lab test ordering and reporting of results.

We also provide automated patient billing services to providers, including statement printing and mailing services. We are focused on continuing to increase the percentage of healthcare transactions that are handled electronically and on providing value-added services to providers and payers in connection with our transmission of their transactions.

We generate revenue by selling our transaction services to healthcare payers and providers, generally on either a per transaction basis or, in the case of some providers, on a monthly fixed fee basis. We also generate revenue by selling our patient statement services, typically on a per statement basis. A significant portion of WebMD Envoy revenues come from the country s leading national and regional healthcare payers. In 2002, WebMD Envoy revenues were $466.8 million.

WebMD Medical Manager. Our Physician Services segment, WebMD Medical Manager, develops and markets information technology systems for healthcare providers, primarily under The Medical Manager, Intergy, ULTIA and Medical Manager Network Services brands. Our systems include:

- administrative and financial applications that enable healthcare providers and their administrative personnel to manage their practices more efficiently, and
- electronic medical record and other clinical applications that assist them in delivering quality patient care.

In addition, through Medical Manager Network Services, we provide integrated access to our WebMD Envoy transaction services.

Our systems are scalable to meet the needs of a wide variety of healthcare provider settings, from small physician groups to large clinics, and across various medical specialties. Customers can purchase a base system and then add additional modules and services over time to expand their use of state-of-the-art technology as needed.

We generate revenue from one-time fees for licenses to our software modules and for system hardware and from recurring fees for the maintenance and support of our software and system hardware. Pricing depends on the number and type of software modules to be licensed, the number of users, the complexity of the installation and other factors. Our Medical Manager Network Services and some of our other WebMD Medical Manager products and services are priced on a monthly fee per user basis or a per transaction basis. In 2002, WebMD Medical Manager revenues were $275.3 million.

We believe that the combination, in one company, of WebMD Health, WebMD Envoy and WebMD Medical Manager makes us well positioned to create significant improvements in the way that information is used by the healthcare industry, enabling increased efficiency, better decision-making and, ultimately, higher quality patient care at a lower cost.

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Plastic Technologies. Our Plastic Technologies segment, Porex, develops, manufactures and distributes proprietary porous and solid plastic products and components used in healthcare, industrial and consumer applications. Our Porex customers include both end-users of our finished products, as well as manufacturers that include our components in their products for the medical device, life science, research and clinical laboratory, surgical and other markets. Porex is an international business with manufacturing operations in North America, Europe and Asia and customers in more than 65 countries. In 2002, Porex revenues were $120.0 million, over 70% of which were from healthcare and related markets.

During 2002, our revenues were divided among our segments as follows: 50.4% from WebMD Envoy, 29.7% from WebMD Medical Manager, 9.1% from WebMD Health and 13.0% from Porex. The sum of these percentages equals 102.2% of our total revenues of $925.9 million because $20.5 million of our revenues are from inter-segment transactions and are eliminated when we consolidate our results.

A more complete description of our products and services follows. For additional information regarding the results of operations of each of our segments, see Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations by Operating Segment beginning on page 53 and note 8 to the consolidated financial statements in this Annual Report.

Acquisition History

In May 1998, Healtheon Corporation completed a merger with ActaMed Corporation. In November 1999, Healtheon completed mergers with WebMD, Inc., MedE America Corporation and Greenberg News Networks, Inc., known as Medcast. Following these mergers, Healtheon changed its name to Healtheon/ WebMD Corporation. Healtheon/ WebMD completed acquisitions of Kinetra LLC and Envoy Corporation in January 2000 and May 2000, respectively. On September 12, 2000, Healtheon/ WebMD completed mergers with Medical Manager Corporation, CareInsite, Inc. and OnHealth Network Company and changed its name to WebMD Corporation. In December 2001, WebMD acquired the portal assets of MedicaLogic/ Medscape, Inc., which we refer to as Medscape. In October 2002, WebMD acquired WellMed, Inc. In addition, we acquired ten physician services companies in 2001 and 21 in 2002. For additional information regarding these transactions, see Management s Discussion and Analysis of Financial Condition and Results of Operations Acquisition History on page 46 and note 2 to the consolidated financial statements in this Annual Report.

For information regarding the restructuring and integration plans we implemented following our mergers with Medical Manager, CareInsite and OnHealth and following our acquisition of Medscape, see Management s Discussion and Analysis of Financial Condition and Results of Operations Restructuring and Integration Initiatives on page 47 and note 5 to the consolidated financial statements in this Annual Report. We have substantially completed these restructuring and integration efforts.

HEALTHCARE INFORMATION SERVICES AND TECHNOLOGY SOLUTIONS

There are many types of transactions, information exchanges and other communications that occur between the various participants in the healthcare industry, including physicians, patients, pharmacies, dentists, hospitals, billing services, commercial health insurance companies, pharmacy benefit management companies, managed care organizations, state and federal government agencies and others. We offer a comprehensive suite of transaction and information services and technology solutions to healthcare industry participants. These integrated and stand-alone products and services are designed to facilitate transactions, information exchange and communication among healthcare industry participants and to operate on various platforms, including the Internet, private intranets and other networks.

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WebMD Health

Our Portal Services segment is known as WebMD Health and includes certain operations from WebMD, Medscape, Healtheon, Medcast, OnHealth and WellMed.

Overview

We offer a variety of online resources and services for consumers and healthcare professionals through our WebMD Medscape Health Network, which consists of:

WebMD Health, our consumer portal is located at www.webmd.com. WebMD Health provides access to health and wellness content. We also distribute our content, and reach additional consumers, through AOL Health with WebMD and MSN Health with WebMD.

Medscape from WebMD, our portal for physicians and allied healthcare professionals, is located at www.medscape.com. At Medscape, physicians and other healthcare professionals have access to resources that include timely medical news and professional conference coverage, continuing medical education activities, full-text medical journal articles and drug and medical literature databases.

We also license our content to health plans and other healthcare partners for use on their Web sites.

The WebMD Medscape Health Network reaches a large audience of health-involved consumers and clinically active healthcare professionals. We work closely with pharmaceutical, medical device and other healthcare companies to develop innovative online channels of communication to our audience, or targeted portions of our audience, that complement their offline education, marketing and customer service programs. Companies can sponsor specific pages or sections of our portals or specific events, programs and newsletters, all of which are clearly labeled as sourced from or sponsored by the specific sponsor. In addition, sponsors can target specific demographic groups, condition-specific groups or specialty-specific groups through the WebMD Medscape Health Network. Performance of our sponsored programs, including the number of impressions, visitors and actions taken, is tracked and reported to the sponsor on a regular basis.

In addition, through WellMed from WebMD, we provide employers and health plans with access to a suite of online tools and related services, for use by their employees and plan members. These tools and services provide a framework for better decision-making by healthcare consumers and can assist employers and plans in managing demand while improving quality of care. WebMD Health and WellMed help people become better informed about healthcare choices and assist them in playing an active role in managing their own health. We acquired WellMed in the fourth quarter of 2002 and are in the process of integrating WebMD Health content into the WellMed services offerings and some of our WellMed functionality and technology into our WebMD Health and Medscape offerings.

We generate revenue by selling advertising on our portals and the online and offline properties of our strategic partners, by selling sponsorships of specific pages, sections or events on our portal and related e-mailed newsletters, and by licensing our content and our online tools and related software and services. The majority of our WebMD Health revenues come from a small number of customers. Our WebMD Health customers include pharmaceutical, biotech and medical device companies, employers and health plans and media distribution companies.

WebMD Health Consumer Portal

Consumer interest in convenient and reliable sources of general information on health and wellness topics continues to grow. In addition, consumers increasingly seek to educate themselves about available treatment options for specific health conditions or injuries. We believe that these trends are likely to continue, as consumers are asked to bear an increasingly large share of their healthcare expenditures due to changes in the design of the medical plans and prescription drug plans being offered by payers and employers. Traditional media have sought to meet this demand by introducing magazines focused on

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health and wellness and by increasing news coverage of healthcare-related issues. The Internet allows us to offer consumers the resources they are looking for, with immediate access to searchable information and dynamic interactive content.

WebMD Health provides access to health and wellness news and information, support communities, interactive tools and opportunities to purchase health-related products and services. Consumers are also welcome to access content at our professional portal, Medscape from WebMD. The content and service offerings on WebMD Health include:

Original and Licensed Content. We offer proprietary, medically reviewed health and wellness news articles written daily by our staff of journalists. We also offer searchable access to a library of health and wellness articles, reference information and interactive presentations, some of which we own and some of which we have licensed from others. Our articles and other content cover various health-related topics, including: specific diseases and chronic health conditions, medical tests, pregnancy and parenting, diet and nutrition, fitness and sports medicine, and sexuality and relationships.

Membership. Consumers can choose to become members of WebMD Health, which allows them to create a personalized home page, tailored to their interests. Members can also select from more than 20 different e-mail newsletters on health-related topics or specific conditions and have access to our communities and events, as described below. We have built a large database of consumers who have expressed interest in receiving our clinical alerts, newsletters and reports on specific diseases, conditions and other health and wellness topics.

Communities. Our communities allow our members to participate in real-time discussions in our chat rooms and on our message boards, many of which are monitored by healthcare professionals. Members can share experiences and exchange information with other members who share their health condition or concern.

Clinical Trials Matching and Listing Services. In collaboration with Veritas Medicine, WebMD Health offers a clinical trial matching service that assists in matching individuals to clinical trials. In collaboration with CenterWatch, WebMD offers a listing of clinical trials that are currently recruiting participants.

Events. Our events include one-time programs and series in which experts make presentations and answer questions on specific health-related topics. Members can also use our Ask the Experts service to post their health questions for experts. Our events also include WebMD University programs, which are four-week courses, live moderated by experts, on specific subjects. WebMD University programs have included: *4 Weeks to an Easier Pregnancy, 4 Weeks to a Healthier Heart* and *4 Weeks to Breathe Free*.

Interactive Personal Health Management Tools and Other Features. We provide access to interactive tools, calculators, quizzes and slide shows on health topics, including an immunization planner, body mass index and calorie counter. WebMD Health also has features that allow consumers to search for a physician or clinic in their area. We are in the process of integrating additional tools from our WellMed offerings into WebMD Health.

Medscape from WebMD

Medscape from WebMD is designed to meet the information needs of medical professionals. Medscape from WebMD is organized by medical specialty area, such as hematology-oncology and cardiology, to make it easier for members to access the information most relevant to them. We also have areas organized by profession or interest area, including sites for nurses, pharmacists, medical students, users interested in medical policy and practice management issues, and members with a particular interest in technology and medicine. Our extensive and up-to-date medical content and easy-to-use search capabilities assist medical professionals in keeping abreast of medical advances and obtaining fast, accurate answers to medical questions online. In addition, physicians and their office staffs can access tools for

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creating customized practice Web sites and opportunities to purchase other products and services. There are no membership fees and no general usage charges for the site; however, we do charge usage or subscription fees for some premium content and services.

Our content and service offerings, a combination of original material and content licensed from major professional publishers, are generally presented by specialty and include:

Continuing Medical Education (CME). More than 30 states and many medical specialty societies require physicians and selected other medical professionals to certify annually that they have accumulated a minimum number of CME hours to maintain licensure or membership. We offer a selection of free, regularly updated CME activities for physicians, registered nurses, pharmacists and other healthcare professionals, including original programs and online multimedia adaptations of live events. We also provide services that track CME credits accumulated through our site for our users. In addition, many of our CME-certified programs also carry Continuing Education (CE) credit for nurses and/or pharmacists.

All of our CME activities have been planned and implemented in accordance with the Essential Areas and Policies of the Accreditation Council for Continuing Medical Education, or ACCME, which oversees providers of CME credit, and have been produced in collaboration with ACCME-accredited CME providers. In August 2002, ACCME awarded Medscape a two-year, provisional accreditation as a CME provider, allowing Medscape to certify online CME activities.

In July 2002, Pharmaceutical Research and Manufacturers of America (PhRMA), a trade association of pharmaceutical manufacturers, instituted a new voluntary Code on Interactions with Healthcare Professionals, which outlined guidelines for how sales representatives and others involved in marketing pharmaceuticals should interact with healthcare professionals. The PhRMA Code is intended to help ensure that these interactions benefit patients and enhance the practice of medicine and to avoid concerns about inappropriate influence on the prescribing practices of physicians. The PhRMA Code provides that these interactions should not consist of entertainment, dining or recreation, but should focus on informing the healthcare professional about scientific and clinical information and supporting research and education. While providing subsidies directly to healthcare professionals for travel, lodging and other expenses of attending CME or scientific conferences is no longer permitted, sponsorship or underwriting of CME programs or conferences continues to be. We believe that the guidelines contained in this Code are likely to benefit providers of online CME and other online informational materials for healthcare professionals, such as Medscape, as pharmaceutical manufacturers seek efficient, effective and appropriate sponsorships and channels of communication.

Newsletters. Members receive MedPulse®, our weekly e-mail newsletter, which is published in more than 25 specialty-specific editions and highlights new information and CME activities on the Medscape site of interest to each particular specialty. We also provide commercially supported Special Reports newsletters, which contain information on specific conditions and treatments.

Medical Conference Coverage. We provide overviews and analysis of key data and presentations from about 150 professional meetings each year, including major conferences in a variety of specialties. This benefits our members who were unable to attend and those who did attend but might not have been able to see all of the presentations of interest to them, as well as the sponsors of the conferences, by increasing the size of the audience exposed to this material. We cover a number of these conferences in collaboration with the societies and organizations that present them.

Medical News and Clinical Alerts. We provide original, daily medical news stories written by our staff of journalists and reviewed by our staff of physicians, in addition to news provided by professional wire services. Our news group also regularly produces analytical reports based on interviews with experts and newsmakers. In addition, we provide real-time alerts on such critical clinical issues as pharmaceutical recalls and product advisories.

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Resource Centers. Resource Centers are regularly updated collections of clinical content, selected by Medscape s editors, focused on a specific topic, condition or theme. Content includes news, journal articles, conference coverage, expert columns and CME programs. Medscape currently has more than 50 Resource Centers across multiple specialties.

Electronic Journals. We publish four original electronic-only journals, including two indexed in the National Library of Medicine s MEDLINE reference database *Medscape General Medicine* (*MedGenMed*) and *Medscape Women s Health*. *MedGenMed*, the world s first online-only, primary source, peer-reviewed medical journal, was established in April 1999. As of November 2002, it had published more than 500 papers. In December 2002, we relaunched *MedGenMed* at www.medgenmed.com with specialty sections for HIV-AIDS, Gastroenterology, Hematology-Oncology, Pulmonary Medicine, Orthopedics and Sports Medicine and Psychiatry/ Mental Health. Medscape s other e-journals are *Topics in Advanced Practice Nursing* and *TechMed*, which focuses on the use of technology in medical practice.

Medscape Publishers Circle. Medscape Publishers Circle is a collection of high-quality clinical information from prominent medical publishers, available free to registered Medscape members.

Medical Reference Applications. Our medical reference applications include:

a custom drug information database,

an easy-to-use interface to MEDLINE, a database of abstracts of medical journals, and

proprietary medical illustrations that can be used by physicians as an important visual aid in communicating information to patients.

Medical Reference Services. These services include the professional medical reference texts WebMD Scientific American® Medicine and ACS Surgery: Principles and Practice, each available for sale by subscription to individual physicians and to institutions in multiple formats (print, CD-ROM and online). WebMD Scientific American® Medicine has been a comprehensive and continually updated internal medicine reference for 25 years. ACS Surgery: Principles and Practice, formerly Scientific American Surgery, is an official publication of the American College of Surgeons, although wholly owned by WebMD.

Users must register as members to utilize the features of Medscape from WebMD. This enables us to deliver targeted medical content based on our members registration profiles. The registration process enables professional members to choose a home page tailored to their medical specialty or interest. For example, a member registered as a cardiologist is automatically directed to Medscape Cardiology, rather than a more generic home page. Every member, however, regardless of medical specialty or professional status, has access to the full suite of original and licensed content through a uniform, easy-to-use interface.

WellMed from WebMD

WellMed from WebMD is a suite of online tools and related services that provides a framework for better decision-making by healthcare consumers and allows employers and health plans to manage demand, while improving the quality of care. WellMed from WebMD helps employers and plans provide employees and plan members with answers to healthcare and plan benefit questions and other personalized information and feedback. This allows employees and plan members to make informed benefit, provider and treatment selection decisions. WellMed s applications are integrated into the client s Intranet or Web site and work with the client s specific health and benefit programs, disease management vendors and other health-related systems and content and can be co-branded or customized to match client branding and look and feel.

By educating and encouraging their employees and plan members to take a more active role in their healthcare, employers and plans can realize cost savings from better decision-making, while also improving healthcare outcomes. Other potential benefits to an employer or plan include efficiently identifying and enrolling candidates in disease management or other health management programs and assisting in

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managing appropriate drug utilization. We receive fees from employers for use of our applications and services by their employees, and from health plans for use by their members.

WellMed from WebMD integrates health and wellness content, a personal medical record, health assessment tools, decision support tools, health improvement programs and targeted messaging. Employees and plan members are given access to Personal Health Manager, a suite of consumer applications that provides a personalized framework to manage health, wellness and benefit information and facilitate healthy behavior. Personal Health Manager incorporates:

Health risk and condition assessment tools that provide recommendations for improvement and behavior change and preventive care guidelines;

Health monitoring tools, including Child Health Manager, which enables parents and guardians to track the health of children age six and younger;

An online personal health record that gives individuals or family members the ability to store and maintain health information in a secure centralized location, including both self-reported information and external data, such as lab test results and prescription records;

Healthcare content from WebMD Health and other sources;

Secure messaging, including reminders and alerts based on profiled data and event-based rules; and

Health and lifestyle improvement programs, in areas such as smoking cessation, nutrition and exercise.

WellMed from WebMD also includes Personal Health Insight, an online service center that provides specialized decision-support for clients, including aggregated information regarding utilization of the Personal Health Manager tools and results of messaging campaigns. With Personal Health Insight, employers and plans can analyze aggregate health data in real time, address population health risks and proactively implement preventive programs.

Sales and Marketing

A team of sales, marketing and account management personnel represents the WebMD Medscape Health Network to pharmaceutical companies, medical device companies, health plans and other healthcare and consumer companies. These individuals work closely with clients and potential clients to develop innovative means of using the WebMD Medscape Health Network to bring their companies, and their products and services, to the attention of target groups of consumers and healthcare professionals and to create channels of communication with these audiences.

A separate team of sales, marketing and account management personnel represents WellMed from WebMD to employers and health plans. These individuals customize our services for each client according to the client s specific plan design and business objectives.

We seek to attract traffic and new members to WebMD Health through a variety of methods, including online and offline media campaigns. The primary focus of our media campaigns has been member registration.

We seek to attract traffic and new members to Medscape through a variety of methods, including advertising on other Internet sites and in medical journals, pharmaceutical and other healthcare publications and other targeted publications. We also promote Medscape at industry conferences, trade shows and medical meetings and by using direct mail.

WebMD Envoy

Our Transaction Services segment is known as WebMD Envoy and includes certain transaction operations of Envoy, Healtheon, Kinetra, MedE America, ActaMed, WebMD, Inc. and CareInsite.

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Overview

Healthcare providers must interact effectively with healthcare payers, from the first point of patient contact until final payment has been received, in order to ensure timely reimbursement and comply with managed care requirements. Unfortunately, in these interactions, providers and payers often juggle a confusing combination of electronic and manual processes, phone calls and faxes, and disparate software systems. Our WebMD Envoy clearinghouse provides an electronic link between payers and providers that allows them to conduct medical, pharmacy and dental transactions electronically. However, we provide much more than just a passive clearinghouse connection we provide electronic reimbursement cycle management solutions that can be used by payers and providers to automate the entire reimbursement process. In addition, as a complement to our electronic transmission services, our WebMD ExpressBill operations provide print and mail services to providers, including patient statement processing. We also provide connectivity and tools for automating clinical functions.

The customers for WebMD Envoy s services consist of healthcare providers, such as physician offices, dental offices, billing services, national laboratories, pharmacies, hospitals, and healthcare payers, including Medicare and Medicaid agencies, Blue Cross and Blue Shield organizations, pharmacy benefit management companies, commercial health insurance companies and managed care organizations. We provide those customers connectivity and transaction services through an integrated electronic transaction processing system, which includes proprietary software, host computer hardware, network management, switching services and interfaces. We refer to these services as electronic data interchange or EDI. Healthcare payers and providers pay fees to us for our services, generally on a per transaction basis or, in the case of some providers, as a flat rate per month. Transaction fees vary according to the type of transaction and other factors, such as volume level commitments. We may also charge one-time implementation fees to providers and payers. A significant portion of our WebMD Envoy revenues come from the country s leading national and regional healthcare payers.

We work with numerous physician and dental practice management system vendors, hospital information system vendors and other service providers to provide integrated transaction processing between their systems and our clearinghouse. Most practice management and hospital information systems support, and can be integrated with, WebMD Envoy transaction services. Many practice management system vendors, including WebMD Medical Manager, market a private label brand of our transaction services that they have integrated with their systems. We pay a sales commission, based on volume, to some of these vendors as an inducement to use WebMD Envoy as the clearinghouse for the transactions made through their systems. We have long-standing relationships with many vendors of practice management systems, including Misys Healthcare Systems, IDX Systems Corporation, PracticeWorks, Inc., Dentrix Dental Systems, Inc. and Vitalworks Inc. on a national level, as well as over 500 regional and local vendors. We work together with these vendors to increase the percentage of healthcare transactions that are handled electronically.

Products and Services

General. Providers access our transaction services both directly and through their relationships with integrated delivery networks, clinics, physician and dental practice management system vendors, hospital information management system vendors, and retail pharmacy chains. Providers initiate transactions using our proprietary applications, their practice management systems or other computer systems or networks. Providers submit transactions to our clearinghouse by modem connections using regular telephone lines, using dedicated high speed telecommunications services and over the Internet. At our clearinghouse, the transaction is edited for accuracy, validated for format and completeness, then translated in accordance with the payer s specifications and sent to the payer s claims adjudication and/or real-time database systems. Claims that cannot be processed by the payer are reported back to the provider, with the reasons for the rejection, for correction and resubmission.

Our clearinghouse maintains direct connections with many healthcare payers, including Medicare contractors and Medicaid agencies, Blue Cross and Blue Shield organizations, commercial health insurance

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companies, pharmacy benefit management companies and managed care organizations. Our direct payer connectivity facilitates high levels of service by minimizing the number of intermediaries between the provider and the payer. Our direct connections with payers typically consist of dedicated networks between the payer and our clearinghouse. Most transactions are currently transmitted to the payers using our proprietary software, data format specifications and dedicated telephone lines, with some transmitted securely over the Internet. We have developed innovative programs that work with payers, providers and practice management system vendors to try to increase the percentage of healthcare transactions that are transmitted electronically and the value of these transactions to our customers. Other clearinghouses also use our services to transmit transactions that they have received from providers to payers. We make payments, based on volume, to some of these clearinghouses as an inducement to use WebMD Envoy to complete the transactions submitted through their systems.

Medical and Dental Administrative Services. Our medical and dental administrative services provide the connectivity and transaction processing services needed for providers and payers in the healthcare industry to automate key business functions and communicate with each other. WebMD Envoy provides connectivity throughout the healthcare reimbursement cycle:

beginning with insurance eligibility verification,

continuing through the claim submission process,

followed by tracking the reimbursement through claim status inquiries, and

concluding with electronic remittance information and payment posting.

Our administrative services also include referrals and authorizations, pre-certifications, and other transactions as requested by our clients.

Our administrative services reduce paperwork and the need for communication by mail, telephone and fax, resulting in cost savings for payers and providers. These services also expedite the reimbursement process, which can result in a lower average number of outstanding accounts receivable days for providers. A further benefit to payers is that they are able to more easily detect fraud and screen for unusual utilization trends. In addition, the availability of online encounter and referral information provides more efficient medical cost management for managed care organizations and networked providers.

Providers can use our services to verify patient enrollment and eligibility and to obtain authorization from payers, at the point of care, for services and referrals to other providers. Providers can submit real-time or batch claims to us for processing and reimbursement by payers and inquire as to the status of claims previously submitted. Most claims are submitted to us as batch claims, which are collected by providers throughout the day and submitted to us in bulk. We then sort, format and edit the claims to meet a particular payer s requirements before transmission to the payer. Providers can receive an electronic remittance advice which provides payer payment information and an explanation of the settlement of a related claim. We also offer automated patient billing services to providers that include electronic data transmission and formatting, statement printing and mailing services. See WebMD ExpressBill below.

We provide various products designed to assist healthcare providers and payers in utilizing our administrative services, including:

WebMD Office. Through our WebMD Office Internet-based service, providers can securely access our transaction services through either a standard dial-up or high speed DSL or cable modem. WebMD Office can be used as a stand-alone system or as a complement to a practice management system through an import and data management function that allows transactions to be generated from the practice management system and submitted through WebMD Office. In addition, our practice management system vendor partners may elect to market a private-label brand version of WebMD Office.

AccuClaim Plus. Our AccuClaim Plus solution is designed for the claims submission processes of hospitals and large physician practices. AccuClaim Plus interfaces with their existing management

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systems, importing claim files and subjecting them to payer-specific edits, prompting users to correct claim errors prior to submission to payers in order to minimize the claim reject rate while increasing the first pass and auto-adjudication rate at the payer s adjudication system.

WebMD Empower. WebMD Empower is an EDI-enabling software and data hosting solution that gives healthcare payers the ability to automate communication with their providers through our network, using our infrastructure, and to improve auto-adjudication rates. WebMD Empower takes claims data submitted to the WebMD Envoy clearinghouse, applies value-added editing, including checks against payer-specific business rules and data, and sends it directly to the payer s information system. For real-time transactions, WebMD Empower works by downloading appropriate eligibility, provider, benefit, referral/ authorization and claims data from the payer s system onto our server. Downloads are performed periodically or in real time as information in the payer s database is updated.

Pharmacy Administrative Services. A typical pharmacy benefit transaction takes place in a real-time setting using a pharmacy management system or other claim submission product. The claim is submitted to WebMD Envoy in a standard format and includes all required information about the prescription. The claim is then routed to the appropriate adjudicating processor where the claim is processed within seconds. Response information includes patient coverage, formulary compliance (specific drug coverage), potential drug interactions, patient s co-payment due and anticipated reimbursement amount due to the pharmacy from the payer.

WebMD ExpressBill. Through WebMD ExpressBill, we provide print and mail services to healthcare practitioners, hospitals and high volume commercial customers throughout the United States. WebMD ExpressBill accepts client data via modem or the Internet, generates printed materials and prepares them for mailing. Our WebMD ExpressBill services include:

Patient Mailings. On behalf of healthcare provider customers, we print invoices, account statements, collection letters, recall notices and other communications and mail them to patients.

Paper Claims. Claims that cannot be sent electronically to payers can be sent by healthcare providers electronically to WebMD ExpressBill, where we print and mail them on their behalf.

Payment Processing. We process payments on behalf of providers and other customers, receiving and depositing checks, posting payments and transmitting funds in accordance with customer instructions.

Electronic Payment Services. Our electronic payment services offer healthcare providers the ability to receive payment via the Internet.

Value-Added Services. We offer value-added services designed to make it easy and cost-effective for providers to get information out to their patients and for our business clients to communicate with their customers. WebMD ExpressBill offers a full-service graphics department that works with clients to design letters, brochures, newsletters and other communications. WebMD ExpressBill can also insert customer-supplied inserts.

Lab Ordering and Reporting Services. We provide clinical lab ordering and reporting services through dedicated terminals and teleprinters and through WebMD Clinician, our Internet-based product. These products support the ordering of clinical tests and the reporting of test results between healthcare providers and labs. WebMD Clinician reduces costs and improves the quality of patient care by improving order entry accuracy and expediting the delivery of lab results, while enhancing the ability to share those results with multiple physicians. In addition, we provide similar services to practice management system vendors, hospital information system vendors and electronic medical record vendors through an application programming interface known as Clinician eXT.

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Value-Added Services. We have initiated steps to enhance the quantity, quality and value to payers and providers of our transaction services.

Our all-payer suite of services includes the capture, validation and routing of claims transactions on behalf of not just commercial payers, but also Blue Cross Blue Shield payers, Medicare and Medicaid. Additionally, our all-payer services include the return of an electronic remittance transaction, which is the equivalent of a paper explanation of benefits, from the payers back to the originating provider. The goal is to provide a single source EDI reimbursement cycle management solution for providers and practice management system vendors. A single EDI solution reduces administrative burdens on the provider office in sending claims transactions and receiving electronic remittance advice transactions and, more importantly, allows us to provide a single report back to the provider office regarding those transactions. That, in turn, allows the provider office to determine more easily whether it has been paid on a particular claim and how much. Provider offices without such a solution typically receive five or more different reports that they then have to reconcile in order to manage their accounts receivable. We are expanding our connectivity to support a broader set of transaction services to non-commercial payers in key markets as well as improving the functional capability of our claims and accounts receivable management solutions in order to improve the quality and value of our services to both payers and providers. We market our all-payer services directly to healthcare providers and through our practice management system partners.

We are working with our practice management system vendor partners to integrate real-time transactions into their provider software systems. WebMD Medical Manager is incorporating our full suite of real-time services into their software, making these transactions available to the provider in their normal office workflow.

We also offer payers the opportunity to work with us in targeted programs to educate physicians and dentists to increase the utilization of electronic services. When a payer agrees to participate in such a program, WebMD utilizes information supplied by the payer to target providers that may not be sending claims electronically.

HIPAA

Under the Healthcare Insurance Portability and Accountability Act of 1996, or HIPAA, Congress mandated adoption of a set of regulations relating to standards and requirements for the electronic submission of certain health information. As a supplier of EDI-enabling products and connectivity services to patients, payers, providers and third party vendors, WebMD Envoy is affected by many of the HIPAA provisions. The government can impose civil monetary penalties for failure to comply with standard transaction and code sets. For a description of the HIPAA regulations, see Government Regulation Health Insurance Portability and Accountability Act of 1996 beginning on page 27.

The HIPAA transaction standards regulations establish format and data content standards for eight of the most common healthcare transactions. Transaction clearinghouses can provide a great deal of support for the healthcare industry in addressing HIPAA requirements and in overcoming other connectivity challenges that HIPAA does not eliminate. Healthcare payers and providers who are unable to exchange data in the required standard formats can achieve HIPAA transaction standards compliance by contracting with a clearinghouse, like WebMD Envoy, to translate between standard and non-standard formats. In addition, use of a clearinghouse allows providers and payers to move to HIPAA standards independently, reducing transition costs and risks. As various healthcare entities are in different stages of migration during transition, WebMD Envoy is prepared to translate claim information from non-compliant to compliant formats and vice versa. We are actively involved in standard-setting and other industry organizations to share our experiences and perspectives and help policy-makers understand the implications of current HIPAA transition positions and practices. However, the standardization of formats and data standards required by HIPAA may facilitate use of direct EDI links, allowing transmission of transactions between some healthcare payers and providers without use of a clearinghouse. Any significant increase in the

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utilization of direct links between healthcare providers and payers could have a material adverse effect on WebMD Envoy s transaction volume and financial results.

We are committed to facilitating our customers compliance with HIPAA and have built the necessary infrastructure to accommodate and translate HIPAA-standard transactions. We are marketing HIPAA-ready provider transaction methods, as well as offering our payer customers and other healthcare participants support in their own compliance efforts. We are continuing to develop our HIPAA-ready solutions and our business strategy for marketing those solutions and services. Changes in compliance deadlines or in other aspects of the HIPAA regulations may cause us to make changes to our strategy or require us to develop different solutions.

Sales and Marketing

WebMD Envoy s sales and marketing efforts are conducted by sales, marketing and account management personnel located throughout the United States. WebMD Envoy s primary sales and marketing strategy focuses on promoting its transaction services to organizations that have relationships with or access to a large number of providers, such as practice management systems vendors, hospital information systems vendors, practice management companies and other clearinghouses. In certain cases, we agree to pay a sales commission based on transaction volume to these organizations as an inducement to use WebMD Envoy as the clearinghouse for the transactions made through their systems or by providers with which they have relationships. We also market our transaction services directly to healthcare payers, as well as to small and large physician practices, dentists, hospitals and other healthcare providers. In the pharmacy transactions area, WebMD Envoy has established relationships with large retail pharmacy chains and pharmacy software vendors. We market our WebMD ExpressBill services through the same channels as our transaction services, including practice management system and other software vendors, as well as directly to healthcare industry participants and other high volume commercial customers.

WebMD Medical Manager

Our Physician Services segment is known as WebMD Medical Manager and includes certain operations of Medical Manager and subsequent acquisitions.

Overview

We develop and market information technology systems for healthcare providers, primarily under The Medical Manager, Intergy, ULTIA and Medical Manager Network Services brands. Our systems include administrative and financial applications that enable healthcare providers and their administrative personnel to manage their practices more efficiently and clinical applications that assist them in delivering quality patient care. These applications and related services:

automate scheduling, billing, receivables management and other administrative and financial management tasks,

enable providers to maintain electronic medical records and to automate the documentation of patient encounters, and

facilitate the use of electronic data interchange for administrative and clinical healthcare transactions.

Our Intergy product was created using knowledge gained from 20 years of experience in healthcare technology development. We believe that the Intergy system will allow us to compete more effectively for sales to larger sites because of the advanced data handling and storage capabilities that we have incorporated in the system architecture. Intergy systems can also be configured to be cost-effective for practices consisting of one or two physicians. We expect that most of our future sales of practice

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management systems will be Intergy systems. However, we intend to continue to develop and support The Medical Manager system, which is currently the most widely used physician practice management system in the United States, and to market the customized versions of the system designed to meet the functionality needs of radiologists, public health and community health markets and family planning clinics.

Both Intergy and The Medical Manager systems are scalable to meet the needs of a wide variety of healthcare provider settings, from small physician groups to large clinics, and across various medical specialties. Customers can purchase a base system and then add additional modules and services over time to expand their use of state-of-the-art technology as needed. We believe that there is a significant opportunity to increase the use by physician practices of electronic data interchange transactions and electronic medical record systems and are focusing on cross-selling these products and services to our existing customers and as part of our new systems sales. See Medical Manager Network Services and EMR and Imaging Systems below for descriptions of these products and services.

Healthcare providers pay us a one-time license fee for the purchase of a license to our software or to additional software modules and for system hardware and also pay us recurring fees for the maintenance and support of our software. Many providers also pay us recurring fees for the provision of hardware support and maintenance. Pricing depends on several factors, including the number and type of modules to be licensed, the number of users per site, the number of practices, the operating system, the hardware to be supported and the complexity of the installation. We license ULTIA to physician practices on a per provider per month subscription basis. Healthcare providers pay us fees for our Medical Manager Network Services transactions services, generally on a per provider per month subscription basis or a per transaction basis.

Practice Management Systems

Intergy. Intergy, our new practice management software product, is designed to meet the needs of physician practices of any size or specialty, from single physician practices to large multi-specialty healthcare provider organizations. The Intergy system is the result of a significant, multi-year commitment to engineering and development of a completely new practice management system. The Intergy system s graphical user interface (GUI) packages complex medical practice functions into easy-to-navigate windows with consistent point-and-click drop down menus and buttons. The Intergy software operates on Windows and UNIX-based servers, together with Windows-based workstations.

The Intergy base package allows an office to automate appointment scheduling and recalls, registration, encounter form management, billing, collections and other administrative and financial functions. The appointment scheduler includes such features as waiting lists, appointment tracking and multiple-resource searches and displays. Recall notices are generated automatically to remind patients to schedule appointments. The base package also includes a wide range of tools to manage financial and billing functions, including charge posting, checkout payment, insurance billing, refunds, transfers, unapplied credits and collections. The Intergy system also has a customizable security system, with access to functions and features that can be defined for each user based on practice policies and procedures.

One of our optional administrative and financial modules is the managed care system, which provides functions required to track incoming and outgoing referrals to facilities and specialists and to provide risk management capabilities. The managed care system assists providers in automating: referral management, capitation payment posting, and contract management and profitability tracking. The system is designed to work in all managed care scenarios, including primary and specialty care.

Optional clinical modules include imaging systems and tools that can be used to create and maintain electronic medical records and automate the documentation of patient encounters at the point of care, to manage clinical workflow, to write and send electronic prescriptions, and to request and review laboratory tests and results. See EMR and Imaging Systems below. All of these solutions are fully integrated with the Intergy system. Intergy users can also elect to implement some or all of the integrated products and services described below under Additional Products and Services, including our ULTIA handheld

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wireless device, and our Medical Manager Network Services connectivity services, described below under Medical Manager Network Services.

The Medical Manager. The Medical Manager system provides physician practices with a broad range of patient care and practice management features. The Medical Manager software has been designed to operate on a wide range of hardware platforms and, due to its scalability, can be a cost-effective solution in small, medium and large practice settings. We also offer The Medical Manager system in customized versions to meet the functionality needs of radiologists, public health and community health markets and family planning clinics and intend to continue to market The Medical Manager system in these formats.

The Medical Manager software s base package serves as the foundation of the system and includes an appointment scheduler, billing system, financial management system and other features. Additional modules containing advanced administrative and financial features are also available, including automated collections, advanced billing, multiple resource scheduling and managed care modules. The Medical Manager system also has optional electronic medical record and document and image management system products. See EMR and Imaging Systems below. The Medical Manager users can elect to implement some or all of the integrated products and services described below under Additional Products and Services, including our ULTIA handheld wireless device, and our Medical Manager Network Services connectivity services, described below under Medical Manager Network Services.

Other Practice Management Systems. Through our acquisitions of various businesses, we have also obtained ownership of other practice management systems with smaller user bases. We currently maintain these other systems and may provide periodic updates to the users of these systems.

Medical Manager Network Services

Both Intergy and The Medical Manager systems support integrated use of our WebMD Envoy EDI services through Medical Manager Network Services. For a description of WebMD Envoy s EDI services, see WebMD Envoy on page 10. The administrative transactions supported include electronic claims, claims status inquiry, eligibility verification, electronic referral authorization/ status, patient statements and remittances. We also provide connectivity to laboratories, pharmacies, third party connectivity networks and hospitals and credit card authorization services. We believe that the HIPAA transaction standards rule will drive increased adoption of healthcare EDI services through Medical Manager Network Services. For additional information regarding the HIPAA privacy standards rule, see Governmental Regulation Health Insurance Portability and Accountability Act of 1996 HIPAA Transaction Standards on page 28.

Using Intergy or The Medical Manager systems with Medical Manager Network Services, providers have access to HIPAA-ready EDI functionality that is integrated into their practice management workflow and recordkeeping systems. Integrated EDI allows providers and their staff to send and receive EDI transactions from within the practice management system and to generate reports regarding these transactions, including whether submitted claims have been accepted or rejected. These capabilities can be combined with our all-payer suite of transaction services to provide a single-source electronic reimbursement management solution (see WebMD Envoy Value-Added Services on page 14). In addition, our systems perform automated eligibility verification by contacting payers electronically overnight so that the practice can start the day with pre-checked eligibility and benefits for each scheduled patient. This information is stored as part of the patient s record. In addition, eligibility checking for unscheduled patients can be performed in real time.

Medical Manager Network Services also provides integrated access to our WebMD ExpressBill print and mail services for patient statements, collection notices and recall notices. Practices transmit the required data from Intergy or The Medical Manager systems to our processing center. From there, customized statements, letters and inserts and complete mailing services are provided. Customization options include logos and patient education inserts.

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EMR and Imaging Systems

Healthcare providers record, use and share various types of clinical data about their patients, including patient histories, examination notes, lab results, medication orders and referrals. Much of this data is currently recorded in handwritten or printed form on paper records, often referred to as patient charts. As the amount of patient information maintained by a practice increases, so do the logistical challenges of moving paper charts from site to site and physician to physician. Many healthcare organizations are finding that the most promising solution to this challenge is the use of electronic medical record, or EMR, and imaging systems. These systems allow providers to share patient charts and other medical records, access them simultaneously and view them from remote locations. EMR systems not only help healthcare providers enhance clinical processes and patient safety, they also assist them in sharing information appropriately and efficiently and in collecting and managing the data necessary to meet the requirements of third-party billing procedures and contractual requirements.

Our suite of EMR applications allows healthcare providers to computerize their patient records without disrupting the way they practice medicine. We also provide technical assistance and support that helps the practice transition from the paper chart to the fully electronic medical record. Our Encounter Documentation Module automates the documentation of a patient encounter at the point of care. This product allows healthcare providers to generate progress notes and estimated evaluation and management service levels simply by pointing and clicking on the findings appropriate to a patient exam, reducing the need for transcription services and enhancing the accuracy of documentation of care provided. Customization tools allow the practice to create pre-defined, disease-specific templates, with lists of symptoms or other information that can be easily completed at any workstation.

Our EMR suite includes a prescription module that automates the process of writing and tracking prescriptions, providing improved efficiency with both the clinical and administrative aspects of the prescription process. The resulting prescription can be printed or called in to the patient s preferred pharmacy. With optional services through Medical Manager Network Services, practices can perform full drug utilization review (DUR) screenings, transmit prescriptions electronically to connected pharmacies, and verify formulary compliance with the patient s health plan.

Our Laboratory System module allows providers to access, review and maintain all lab results from within the EMR system. Practices may also arrange a sponsorship through national and regional laboratories to place orders and receive accurate and timely lab test results via a direct, bi-directional link with the sponsoring laboratory. Test results are received electronically from the sponsoring laboratory and are stored directly in the patient s file for viewing, printing and analysis.

Using our EMR applications, healthcare providers can locate all tasks needing their attention. For example, items on the provider s clinical task list are automatically generated whenever a lab report is ready, a transcription needs to be signed, or a prescription refill needs approval. Tasks can then be completed using the system or forwarded to another provider in the practice, accompanied by appropriate notes.

We also offer our Document Image Management (DIM) system, which is fully integrated with our Intergy and The Medical Manager practice management systems. The DIM system allows a practice to scan, store, catalog and retrieve documents, images and sound files in electronic form, which then becomes part of the patient s medical record and can be accessed from multiple workstations simultaneously. DIM_{DX}™, the diagnostic version of our imaging system, allows a practice to organize and store X-rays and other diagnostic images. Using an imaging system, multiple files can be viewed at the same time making it possible to view diagnostic reports alongside images or compare before-and-after images such as pre- and post-operative X-rays.

Our Digital Office Manager module provides additional capabilities for the scanning and organization of documents that are practice-related rather than patient-specific. Documentation such as contracts and personnel records are easily and efficiently managed with the Digital Office Manager, which can handle video, Adobe® Acrobat® and sound files as well as spreadsheets and word processing documents.

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We believe that the HIPAA privacy standards rule will drive increased adoption of imaging and EMR applications because such solutions can make it easier for providers to fulfill their obligations under the rule, including with respect to managing and documenting usage restrictions and providing patients with access to and the ability to amend their records. We believe that, as a result of the need to be HIPAA-compliant, existing users of The Medical Manager and Intergy systems will become more likely to add our integrated imaging and clinical solutions to their current configuration. For additional information regarding the HIPAA privacy standards rule, see Governmental Regulation Health Insurance Portability and Accountability Act of 1996 HIPAA Privacy Standards on page 28.

Additional Products and Services

ULTIA Handheld Solution. Healthcare providers are becoming increasingly aware of the benefits of using wireless handheld computers in their practices. ULTIA, our handheld point-of-care solution, combines the power of our clinical and administrative systems with the convenience of mobile handheld connectivity. ULTIA runs on a handheld device, such as a Compaq®iPaq®. From anywhere in the office, healthcare providers can use ULTIA with a wireless local area network, or LAN, to access information stored within, or to enter data into, the Intergy or The Medical Manager system, giving them instant access at the point-of-care to:

- appointment schedules, hospital rounds information and clinical tasks needing the provider s attention;
- a user-friendly electronic prescription writer, with integrated DUR and formulary checking, which electronically submits prescriptions to the patient s chosen pharmacy and, at the same time, adds prescription information directly to the patient s electronic medical record in the Intergy or The Medical Manager software;
- electronic lab ordering and reporting of results that can be viewed using ULTIA, available through the Intergy or The Medical Manager system in the provider s office;
- their patients electronic medical records, including demographic data, progress notes, medications, lab results, procedure histories and other information and transcribed patient documentation; and
- a fully customized encounter form for capturing patient charges, which displays procedure and diagnosis codes in customized checklists and automatically posts charge information to the practice management system.

Physicians can also use ULTIA to digitally record dictation and then send the voice file electronically for transcription, reducing the number of devices the physician has to carry and reducing turn-around time.

In addition, ULTIA provides a range of offsite functionality that can be used at hospitals and other remote locations. Using the wireless LAN connection, up to ten days of hospital rounds and patient data can be downloaded to the handheld device. This information is then accessible to the provider when he or she is working at another location. The provider can enter new data and capture patient charges, all of which are then uploaded to The Medical Manager or Intergy system when the provider returns to the office. Using ULTIA Online, providers can access remotely, using a secure Internet connection, the clinical, administrative and financial data on the Intergy or The Medical Manager system in their office. See ULTIA Online below.

ULTIA Online. ULTIA Online allows physicians whose offices use the Intergy or The Medical Manager practice management system to remotely access, via an encrypted Internet connection through our Medscape portal, information contained in their office s practice management system, including daily schedules, patient records and clinical items that need their attention. This enables physicians to view, in a secure manner, information residing on their office-based computer system from any personal or handheld computer with a connection to the Internet. The physician can use this connection to send and receive secure e-mail messages, to write and send electronic prescriptions, or to create laboratory orders and view

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test results. ULTIA Online also provides access to Medscape health content and related services. See WebMD Health Medscape from WebMD beginning on page 7.

Remote Monitoring System. Our Remote Monitoring System, or RMS, allows for a pro-active approach to system support and maintenance. Real-time connections allow us to monitor installations of our Intergy and ULTIA systems for problems that need immediate attention or for potential problems that are likely to need attention in the near future or that are adversely affecting system performance. RMS checks for particular conditions on a fixed schedule. For example, when a server has reached a defined percentage of capacity, an alert is forwarded to us to analyze the situation. This type of monitoring allows the system to be supported regardless of whether our customers become aware of problems or report them. In addition, if a required technical component has failed, we will be alerted to take action without the time it takes for a customer to call our help desk and have a support representative analyze and address the issue. For example, RMS alerts us if a prescription sits in the prescription queue for longer than a specified amount of time, thus notifying us of a potential system or connection issue. The issue can then be immediately addressed, even if it has not yet come to the attention of, or been reported by, our customer.

InfoPOINT and InfoCENTRAL. InfoPOINT, our advanced decision support and reporting application, is designed to provide timely access to practice data for informed managerial decision-making and to automate the process of generating reports using data from The Medical Manager and Intergy systems. The InfoPOINT system has user-friendly screens that simplify the process of creating a report and can produce both the predefined standard reports built into the system as well as ad hoc reports defined by the user. InfoPOINT also provides access to tools to analyze that data and to export it to other applications. InfoCENTRAL is a flexible data warehouse solution, designed to support ambulatory healthcare organizations such as group practices, managed care organizations and physician services organizations. InfoCENTRAL consolidates financial, administrative, clinical and other data and manages the interface to the practice management system.

Sales and Marketing

We market and distribute our WebMD Medical Manager systems and related services nationally through a direct sales organization, who are also supported by field technicians and training and support personnel.

We also distribute our systems through independent dealers and resellers. In the past few years, we have acquired a significant number of our independent dealers and resellers and we may continue to make these acquisitions in the future. We believe that the acquisition of independent dealers and resellers enables us to establish direct relationships with end users of our software products, thereby enhancing our ability to sell additional products and services to these end users.

Competition for Our Healthcare Information Services and Technology Solutions

The markets for healthcare information services and technology solutions are intensely competitive, continually evolving and, in some cases, subject to rapid technological change. We have many competitors, including:

- healthcare information system vendors and support providers, including physician practice management system vendors and support providers;
- transaction processing companies, including those providing EDI and/or Internet-based services and those providing services through other means, such as paper and fax;
- large information technology consulting service providers;
- online services, portals or Web sites targeted to the healthcare industry, healthcare consumers and/or physicians generally;

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consortiums of health insurance companies and of pharmacy benefit management companies that have announced that they are developing electronic transaction services for use by their members and other potential customers;

publishers and distributors of traditional offline media, including those targeted to healthcare professionals, many of which have established or may establish their own Web sites or partner with other Web sites;

general purpose consumer online services and portals and other high-traffic Web sites that provide access to healthcare-related content and services;

public sector and non-profit Web sites that provide healthcare information and online tools without advertising or commercial sponsorships; and

vendors of healthcare information, products and services distributed through other means, including direct sales, mail and fax messaging.

We also compete, in some cases, with alliances formed by the above competitors, including alliances that are intended to allow the participants to pursue a strategy similar to our strategy of integrating transaction processing capabilities and portal services with physician practice management systems. Major software, hardware and information systems companies, both with and without healthcare companies as their partners, offer or have announced their intention to offer products or services that are competitive with some of our solutions, including wireless handheld solutions that will compete with ULTIA, our handheld solution.

In addition, there can be no assurance that healthcare payers and providers will continue to use WebMD and other independent companies to transmit healthcare transactions. Some of our existing payer and provider customers and some of our strategic partners may compete with us or plan to do so or belong to alliances that compete with us or plan to do so. For example, some payers currently offer electronic data transmission services to healthcare providers that establish a direct link between the provider and payer, bypassing third party EDI service providers such as WebMD Envoy. Any significant increase in the utilization of direct links between healthcare providers and payers could have a material adverse effect on our business and results of operations. We cannot provide assurance that we will be able to maintain our existing links to payers or develop new connections on satisfactory terms, if at all.

WebMD Health faces competition both in attracting members and visitor traffic and in generating revenue from advertisers, sponsors and others. We compete with numerous companies and organizations for the attention of healthcare professionals and consumers including traditional offline media such as network and cable television, print journals, conferences, continuing medical education programs and symposia. We also face significant competition from online information resources. There are thousands of healthcare-related Web sites on the Internet. In addition, there are many companies that provide non-Internet based marketing and advertising services to the healthcare industry. These competitors include advertising agencies, consulting firms, marketing and communications companies and contract sales and marketing organizations. In addition, to the extent that we are successful in increasing revenue from our portals, competition for our portals audience and the potential sources of revenue are likely to increase.

Many of our competitors have greater financial, technical, product development, marketing and other resources than we do. These organizations may be better known than we are and have more customers than we do. We cannot provide assurance that we will be able to compete successfully against these organizations or any alliances they have formed or may form.

POREX

Overview

Our plastic technologies segment is known as Porex. We acquired Porex in our merger with Medical Manager in September 2000 and our Board of Directors approved a plan to dispose of Porex. As a result,

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Porex was classified in our financial statements as an asset held for sale and a discontinued operation. While we have received various proposals to acquire Porex, we believe that the offers did not reflect an appropriate value for Porex; accordingly, during February 2003, we decided to terminate our formal efforts to divest Porex. As a result, we have reclassified Porex as a continuing operation within the accompanying consolidated financial statements and footnotes from September 2000 for all periods presented.

Porex was originally founded in 1961 in Fairburn, Georgia. Initially manufacturing porous plastic nibs for writing instruments, the business expanded its production capabilities through internal development efforts and acquisitions. Through Porex, we develop, manufacture and distribute proprietary porous and solid plastic products and components used in healthcare, industrial and consumer applications. Our Porex customers include both end-users of its finished products as well as manufacturers that include our components in their products, which we refer to as original equipment manufacturers or OEMs. Over 70% of Porex s sales are to customers in healthcare and related markets.

Porex is an international business with manufacturing operations in North America, Europe and Asia. Porex s global sales and customer service network markets its products to customers in more than 65 countries. In 2002, Porex derived approximately 68% of its revenues from the United States, approximately 20% from Europe, approximately 10% from Asia and approximately 2% from Canada and Latin America.

Porex expects to continue its efforts to develop new porous and solid plastic products and technologies. Porex also intends to try to develop new porous structures using other materials such as fiber and membranes, which are preferred in certain applications over Porex s porous plastic materials. In addition, Porex may acquire businesses with products and technologies that complement its current product offerings or that would assist Porex in its efforts to enter additional markets.

Porous Plastic Products

Porous Plastics. Porous plastics are permeable plastic structures having omni-directional (porous in all directions) inter-connecting pores to permit the flow of fluids and gases. These pores, depending upon the number and size, control the flow of liquids and gases. We manufacture porous plastics with pore sizes between approximately 1 and 500 micrometers. One micrometer is equal to one-millionth of a meter; an object of 40 micrometers in size is about as small as can be discerned by the naked eye. Our ability to control pore size provides the opportunity to serve numerous applications, including:

Filtering. In filtration applications, the pore structure acts as both a surface filter and a depth filter. The structure acts as a surface filter by trapping particles larger than its average pore size and as a depth filter by trapping much smaller particles deep in its complex channels. Unlike the direct passages in woven synthetic materials and metal screens, the pores in porous plastics join to form many tortuous paths. Examples of these applications include: filters for drinking water purification, air filters, fuel filters for power tools and appliances and other liquid filters for clarification of drugs, blood separation and chemicals.

Venting. In venting applications, the pore structure allows gases to easily escape while retaining fluids. Examples of these applications include: vents for medical devices, printers and automotive batteries; and caps and closures.

Wicking. When used as a wicking device, the pore structure creates capillary channels for liquid transfer allowing fluid to flow, or wick, from a reservoir. Examples of these applications include: nibs or tips for writing instruments, such as highlighters and coloring markers; fluid delivery components for printers and copiers; fragrance wicks; and absorbent media for diagnostic testing.

Diffusing. When used in diffusion applications, porous plastic components emit a multitude of small, evenly distributed bubbles. Examples of these applications include air diffusers for fermentation, metal finishing and plating.

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Muffling. In muffling applications, exhaust air is channeled through a tortuous path, causing significant sound reduction by breaking up and diffusing the sound waves. Examples of these applications include industrial mufflers for pneumatic equipment.

We produce porous plastic components and products in our own manufacturing facilities, which are equipped to manufacture products for our customers in custom-molded shapes, sheets, tubes or rods, depending on customer needs. Porex believes that there are significant opportunities for new applications of existing porous plastic technologies. During the past several years, porous plastic components have been successfully introduced in applications such as antimicrobial filters, self-sealing filters, consumer fragrance wicks and industrial wastewater remediation components.

Other Porous Media. We believe that, in some applications, fiber and other porous membranes are preferred over our standard porous plastic materials. We use fiber technology for applications requiring high flow rates. Based on the same principles used in making our standard porous plastic products, fibers are thermally bonded into a matrix. This fiber material is well-suited for use in filtration and wicking applications, including our products for the consumer fragrance market. We also use sub-micron porous polytetrafluoroethylene, or PTFE, membranes to serve product markets where porous plastics do not have the physical properties to meet application demands. PTFE material is commonly known as Teflon®.

Markets for Our Porous Plastic Products. Our porous plastic products are used in healthcare, consumer and industrial applications, including the following:

Healthcare Products. We manufacture a variety of porous plastic components for the healthcare industry that are incorporated into the products of other manufacturers. These components are used to vent or diffuse gases or fluids and are used as membrane supports, including catheter vents, self-sealing valves in surgical vacuum canisters, fluid filtration components and components for diagnostic devices.

We also use proprietary porous plastic technology to produce Medpor® implants for use in aesthetic and reconstructive surgery of the head and face. These permanent implants, which are composed of biocompatible porous high-density plastics, allow for rapid growth of the patient s tissue and capillary blood vessels. Since the initial product introduction in 1985, we have continued to introduce new products to meet the market s needs for a variety of shapes, sizes and uses of porous plastic implants.

Consumer Products. Our porous plastics are used in a variety of office and home products. These products include writing instrument tips, or nibs, which we supply to manufacturers of highlighting pens and children s coloring markers. The porous nib conducts the ink stored in the pen barrel to the writing surface by capillary action. Our porous plastic components are also found in products such as air fresheners, power tool dust canisters and computer printers. We also produce a variety of porous plastic water filters used to improve the taste and safety of drinking water.

Industrial Products. We manufactures a variety of custom porous plastic components for industrial applications, designed to customer specifications as to size, rigidity, porosity and other needs, including automobile battery vents and various types of filters and filtration components.

Other Products and Services

Laboratory Products. We design, manufacture and distribute injection molded plastic products used in laboratory applications, such as liquid handling, sample collection, preparation and storage. We distribute these products through a network of approximately 250 global, national and regional laboratory distributors and directly to research and clinical laboratories. We market these products under our own brands, including Quality Scientific Plastics, or QSP, and Online Products for Science, or OPS, as well as under numerous private label arrangements and generic packaging. These products include:

Pipette Tips. A pipette is a device for transferring precise amounts of liquid. We offer more than 70 specific designs of pipette tips, covering a volume range of 0.1 to 10,000 microns, available with

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or without aerosol barrier filters. We produce pipette tips for use with both automated and manual instrumentation.

Tubes and Closures. We offer a variety of specialty test tubes, closures for test tubes and tube racks intended for storage of samples. The products are molded with uniform size, shape and wall thickness to provide precise fit with automated equipment and secure closures.

Medical Devices and Components. We design, engineer, manufacture and market injection molded plastic medical components and finished medical devices. These components and devices are primarily incorporated into or used with the products of other manufacturers. These products include:

caps and connectors used with the tubing for intravenous delivery of fluids,

manifolds with access ports for the intravenous administration of fluids during surgical procedures, and

needleless access connector ports for the administration of IV fluids, which eliminate the need for special adapters or sharp needles for fluid delivery.

Operating Room Products. We also produce two product lines for the operating room supplies market: surgical markers and surgical drainage systems.

Services. Using the expertise we have developed for our own operations, we provide clean room injection molding services, assembly services and engineering services to third party medical device manufacturers on a contract basis. In addition, we design and fabricate plastic injection molds for third parties.

Competition

Porex operates in competitive markets and its products are, in general, used in applications that are affected by technological change and product obsolescence.

The competitors for Porex s porous plastic products include other producers of porous plastic materials as well as companies that manufacture and sell products made from materials other than porous plastics that can be used for the same purposes as Porex s products. For example, Porex s porous plastic pen nibs compete with felt and fiber tips manufactured by a variety of suppliers worldwide. Other Porex porous plastic products compete, depending on the application, with membrane material, porous metals, metal screens, fiberglass tubes, pleated paper, resin-impregnated felt, ceramics and other substances and devices. The MEDPOR® Biomaterial products compete for surgical use against autogenous and allograph materials and alloplastic biomaterials.

The market for Porex s injection molded solid plastic components and products, is highly competitive and highly fragmented. For example, Porex s pipette tips compete with similar products manufactured by domestic and foreign manufacturers. Porex s injection molding and mold making services compete with services offered by numerous foreign and domestic companies. Porex has been experiencing increasing competitive pressures with respect to the products and services referred to in this paragraph.

Porex s surgical drains and markers compete against a variety of products from several manufacturers.

Some of Porex s competitors may have greater financial, technical, product development, marketing and other resources than Porex. We cannot provide assurance that Porex will be able to compete successfully against these companies or against particular products and services they provide or may provide in the future.

Raw Materials

The principal raw materials used by Porex include a variety of plastic resins that are generally available from a number of suppliers. The raw materials for these plastic resins are petroleum based and may be subject to significant and rapid price increases based on factors affecting the pricing of petroleum

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products in general, which could have a material adverse effect on the margins of some of our plastic products.

Some of Porex s products also require high-grade plastic resins with specific properties as raw materials. While Porex has not experienced any material difficulty in obtaining adequate supplies of high-grade plastic resins that meet its requirements, it relies on a limited number of sources for some of these plastic resins. If Porex experiences a reduction or interruption in supply from these sources, it may not be able to access alternative sources of supply within a reasonable period of time or at commercially reasonable rates, which could have a material adverse effect on its business and financial results.

Marketing

Sales and marketing of our porous plastic products are conducted by a sales and marketing team of professionals with in-depth knowledge of plastic technologies. Marketing activities include advertising in various trade publications and directories and participating at tradeshows. Sales to OEM customers in the United States of our porous plastic products are made directly by our sales and marketing team. Internationally, these products are sold by our sales and marketing team and through independent distributors and agents.

We sell our MEDPOR Biomaterial products directly to medical centers, trauma centers, hospitals and private practice surgeons using independent and direct sales representatives. Internationally, these products are sold in over 40 countries through local stock distributors. We provide training, materials and other support to the sales representatives and distributors. Market awareness is primarily achieved through exhibitions in conjunction with medical specialty meetings, presentations by surgeons at medical meetings, journal publication of clinical papers, a group sponsored visiting speaker program and direct mail programs. Journal advertising is placed on a selected basis and we maintain an active database of contacts for targeted direct mail programs.

Sales and marketing of our injection molded plastic laboratory products are conducted by a team of professionals with extensive market experience. Marketing activities include providing training, technical support and field support to the salespersons of our distributors and working with our distributors to develop marketing and promotional programs. In addition, members of our sales force travel with our major distributors sales people, making joint sales calls to end user laboratories. Marketing activities for our injection molded medical devices and medical device components include product specific advertising, trade exhibits and direct marketing, as well as working with independent distributors.

EMPLOYEES

As of December 31, 2002, we had approximately 5,450 employees, of which approximately 170 work in our corporate headquarters or related functions, approximately 1,720 are WebMD Envoy employees, approximately 360 are WebMD Health employees, approximately 2,260 are WebMD Medical Manager employees and approximately 940 are Porex employees.

DEVELOPMENT AND ENGINEERING

We have developed internally and acquired through acquisitions healthcare information services and technology solutions products and services. Our development and engineering expense totaled $43.8 million in 2002, $43.8 million in 2001 and $60.0 million in 2000.

The markets for some of our products and services are characterized by rapid change and technological advances. Our future success will depend, in part, upon our ability to enhance our existing products and services, to respond effectively to technological changes, and to introduce new and newly integrated applications and technologies that address the changing needs of our customers. Accordingly, we intend to continue to make investments in development and engineering and to recruit and hire experienced development personnel. However, we cannot provide assurance that we will be able to

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successfully complete the development of new products or services, enhancements to existing products or services. Further, there can be no assurance that products or technologies developed by others will not adversely affect our competitive position or render our products, services or technologies noncompetitive or obsolete.

INTELLECTUAL PROPERTY

We rely upon a combination of patent, trade secret, copyright and trademark laws, license agreements, confidentiality procedures, employee and client nondisclosure agreements and technical measures to protect the intellectual property used in our healthcare information services and technology solutions.

We use numerous trademarks, tradenames and service marks for our healthcare information services and technology solutions in the United States and, in some cases, internationally, including WebMD®, Web-MD®, WebMD Health®, The Medical Manager®, ULTIA™, Intergy™, Envoy®, ExpressBill®, Medscape®, Publishers Circle®, WellMed®, Personal Health Manager™, Personal Health Insight™, MedPulse®, Kinetra®, OmniChart®, Digital Office Manager®, MMClient®, MMWin®, and DIM_{DX}™. Porex uses trademarks and trade names in the United States and internationally, including POREX®, CVA™, DECap™, KippMed®, Lateral-Flo™, MEDPOR®, Needleless Access Connector™, NAC™, Quality Scientific Products®, QSP®, SQUEEZE-MARK®, TLS®, Q-Slide™, Online Products for Science® and OPS®. In addition to our trademark registrations and applications, we have registered the domain names webmd.com, my.webmd.com and medscape.com and numerous other domain names that either are or may be relevant to conducting our business. Our inability to protect our marks and domain names adequately could have a material adverse effect on our business and hurt us in establishing and maintaining our brands.

We also rely on a variety of intellectual property rights that we license from third parties, including our Internet server software and healthcare content used on our Web sites, as well as various products incorporated into our physician practice management systems. These third party licenses may not continue to be available to us on commercially reasonable terms. Our loss of or inability to maintain or obtain upgrades to any of these licenses could significantly harm us. In addition, because we license a majority of our content from third parties, we may be exposed to copyright infringement actions if these parties are subject to claims regarding the origin and ownership of licensed content.

The steps we have taken to protect our proprietary rights may not be adequate, and we may not be able to secure trademark or service mark registrations for marks in the United States or in foreign countries. Third parties may infringe upon or misappropriate our copyrights, trademarks, service marks and similar proprietary rights. In addition, effective copyright and trademark protection may be unavailable or limited in many foreign countries, and the global nature of the Internet makes it impossible to control the ultimate destination of our services. It is possible that competitors or others will adopt product or service names similar to our names, which could impede our efforts to build brand identity and possibly lead to customer confusion. Moreover, because domain names derive value from the individual s ability to remember such names, our domain name will lose its value if, for example, users begin to rely on mechanisms other than domain names to access online resources. In the future, litigation may be necessary to enforce and protect our trademarks, trade names, service marks, trade secrets, copyrights and other intellectual property rights. Litigation would divert management resources and be expensive and may not effectively protect our intellectual property.

Substantial litigation regarding intellectual property rights exists in the software industry, and we expect that software products may be increasingly subject to third party infringement claims as the number of competitors in our industry grows and the functionality of products overlaps. Although we believe that our products do not infringe on the intellectual property rights of others, we cannot provide assurance that such a claim will not be asserted against us in the future, or that a license or similar agreement will be available on reasonable terms in the event of an unfavorable ruling on any such claim.

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We have several patents covering our software technology. Due to the nature of our application software, we believe that patent protection is less significant than our ability to further develop, enhance and modify our current services and products. However, any infringement or misappropriation of our proprietary software and databases could disadvantage us in our efforts to attract and retain customers in a highly competitive market and could cause us to lose revenue or incur substantial litigation expense. Moreover, in recent years, there have been a large number of patents issued in general and numerous patents issued related to Internet business methods. While we are unaware of any patent the loss of which would impact our ability to conduct our business, defense of a patent infringement claim against us could divert management and monetary resources, and an adverse judgment in any such matter may negatively impact our ability to conduct our business in the manner we desire.

Porex relies upon a combination of patent and trade secret laws, license agreements, confidentiality procedures, employee and client nondisclosure agreements and technical measures in its efforts to protect its intellectual property and proprietary rights. For example, Porex seeks to protect its proprietary manufacturing technology by designing and fabricating its own manufacturing equipment and molds. In addition, in some cases, Porex has patented specific products and processes and intends to do so in some instances in the future. The majority of Porex s patents relate to porous plastics and medical devices and medical device components. Porex seeks to take appropriate steps to protect its intellectual property and proprietary rights and intends to defend those rights as may be necessary. However, we cannot provide assurance that the steps it has taken to protect these rights are adequate. In the future, litigation may be necessary to enforce and protect those rights, which would divert management resources, may be expensive and may not effectively protect those rights.

GOVERNMENT REGULATION

The healthcare industry is highly regulated and is subject to changing political, regulatory and other influences. These factors affect the purchasing practices and operations of healthcare organizations as well as the behavior and attitudes of consumers. Federal and state legislatures and agencies periodically consider programs to reform or revise the United States healthcare system. These programs may contain proposals to increase governmental involvement in healthcare, lower reimbursement rates or otherwise change the environment in which healthcare industry participants operate. Healthcare industry participants may respond by reducing their investments or postponing investment decisions, including investments in our products and services. We are unable to predict future proposals with any certainty or to predict the effect they would have on our businesses.

Existing laws and regulations also could create liability, cause us to incur additional cost and restrict our operations. Many healthcare laws are complex, applied broadly and subject to interpretation by courts and other governmental authorities. In addition, many existing healthcare laws and regulations, when enacted, did not anticipate the methods of healthcare e-commerce and other products and services that we provide. However, these laws and regulations may nonetheless be applied to our products and services. Our failure, or the failure of our business partners, to accurately anticipate the application of these healthcare laws and regulations, or other failure to comply, could create liability for us, result in adverse publicity and negatively affect our businesses.

Health Insurance Portability and Accountability Act of 1996

General. Under the Health Insurance Portability and Accountability Act of 1996, or HIPAA, Congress mandated a package of interlocking administrative simplification rules to establish standards and requirements for the electronic transmission of certain health information. Five of these rules were published in proposed form in 1998, with two of the five subsequently published in final form. The two rules published in final form are Standards for Electronic Transactions, published August 17, 2000, and Standards for Privacy of Individually Identifiable Health Information, published December 28, 2000. These rules took effect on October 16, 2000 and April 14, 2001, respectively, with compliance by healthcare providers, healthcare clearinghouses and large health plans originally required two years following the

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respective effective dates. Small health plans are given an additional year to comply. On December 27, 2001, President Bush signed into law H.R. 3323, the Administrative Simplification Compliance Act (now known as Public Law 107-105). This law provides for a one-year extension, to October 16, 2003, of the date for complying with the HIPAA standard transactions and code set requirements for any covered entity that submitted to the Secretary of the United States Department of Health and Human Services, or HHS, a plan of how the entity would come into compliance with the requirements by the new deadline.

HIPAA Transaction Standards. The HIPAA Standards for Electronic Transactions rule is commonly referred to as the transaction standards rule. The transaction standards are applicable to that portion of our business involving the processing of healthcare transactions among physicians, payers, patients and other healthcare industry participants. The transaction standards rule establishes format and data content standards for eight of the most common healthcare transactions, using technical standards promulgated by recognized standards publishing organizations. These transactions include healthcare claims, enrollment, payment and eligibility. We are committed to facilitating our customers compliance with the HIPAA transaction standards and have built the necessary infrastructure to accommodate HIPAA-standard transactions.

The intent of the transaction standards rule was to promulgate new standards, under which any party transmitting or receiving any of these eight healthcare transactions electronically would send and receive data in a single format, rather than the large number of different data formats currently used. The standardization of formats and data standards required by HIPAA may facilitate use of direct EDI links, allowing transmission of transactions between some healthcare payers and providers without use of a clearinghouse. Any significant increase in the utilization of direct links between healthcare providers and payers could have a material adverse effect on WebMD Envoy s transaction volume and financial results. However, the transaction standards rule also provides business opportunities for healthcare EDI clearinghouses such as WebMD Envoy. See WebMD Envoy HIPAA and WebMD Medical Manager Medical Manager Network Services for additional information regarding the risks and opportunities resulting from the HIPAA transaction standards rule. The effect of the HIPAA transaction standards rule on our business is difficult to predict and there can be no assurances that we will adequately address the business risks created by the rule and its implementation or that we will be able to take advantage of any resulting business opportunities. Our technological and strategic responses to HIPAA may result in conflicts with, or other adverse changes in our relationships with, some healthcare industry participants, including some who are existing or potential customers for our products and services or existing or potential strategic partners.

We may incur significant expenses relating to compliance with the transaction standards rule. The cost to us of performing our transaction services in compliance with HIPAA will depend on, among other things, the status of the compliance efforts of our payer and provider customers and the extent of the need to adjust our systems and procedures in response to changes in their systems and procedures. We cannot control when or how payers, providers, practice management system vendors or other healthcare participants comply with HIPAA s transaction standards or predict how their compliance efforts will affect their relationships with us, including the volume of transactions for which they use our services. In addition, some of our customers may delay implementation of HIPAA-ready solutions until near the applicable deadline, which may result in technical difficulties and customer relations problems if there is insufficient time for us to implement our solutions for all who are then seeking them.

We are unable to predict what changes to the transaction standards rule might be made in the future or how those changes could affect our business. Changes in compliance deadlines or in other aspects of the HIPAA regulations may cause us to make changes to our strategy or require us to develop different solutions.

HIPAA Privacy Standards. The HIPAA Standards for Privacy of Individually Identifiable Health Information rule is commonly referred to as the privacy standards rule. This rule establishes a set of basic national privacy standards and fair information practices for the protection by health plans, healthcare clearinghouses, healthcare providers and their business associates of individually identifiable health

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information. This rule became effective on April 14, 2001 and the compliance date for most entities is April 14, 2003. On August 14, 2002, HHS finalized critical changes to the privacy standards rule. The rule, including these changes, must be implemented by April 14, 2003. The privacy standards rule applies to the portions of our business that process healthcare transactions and provide technical services to other participants in the healthcare industry. This rule provides for civil and criminal liability for its breach and requires us, our customers and our partners to use health information in a highly restricted manner, to establish policies and procedures to safeguard the information, to obtain individual authorizations for some activities, and to provide certain access rights to individuals. This rule may require us to incur significant costs to change our products and services, may restrict the manner in which we transmit and use the information, and may adversely affect our ability to generate revenue from the provision of de-identified information to third parties. The effect of the HIPAA privacy standards rule on our business is difficult to predict and there can be no assurances that we will adequately address the business risks created by the privacy standards rule and its implementation or that we will be able to take advantage of any resulting business opportunities. In addition, we are unable to predict what changes to the privacy standards rule might be made in the future or how those changes could affect our business.

HIPAA Security Standards. On February 20, 2003, the United States Department of Health and Human Services published the final HIPAA security standards regulations, commonly referred to as the security rule. The security rule establishes detailed requirements for safeguarding patient information that is electronically transmitted or electronically stored. The rule establishes 42 implementation specifications, 20 of which are required, meaning they must be implemented as specified in the rule. Twenty-two are addressable. Complying with addressable implementation specifications requires a business to assess whether they constitute a reasonable and appropriate safeguard for the particular business; if not, an alternative approach must be designed and implemented to achieve the particular standard. The security standards rule applies to all portions of our business that process healthcare transactions, that provide technical services to other participants in the healthcare industry, and to portions of our business that enable electronic communications of patient information among healthcare industry participants. Most participants in the healthcare industry must be in compliance with the security rule by April 21, 2005. Some of the security standards are technical in nature, while others may be addressed through policies and procedures for using information systems. The security rule may require us to incur significant costs in evaluating our products and in establishing that our systems meet the 42 specifications. We are unable to predict what changes might be made to the security standards prior to the 2005 implementation deadline or how those changes might help or hinder our business. The effect of the security standards rule on our business is difficult to predict and there can be no assurances that we will adequately address the business risks created by the security standards rule and its implementation or that we will be able to take advantage of any resulting business opportunities.

Other Restrictions Regarding Confidentiality and Privacy of Patient Information

Numerous state and federal laws other than HIPAA govern the collection, dissemination, use, access to and confidentiality of patient health information. Many states are considering new laws and regulations that further protect the confidentiality of medical records or medical information. These state laws are not in most cases preempted by the HIPAA privacy standard and may be subject to interpretation by various courts and other governmental authorities, thus creating potentially complex compliance issues for us and our customers and strategic partners. Definitions in the various state and federal laws concerning what constitutes individually identifiable data sometimes differ and sometimes are not provided, creating further complexity. In addition, determining whether data has been sufficiently de-identified may require complex factual and statistical analyses. The HIPAA privacy standards rule contains a restrictive definition of de-identified information, which is information that is not individually identifiable, that could create a new standard of care for the industry. These other privacy laws at a state or federal level, or new interpretations of these laws, could create liability for us, could impose additional operational requirements on our business, could affect the manner in which we use and transmit patient information and could increase our cost of doing business. In addition, parties may also have contractual rights that provide additional limits on our collection, dissemination, use, access to and confidentiality of patient health information. Claims of

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privacy rights or contractual breaches, even if we are not found liable, could be expensive and time-consuming to defend and could result in adverse publicity that could harm our business.

Other Regulation of Transaction Services

Other state and federal statutes and regulations governing transmission of healthcare information may affect our operations. For example, Medicaid rules require some processing services and eligibility verification to be maintained as separate and distinct operations. We carefully review our practices with regulatory experts in an effort to ensure that we are in compliance with all applicable state and federal laws. These laws, though, are complex and changing, and the courts and other governmental authorities may take positions that are inconsistent with our practices.

International Data Regulation

Other countries also have, or are developing, their own laws governing the collection, use, storage and dissemination of personal information or patient data. These laws could create liability for us, impose additional operational requirements or restrictions on our business, affect the manner in which we use or transmit data and increase our cost of doing business.

Consumer Protection Regulation

The Federal Trade Commission, or FTC, and many state attorneys general are applying federal and state consumer protection laws to require that the online collection, use and dissemination of data, and the presentation of Web site content, comply with certain standards for notice, choice, security and access. Courts may also adopt these developing standards. In many cases, the specific limitations imposed by these standards are subject to interpretation by courts and other governmental authorities. We believe that we are in compliance with these consumer protection standards, but a determination by a state or federal agency or court that any of our practices do not meet these standards could result in liability and adversely affect our business. New interpretations of these standards could also require us to incur additional costs and restrict our business operations.

In addition, several foreign governments have regulations dealing with the collection and use of personal information obtained from their citizens. Those governments may attempt to apply such laws extra-territorially or through treaties or other arrangements with U.S. governmental entities. We might unintentionally violate such laws, such laws may be modified and new laws may be enacted in the future. Any such developments (or developments stemming from enactment or modification of other laws) or the failure to accurately anticipate the application or interpretation of these laws could create liability for us, result in adverse publicity and negatively affect our businesses.

Regulation of Healthcare Relationships

Anti-kickback Laws. There are federal and state laws that govern patient referrals, physician financial relationships and inducements to beneficiaries of federal healthcare programs. The federal anti-kickback law prohibits any person or entity from offering, paying, soliciting or receiving anything of value, directly or indirectly, for the referral of patients covered by Medicare, Medicaid and other federal healthcare programs or the leasing, purchasing, ordering or arranging for or recommending the lease, purchase or order of any item, good, facility or service covered by these programs. Many states also have similar anti-kickback laws that are not necessarily limited to items or services for which payment is made by a federal healthcare program. In 2002, the Office of the Inspector General, or OIG, of HHS, the federal government agency responsible for interpreting the federal anti-kickback law, issued an advisory opinion that concluded that the sale of advertising and sponsorships to healthcare providers and vendors by Web-based information services, such as us, implicates the federal anti-kickback law. However, the advisory opinion suggests that enforcement action will not result if the fees paid represent fair market value for the advertising/ sponsorship arrangements, and the advertising/ sponsorship relationships are clearly identified as such to users. We carefully review our practices with regulatory experts in an effort to

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ensure that we comply with all applicable laws. However, the laws in this area are both broad and vague and it is often difficult or impossible to determine precisely how the laws will be applied, particularly to new services. Penalties for violating the anti-kickback law include imprisonment, fines and exclusion from participating, directly or indirectly, in Medicare, Medicaid and other federal healthcare programs. Any determination by a state or federal regulatory agency that any of our practices violate any of these laws could subject us to civil or criminal penalties and require us to change or terminate some portions of our business. Even an unsuccessful challenge by regulatory authorities of our practices could cause us adverse publicity and be costly for us to respond to.

Anti-Fraud Laws. We currently provide transaction services to healthcare providers and, therefore, may be subject to state and federal laws that govern the submission of claims for medical expense reimbursement. These laws generally prohibit an individual or entity from knowingly presenting or causing to be presented a claim for payment from Medicare, Medicaid or other third party payers that is false or fraudulent, or is for an item or service that was not provided as claimed. These laws also provide civil and criminal penalties for noncompliance, and can be enforced by individuals through qui tam actions. We have designed our current transaction services and will design any future services to place the responsibility for compliance with these laws on provider customers. However, we cannot guarantee that state and federal agencies will regard billing errors processed by us as inadvertent and not in violation of these laws. In addition, changes in current healthcare financing and reimbursement systems could cause us to make unplanned modifications of products or services, or result in delays or cancellations of orders or in the revocation of endorsement of our products and services by healthcare participants.

Regulation of Medical Devices

Overview. We manufacture and market medical devices subject to extensive regulation by the Food and Drug Administration, or FDA, under the Federal Food, Drug, and Cosmetic Act, or the FDC Act. The FDA s regulations govern, among other things, product development, testing, manufacturing, labeling, storage, pre-market clearance, pre-market approval (referred to as PMA approval), advertising and promotion, and sales and distribution. If the FDA finds that we have failed to comply, the agency can institute a wide variety of enforcement actions, ranging from a public warning letter to more severe sanctions such as: fines, injunctions, and civil penalties; recall or seizure of our products; issuance of public notices or warnings; operating restrictions, partial suspension or total shutdown of production; refusal of our requests for 510(k) clearance or PMA approval of new products, withdrawal of 510(k) clearance or PMA approvals already granted, and criminal prosecution.

Access to U.S. Market. Each medical device that we wish to commercially distribute in the U.S. will likely require either 510(k) clearance or PMA approval from the FDA prior to commercial distribution, unless exempt. Devices deemed to pose relatively less risk are placed in either class I or II, which requires the manufacturer to submit a pre-market notification requesting permission for commercial distribution; this is known as 510(k) clearance. Some low risk devices are exempted from this requirement. Devices deemed by the FDA to pose the greatest risk, such as life-sustaining, life-supporting or implantable devices, or devices deemed not substantially equivalent to a previously 510(k) cleared device or to a preamendment class III device (in commercial distribution before May 28, 1976) for which PMA applications have not been called, are placed in Class III requiring PMA approval.

510(k) Clearance Process. To obtain 510(k) clearance, we must submit a pre-market notification demonstrating that the proposed device is substantially equivalent in intended use and in safety and effectiveness to a predicate device either a previously 510(k) cleared device or a preamendment device for which the FDA has not called for PMA applications. The FDA s 510(k) clearance process usually takes from four to 12 months, but it can last longer. After a device receives 510(k) clearance, any modification that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, requires a new 510(k) clearance or could even require a PMA approval. The FDA requires each manufacturer to make this determination in the first instance, but the FDA can review any such decision. If the FDA disagrees with it, the agency may retroactively require the manufacturer to seek 510(k) clearance or PMA approval. The FDA

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also can require the manufacturer to cease marketing and/or recall the modified device until 510(k) clearance or PMA approval is obtained.

PMA Approval Process. If the FDA denies 510(k) clearance for a product, the product is placed in class III and must follow the PMA approval process, which requires proof of the safety and effectiveness of the device to the FDA s satisfaction. A PMA application must provide extensive preclinical and clinical trial data and also information about the device and its components regarding, among other things, device design, manufacturing and labeling. As part of the PMA review, the FDA will inspect the manufacturer s facilities for compliance with the Quality System Regulation, which requires manufacturers to follow elaborate design, testing, control, documentation and other quality assurance procedures during the manufacturing process. The PMA approval pathway is costly, lengthy and uncertain. It generally takes from one to three years or longer. After approval of a PMA, a new PMA or PMA supplement may be required in the event of a modification to the device, its labeling or its manufacturing process.

Clinical Studies. A clinical study is generally required to support a PMA application and is sometimes required for a 510(k) pre-market notification. For significant risk devices, such studies generally require submission of an application for an Investigational Device Exemption, or IDE. The IDE application must be supported by appropriate data, such as animal and laboratory testing results, showing that it is safe to test the device in humans and that the testing protocol is scientifically sound. The IDE must be approved in advance by the FDA for a specified number of patients. Clinical studies may begin once the IDE application is approved by the FDA and the appropriate institutional review boards at the study sites. For nonsignificant risk devices, one or more institutional review boards must review the study, but submission of an IDE to the FDA for advance approval is not required. Both types of studies are subject to record keeping, reporting and other IDE regulation requirements.

Post-market Regulation. After the FDA permits a device to enter commercial distribution, numerous regulatory requirements apply. These include the Quality System Regulation, labeling regulations, the FDA s general prohibition against promoting products for unapproved or off-label uses, and the Medical Device Reporting regulation, which requires that manufacturers report to the FDA if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if it were to recur.

Products. Certain of Porex s products are FDA-regulated medical devices, such as plastic and reconstructive surgical implants, intravenous administration sets, blood filters, and tissue expanders. In addition, the FDA regulates WebMD Medical Manager s DIM_{DX} System as a medical image management device. It received 510(k) clearance on August 25, 2000. Subsequently, we have made modifications to certain of Porex s products and to the DIM_{DX} System that we believe do not require new 510(k) clearance. If the FDA disagrees with our decisions, it can retroactively require new 510(k) clearance or PMA approval. The FDA also can require us to cease marketing and/or recall the modified device until 510(k) clearance or PMA approval is obtained. Because Porex s medical devices and the DIM_{DX} System are in commercial distribution, we are subject to inspection and market surveillance by the FDA to determine compliance with all regulatory requirements. Compliance with these requirements can be costly and time-consuming. Our failure to comply could subject us to FDA enforcement action and sanctions.

The FDA has a long-standing draft software policy exempting computer software products from active regulation as medical devices if they are decision support systems intended to involve competent human intervention before any impact on human health occurs (in other words, where clinical judgment and experience can be used to check, interpret and potentially challenge a system s output). Except for the cleared DIM_{DX} System, we believe that, under the draft software policy, the Intergy and The Medical Manager practice management systems are subject to limited FDA regulation and do not require 510(k) clearance or PMA approval. Medical Manager Health Systems has created an interface between the Intergy and The Medical Manager practice management systems and the image device. We are marketing the interface and the image device as the DIM_{DX} System. We believe that the sale of our practice

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management systems with the DIM_{DX} System does not require a new 510(k) clearance or PMA approval. ULTIA permits access to the Intergy and The Medical Manager practice management systems and makes it available in a wireless handheld format, including allowing access to the medical images stored in the DIM_{DX} System. Because any displayed medical images are not intended for diagnostic use, we believe that ULTIA s ability to access such medical images does not subject it to a 510(k) clearance or PMA approval requirement. We cannot assure you, however, that the FDA would agree with any of these conclusions. If the FDA does not agree, we may be required to obtain 510(k) clearance or PMA approval for these products and may be required to cease marketing and/or recall such products until 510(k) clearance or PMA approval is obtained.

The FDA s draft software policy has been under review for several years. A risk exists that the Intergy or The Medical Manager practice management system or other of our software or hardware components could in the future become subject to some or all of the medical device regulation requirements. In addition, the FDA may take the position that other products and services we offer, such as ULTIA, are subject to FDA regulation. We also may expand our services in the future to areas that subject us to FDA regulation. Except with respect to Medical Manager Health Systems and Porex, we have no experience in complying with FDA regulations. We believe that complying with FDA regulations is time consuming, burdensome and expensive and could delay our introduction of new applications or services.

FDA and FTC Regulation of Advertising

The FDC Act requires that prescription drugs (including biological products) be approved for a specific medical indication by the FDA prior to their marketing in interstate commerce. It is a violation of the Act and of FDA regulations to market, advertise or otherwise commercialize such products prior to approval. The FDA does allow for preapproval exchange of scientific information, provided it is nonpromotional in nature and does not draw conclusions regarding the ultimate safety or effectiveness of the unapproved drug. Upon approval, the FDA s regulatory authority extends to the labeling and advertising of prescription drugs offered in interstate commerce. Such products may only be promoted and advertised for their approved indications. In addition, the labeling and advertising can be neither false nor misleading, and must present all material information in a balanced manner. Labeling and advertising that violate these legal standards are subject to FDA enforcement action.

Activities and information provided in the context of a medical or scientific educational program, often referred to as continuing medical education or CME, usually are treated as nonpromotional and fall outside the FDA s jurisdiction. The FDA does however evaluate such CME activities to determine whether they are independent of the drug product s sponsor. In order to determine whether a company s activities are sufficiently independent, the FDA looks at a number of factors related to the planning, content, speakers and audience selection of such activities. To the extent that the FDA concludes that such activities are not independent from a manufacturer, such content must fully comply with the FDA s requirements.

There are several administrative, civil and criminal sanctions available to the FDA for violations of the FDC Act or FDA regulations as they relate to labeling and advertising. Administrative sanctions may include a written request that violative advertising or promotion cease and/or that corrective action be taken, such as requiring a company to provide to healthcare providers and/or consumers information to correct misinformation previously conveyed. In addition, the FDA may use publicity, such as press releases, to warn the public about false and misleading information concerning a drug product. More serious civil sanctions include seizures, as well as injunctions and their resulting consent decrees. Such measures could prevent a company from introducing or maintaining its product in the marketplace. Criminal penalties for severe violations can result in a prison term and/or substantial fines.

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The FDA and the FTC regulate the form, content and dissemination of labeling, advertising and promotional materials, including direct-to-consumer prescription drug and medical device advertising, prepared by, or for, pharmaceutical or medical device companies. The FTC regulates over-the-counter drug advertising and, in some cases, medical device advertising, as well as general product or service advertising. Generally, based on FDA requirements, regulated companies must limit their advertising and promotional materials to discussions of FDA-approved claims. In limited circumstances, regulated companies may disseminate non-promotional scientific information regarding products or claims not yet approved by the FDA. Any information that promotes the use of pharmaceutical products or medical devices that is put on our Web site is subject to the full array of the FDA and FTC requirements and enforcement actions and any information regarding other products and services is subject to FTC requirements. Areas of our Web site that we believe would be the primary focus of the FDA and FTC include banner advertisements, sponsorship links, and any educational programs that discuss use of an FDA-regulated product or that lack editorial independence from the influence of sponsoring pharmaceutical or medical device companies. Television broadcast advertisements by WebMD may also be subject to FTC regulation and FDA regulation depending on the content. The FDA and the FTC place the principal burden of compliance with advertising and promotional regulations on the company that advertises on our Web site to make truthful, substantiated claims. If the FDA or the FTC finds that any information on our Web site violates FDA or FTC regulations, they may take regulatory or judicial action against us or the advertiser or sponsor of that information.

Any increase in FDA regulation of the Internet or other media for direct-to-consumer advertisements of prescription drugs could make it more difficult for WebMD Health to obtain advertising and sponsorship revenue. In the last 15 years, the FDA has gradually relaxed its formerly restrictive policies on direct-to-consumer advertising of prescription drugs. Companies can now advertise prescription drugs for serious conditions to consumers in any medium. However, physician groups and others have criticized the FDA s current policies, and have called for restrictions on any advertising of prescription drugs to consumers. These critics point to both public health concerns and to the laws of many other countries that make direct-to-consumer advertising of prescription drugs a criminal offense. In response to these critics, the FDA or the FTC may alter its present policies on the direct-to-consumer advertising of prescription drugs or medical devices in a way that would materially reduce our advertising and sponsorship revenues.

Medical Professional Regulation

The practice of most healthcare professions requires licensing under applicable state law. In addition, the laws in some states prohibit business entities from practicing medicine, which is referred to as the prohibition against the corporate practice of medicine. We do not believe that we engage in the practice of medicine and we have attempted to structure our Web site, strategic relationships and other operations to avoid violating these state licensing and professional practice laws. A state, however, may determine that some portion of our business violates these laws and may seek to have us discontinue those portions or subject us to penalties or licensure requirements. We provide Web site capabilities for our physician customers. Many states regulate the ability of medical professionals to advertise or maintain referral services. We do not represent that a physician s use of our Web site will comply with these or other state laws regulating professional practice and we do not monitor or control the content that physicians post on their individual practice Web sites using our Web site application. It is possible a state or a court may determine we are responsible for any non-compliance with these laws, which could affect our ability to offer this service to our customers. We employ and contract with physicians who provide only medical information to consumers, and we have no intention to provide medical care or advice. Any determination that we are a healthcare provider and acted improperly as a healthcare provider may result in liability to us.

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Children s Online Privacy Protection Act

The Children s Online Privacy Protection Act, or COPPA, extends to operators of commercial Web sites and online services directed to U.S. children under the age of 13 that collect personal information from children, and operators of general audience sites with actual knowledge that they are collecting information from U.S. children under 13. WebMD s sites are not directed at children and its general audience site, WebMD Health, states that no one under the applicable age is entitled to use the site. In addition, WebMD Health employs a kick-out procedure whereby anyone identifying themselves as being under the age of 13 during the registration process is not allowed to register for the site s member only services, such as message boards and live chat events. COPPA, however, is a relatively new law, can be applied broadly and is subject to interpretation by courts and other governmental authorities. The failure to accurately anticipate the application or interpretation of this law could create liability to us, result in adverse publicity and negatively affect our business.

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Item 2. ***Properties***

We believe that the offices and other facilities described are, in general, in good operating condition and adequate for our current operations.

Headquarters

We lease our corporate headquarters offices in Elmwood Park, New Jersey, which consists of approximately 40,000 square feet of space, under leases that expire in March 2006.

WebMD Envoy, WebMD Health and WebMD Medical Manager

We lease important facilities in:

Nashville, Tennessee for WebMD Envoy s headquarters and primary data and call centers;

Alachua, Florida for WebMD Medical Manager s development and engineering operations; and

New York, New York for WebMD Health s headquarters and its editorial and marketing operations.

We also use facilities in approximately 110 additional locations throughout the United States, 10 of which are owned and the rest of which are leased. These locations include sales and other offices, production centers, data centers and call centers.

Porex

We use approximately 400,000 square feet for Porex s headquarters and for office and manufacturing operations related to its porous plastics and other porous media product lines, including: the Porex headquarters and largest plant, which are located on property that we own in Fairburn, Georgia, a suburb of Atlanta; facilities that we own in Newnan, Georgia and Bautzen, Germany; and space that we lease in Kuala Lampur, Malaysia and Alness, Scotland. In addition, Porex uses approximately 330,000 square feet of office and manufacturing space for its injection molded plastic product lines, including 160,000 square feet of space in ten buildings in a business park located in Petaluma, California (seven of which are owned and three of which are leased); and 170,000 square feet of space in Ontario, California.

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Item 3. ***Legal Proceedings***

Porex Mammary Implant Litigation

From 1988 through 1990, Porex distributed silicone mammary implants in the United States pursuant to a distribution arrangement with a Japanese manufacturer. Porex believes that, after accounting for implants returned to Porex, the aggregate number of persons who received implants distributed by Porex totals approximately 2,500. Since March 1991, Porex has been named as one of many co-defendants in a number of actions brought by recipients of mammary implants. The typical case or claim alleges that the individual s mammary implants caused one or more of a wide range of ailments. These implant cases and claims generally raise difficult and complex factual and legal issues and are subject to many uncertainties and complexities, including, but not limited to, the facts and circumstances of each particular case or claim, the jurisdiction in which each suit is brought, and differences in applicable law. Porex does not have sufficient information to evaluate each case and claim.

Certain of the actions against Porex have been dismissed, where it was determined that the implant in question was not distributed by Porex. In addition, as of March 10, 2003, approximately 300 actions have been settled by the manufacturer, or by Porex s insurance carriers, without material cost to Porex. As of March 10, 2003, no implant-related claims were pending against Porex. During calendar year 2002, there were two implant-related claims made against Porex by individuals, as compared with two claims during 2001, two claims made during 2000, 39 claims during 1999 and nine claims during 1998. The majority of claims made during 1999 were claims that were filed by individuals following a court ruling in 1999 that cases filed in earlier years would not proceed as class actions, as a result of which such individuals would not be members of a class in such cases.

In 1994, Porex was notified that its insurance carrier would not renew its then-existing insurance coverage after December 31, 1994 with respect to actions and claims arising out of its distribution of implants. However, Porex exercised its right, under such policy, to purchase extended reporting period coverage with respect to such actions and claims. Such coverage provides insurance subject to existing policy limits, but for an unlimited time period with respect to actions and claims made after December 31, 1994 based on events that occurred during the policy period. In addition, Porex has purchased extended reporting period coverage with respect to other excess insurance. This coverage also extends indefinitely, replacing coverage that would, by its terms, have otherwise expired by December 31, 1997. Porex will continue to evaluate the need to purchase further extended reporting period coverage from excess insurers to the extent such coverage is reasonably available.

Porex believes that its present coverage, together with its insurance policies in effect on or before December 31, 1994, should provide adequate coverage against liabilities that could result from actions or claims arising out of Porex s distribution of silicone mammary implants. However, Porex cannot be certain that particular cases and claims will not result in liability that is greater than expected based on Porex s prior experience. If so, Porex s liability could exceed the amount of its insurance coverage. Furthermore, certain actions and claims seek punitive and compensatory damages arising out of alleged intentional torts. If these claims are successful, such damages may or may not be covered, in whole or in part, by Porex s insurance policies.

Envoy Securities Litigation

Envoy and some of its officers were named as defendants in three identical lawsuits filed in the United States District Court for the Middle District of Tennessee, Nashville Division. The plaintiff in each of these lawsuits purported to represent a class of persons who purchased the securities of Envoy during the class period from February 12, 1997 through August 18, 1998. In these three original complaints, the plaintiffs sued the defendants for violations of the federal securities laws. The District Court ordered the three cases consolidated under the caption In re Envoy Corporation Securities Litigation, and on December 28, 1998, the plaintiffs, pursuant to the district court s consolidation orders, filed a consolidated class action complaint. The consolidated complaint reasserted the federal securities law claims and also asserted additional claims under Tennessee common law for fraud and negligent misrepresentation.

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Plaintiffs allege that the defendants made material misrepresentations and omissions in Envoy s public filings and public statements concerning Envoy s financial statements and Envoy s accounting for some charges taken in connection with acquisitions. Plaintiffs allege that, as a result of defendants alleged actions, Envoy s reported earnings during the class period were overstated and the price for Envoy s common stock was artificially inflated. Plaintiffs seek recovery of an unspecified sum in damages on behalf of persons who allegedly purchased Envoy s stock at allegedly inflated prices.

On March 1, 1999, the defendants filed a motion to dismiss all of plaintiffs claims. Plaintiffs then voluntarily dismissed their state law claims. On September 17, 1999, the court dismissed the consolidated complaint without prejudice. On November 23, 1999, the plaintiffs filed an amended consolidated complaint. In May 2000, defendants filed a motion to dismiss the amended consolidated complaint. In February 2001, the court entered an order denying in part and granting in part defendants motion to dismiss the amended consolidated complaint. Specifically, the court denied the motion to dismiss as to Envoy and one of the individual defendants and granted the motion to dismiss as to two of the individual defendants. In April 2002, the court certified a class of plaintiffs consisting of all persons, other than defendants, who purchased shares of Envoy common stock between February 27, 1997 and August 18, 1998.

Discovery in the case has been completed and a trial date has been set for September 9, 2003. On March 3, 2003, defendants filed a motion for summary judgment. Plaintiffs are required to respond to the motion by May 5, 2003 and, following that, defendants will have until May 26, 2003 to file a reply brief. Defendants have requested oral argument on the summary judgment motion and expect that the court will hear oral argument sometime after briefing is completed. The parties have engaged in preliminary settlement discussions which have not resulted, thus far, in agreement on terms for a settlement.

The Agreement and Plan of Merger among Healtheon/ WebMD, Pine Merger Corp., Envoy, Quintiles Transnational Corp., and QFinance, Inc. dated as of January 22, 2000 provides that Quintiles will indemnify us with respect to this litigation.

Litigation Regarding Distribution of Shares in Healtheon Initial Public Offering

Since July 2001, seven purported class action lawsuits have been filed against Morgan Stanley & Co. Incorporated and Goldman Sachs & Co., underwriters of our initial public offering, in the United States District Court for the Southern District of New York. Three of these suits also named WebMD and certain former officers and directors of WebMD as defendants. These suits were filed in the wake of reports of governmental investigations of the underwriters practices in the distribution of shares in certain initial public offerings. Similar suits have been filed in connection with approximately 300 other initial public offerings that occurred in 1999, 2000 and 2001.

The complaints against WebMD and its former officers and directors allege violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 under that Act and Section 11 of the Securities Act of 1933 because of failure to disclose certain practices alleged to have occurred in connection with the distribution of shares in our initial public offering. Claims under Section 12(a)(2) of the Securities Act of 1933 have also been brought against the underwriters. These claims have been consolidated, along with claims relating to approximately 300 other initial public offerings, in the Southern District of New York.

We believe that the claims alleged in the lawsuits are primarily directed at the underwriters and, as they relate to us, are without merit. To the extent that these claims concern practices and disclosures relating to the plan of distribution in our initial public offering, we believe that we will have a claim for indemnification from the underwriters. The plaintiffs have dismissed the claims against the four former officers and directors of WebMD without prejudice, pursuant to Reservation of Rights and Tolling Agreements with those individuals.

On July 15, 2002, the approximately 300 issuer defendants in the consolidated action, including WebMD, filed a joint motion to dismiss the consolidated complaints. On February 18, 2003, the District

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Court denied, with certain exceptions not relevant to WebMD, the issuer defendants motion to dismiss. This ruling permits the claims against WebMD and most other issuers to proceed to discovery. Issuers counsel have engaged in discussions with plaintiffs about the scope of discovery, and the plaintiffs have not issued any formal discovery requests to WebMD at this time. In addition, the issuer defendants in the consolidated action (including WebMD), along with the affected insurance companies and the plaintiffs, have engaged in mediation under the auspices of former United States District Court Judge Politan in an effort to settle the case among those parties. We are unable to predict whether the efforts at mediation will be successful.

Other Legal Proceedings

In the normal course of business, we are involved in various other claims and legal proceedings. While the ultimate resolution of these matters, and those discussed above, has yet to be determined, we do not believe that their outcome will have a material adverse effect on our financial position or results of operations.

Item 4. ***Submission of Matters to a Vote of Security Holders***

At our Annual Meeting of stockholders held on October 24, 2002, our stockholders voted to elect Joseph E. Smith as a Class I director for a term ending in 2005, as follows:

266,239,141	votes for
3,610,607	votes withheld

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PART II

Item 5. ***Market for Registrant s Common Equity and Related Stockholder Matters***

We completed the initial public offering of our common stock on February 10, 1999. Our common stock has been traded on the Nasdaq National Market under the symbol HLTH since February 11, 1999.

The high and low prices for each quarterly period during the last two fiscal years are as follows:

	High	Low
2001		
First quarter	$10.63	$4.56
Second quarter	9.44	4.50
Third quarter	7.10	3.22
Fourth quarter	7.15	3.29
2002		
First quarter	$ 8.86	$6.25
Second quarter	7.78	5.05
Third quarter	6.23	4.25
Fourth quarter	9.30	4.54

On March 7, 2003, there were approximately 4,650 holders of record of our common stock. Because many of these shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

The market price of our common stock has fluctuated since the date of our initial public offering and is likely to fluctuate in the future. Changes in the market price of our common stock and other securities may result from, among other things:

quarter-to-quarter variations in operating results

operating results being less than analysts estimates

changes in analysts earnings estimates

announcements of new technologies, products and services or pricing policies by us or our competitors

announcements of acquisitions or strategic partnerships by us or our competitors

developments in existing customer or strategic relationships

actual or perceived changes in our business strategy

developments in pending litigation and claims

sales of large amounts of our common stock

changes in market conditions in the healthcare, information technology or Internet industries

changes in general economic conditions

fluctuations in the securities markets in general.

In addition, the market prices of Internet and healthcare information technology stocks in general, and of our common stock in particular, have experienced large fluctuations, sometimes quite rapidly. These fluctuations often may be unrelated or disproportionate to the operating performance of these companies. Any negative change in the public s perception of the prospects of these companies, as well as other broad market and industry factors, may result in changes in the price of our common stock.

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We have never declared or paid any cash dividends on our common stock, and we do not anticipate paying cash dividends in the foreseeable future. We intend to retain earnings to finance the expansion of our operations.

Sales of Unregistered Securities During the Fourth Quarter of 2002

On December 6, 2002, WebMD issued 1,048,783 shares of WebMD common stock to Cerner Investment Corp. in a transaction exempt from registration under Section 3(a)(9) of the Securities Act. The shares were issued upon exercise of an outstanding warrant. The aggregate exercise price received by WebMD was approximately $3.2 million.

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Item 6. ***Selected Financial Data***

The following selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and with the consolidated financial statements and notes thereto, which are included elsewhere in this Annual Report. The following data reflects the reclassification of our Plastic Technologies business, Porex, as a continuing operation since the date of its acquisition on September 12, 2000. Previously, Porex had been accounted for as an asset held for sale during the period from September 12, 2000 to September 12, 2001, and as discontinued operations subsequent to September 12, 2001. During February 2003, we decided to terminate our formal divestiture efforts relating to Porex.

	Years Ended December 31,				
	2002(b)	2001(b)	2000(b)	1999	1998
	(In thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenue(a)	$925,877	$ 901,028	$ 591,602	$102,149	$48,838
Costs and expenses:					
Cost of operations(a)	545,142	604,201	441,008	88,576	43,014
Development and engineering	43,849	43,839	59,957	29,669	19,002
Sales, marketing, general and administrative	291,710	457,540	538,497	82,315	25,605
Depreciation, amortization and other	130,074	2,400,804	2,190,273	193,067	16,055
Impairment of long-lived and other assets	609	3,826,893			
Restructuring and integration (benefit) charge	(4,690)	266,755	452,919		