TOYOTA MOTOR CORP/
Form 6-K
November 04, 2011

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 under
the Securities Exchange Act of 1934

For the month of November, 2011

Commission File Number 1-14948

Toyota Motor Corporation
(Translation of Registrant's Name Into English)

1, Toyota-cho, Toyota City,
Aichi Prefecture 471-8571,
Japan
(Address of Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F. Form 20-F X Form 40-F __

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Material Contained in this Report:

I. English translation of a Notice Concerning Effect of Floods in Thailand as of November 4, 2011, as filed by the registrant with the Tokyo Stock Exchange on November 4, 2011.

SIGNATURES

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

Toyota Motor Corporation

By: /s/ Naoki Kojima
Name: Naoki Kojima
Title: General Manager of
Accounting Division

Date: November 4, 2011

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volatility in market prices for silver, zinc and lead;

financial market conditions, and the availability of financing on terms acceptable to us;

uncertainties associated with developing a new mine, including potential cost overruns and the unreliability of estimates in early stages of mine development;

variations in ore grade and other characteristics affecting mining, crushing, milling and smelting operations and mineral recoveries;

geological, technical, permitting, mining and processing problems;

the availability and timing of acceptable arrangements for power, transportation, water and smelting;

the availability, terms, conditions and timing of required government approvals;

uncertainties regarding future changes in tax legislation or implementation of existing tax legislation;

variations in smelting operations and capacity;

the availability of experienced employees; and

the factors discussed under "Risk Factors."

Many of those factors are beyond our ability to control or predict. You should not unduly rely on these forward-looking statements. These statements should not be construed by you to be exhaustive and speak only as of the date of this prospectus supplement. Except as required by law, we are not obligated to publicly release any revisions to these forward-looking statements to reflect future events or developments. All subsequent written and oral forward-looking statements attributable to us and persons acting on our behalf are qualified in their entirety by the cautionary statements contained in this section and elsewhere in this prospectus supplement and the related prospectus.

OUR BUSINESS

Apex Silver Mines Limited, organized under the laws of the Cayman Islands in 1996, is engaged in the exploration and development of silver properties in South America, Mexico, Central America and central Asia. Our exploration efforts have produced our 100% owned San Cristobal silver and zinc development project located in southern Bolivia. We also have a large, diversified portfolio of privately owned and controlled silver exploration properties including non-producing silver and other mineral properties located in or near the traditional silver producing regions of Bolivia, Mexico, Peru, Chile and Honduras. None of our properties is in production, and consequently we have no operating income or cash flow.

San Cristobal Project

Our 100% owned San Cristobal Project is located in the San Cristobal mining district of the Potosi Department in southern Bolivia. San Cristobal is located in the Bolivian Altiplano in the Andes mountains, approximately 500 kilometers south of the capital city of La Paz.

Based on a feasibility study prepared by an independent engineering firm, San Cristobal would be a low cost, open pit silver-zinc mine, with anticipated annual commercial production of approximately 21 million contained ounces of silver, 478 million contained pounds of zinc and 155 million contained pounds of lead over a mine life of approximately 16 years, with the higher production anticipated in the first 5 years.

We estimated in 2000 that capital costs for San Cristobal construction would total approximately $435 million, net of approximately $60 million in expected tax credits. We believe that capital costs have increased slightly since this estimate was made, but have not yet updated the capital cost estimate. Additional engineering work and capital cost updates would be required prior to project construction. We would be required to raise, in addition to the proceeds from this offering, significant additional external financing, which may include project finance, bank borrowings and debt or equity offerings, to complete development of the San Cristobal project. There can be no assurance that we will proceed with additional financing or that we will be able to obtain the required financing on terms that we find attractive, or at all.

Our reserves will be recalculated in early 2004, based on three year rolling average prices of silver, zinc and lead through December 2003. We estimate that our reserves will be reduced by approximately five percent based on these prices. We do not anticipate that the expected reduction in reserves would affect materially the results of the feasibility study or our anticipated production if the mine is developed.

Bolivia has experienced slow economic growth and increasing political and economic instability in the last three years. In late 2003, there were violent demonstrations in La Paz and elsewhere in Bolivia, protesting the free-trade policies of the Bolivian government and specifically the proposed export of natural gas to the U.S. through Chile and the impact of U.S. policies regarding the drug trade. These demonstrations resulted in the resignation of President Lozada, in October 2003, and his replacement by President Mesa. Although to date these conditions and events have not caused any adverse impact on our San Cristobal project, there can be no assurance regarding when or whether these political and economic uncertainties will be successfully resolved, that the political and economic climate may not become more unstable or that the political and economic uncertainties would not have an adverse impact on the development of San Cristobal.

USE OF PROCEEDS

We expect that the net proceeds from the sale of the ordinary shares offered by this prospectus supplement, after deducting commissions and estimated expenses of the offering, will be approximately $161 million. We plan to use a portion of the net proceeds to finance a portion of the construction and development of the San Cristobal project, advance evaluation of exploration properties and for other general purposes.

Pending the application of the net proceeds, we expect to invest the proceeds in short-term investment grade marketable securities or money market obligations.

PRICE RANGE OF OUR ORDINARY SHARES

Our ordinary shares are listed on the American Stock Exchange under the symbol "SIL." As of January 26, 2004, 36,923,010 ordinary shares were outstanding, and we had approximately 171 shareholders of record.

The following table sets forth the high and the low sale prices per share of our ordinary shares for the periods indicated. The closing price of the ordinary shares on January 26, 2003 was $20.79.

	American Stock Exchange	
	High	Low
	($)	
2004:		
First Quarter (through January 23, 2004)	23.48	19.35
2003:		
First Quarter	16.42	12.90
Second Quarter	15.38	12.35
Third Quarter	18.06	13.40
Fourth Quarter	21.51	12.70
2002:		
First Quarter	13.46	9.73
Second Quarter	18.12	11.85
Third Quarter	17.00	11.55
Fourth Quarter	15.63	12.15

We have never paid any dividends on our ordinary shares and expect for the foreseeable future to retain all of our earnings from operations for use in expanding and developing our business. Any future decision as to the payment of dividends will be at the discretion of our board of directors and will depend upon our earnings, receipt of dividends from our subsidiaries, financial position, capital requirements, plans for expansion and such other factors as our board of directors deems relevant.

CAPITALIZATION

The following table sets forth our consolidated capitalization (i) as of the dates indicated, and (ii) as adjusted to give effect to this offering. The following table should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2002 and the unaudited consolidated financial statements and accompanying notes for the nine months ended September 30, 2003, incorporated by reference in this prospectus supplement.

	As at September 30, 2003

	As at September 30, 2003	
	($000's) Actual	($000's) As Adjusted After Giving Effect to the Offering(*)
Current Debt	$	$
Long Term Debt	670	670
Shareholders' Equity		
Ordinary Shares	367	448
Contributed Surplus	220,509	388,842
Deficit	(77,478)	(77,478)
	146,398	311,812
Total Capitalization	$ 147,068	$ 312,482

(*) Amounts shown assume the issuance of 8.1 million ordinary shares in the offering at $20.79 per share and the issuance of warrants to acquire 300,000 ordinary shares as commissions. Amounts shown are before estimated expenses of the offering.

DILUTION

The difference between the offering price per ordinary share and the pro forma net tangible book value per ordinary share after this offering constitutes the dilution to you. Net tangible book value per share is determined by dividing our net tangible book value (total tangible assets minus total liabilities) by the number of ordinary shares outstanding.

At September 30, 2003, our net tangible book value was $143 million, or $3.90 per ordinary share. After giving effect to the sale of the 8.1 million ordinary shares and the issuance of 300,000 warrants to acquire ordinary shares, and the receipt of the net proceeds at an offering price of $20.79 per share, our pro forma net tangible book value as of September 30, 2003 would have been $305 million or $6.80 per ordinary shares. This represents an increase in the net tangible book value of $2.90 per ordinary share to existing shareholders and an immediate dilution in net tangible book value of $13.99 per ordinary share to the purchasers of the ordinary shares in the offering.

Offering price		$ 20.79
Net tangible book value per share as of September 30, 2003	$ 3.90	
Increase attributable to new investors	2.90	
Adjusted net tangible book value after offering		6.80
Dilution per share to new investors		$ 13.99
Dilution as a percentage of offering price		67%

PLAN OF DISTRIBUTION

We are offering up to 8,100,750 ordinary shares directly to purchasers at a price of $20.79 per share, the closing price of our ordinary shares on January 26, 2004. The ordinary shares offered by this prospectus supplement are expected to be listed on the American Stock Exchange, subject to official notice of issuance. The placement agent has solicited indications of interest from investors for the full amount of the offering. Each of the purchasers of our shares in the offering will enter into a subscription agreement with us.

In connection with this offering, we have entered into a placement agency agreement, dated January 26, 2004, with Sunrise Securities Corp., under which Sunrise Securities has agreed to act as placement agent in connection with the issuance and sale, on a best efforts basis, of the offered shares. The agency agreement provides for us to pay Sunrise Securities an aggregate commission equal to $6,920,729.65, or $0.85 per share sold in the offering, which will be paid from the gross proceeds of the offering. In addition, we will issue to Sunrise Securities five-year warrants to purchase 300,000 of our ordinary shares. The warrants will be nonexercisable for one year after the closing date. Thereafter, for a period of four years, the warrants will be exercisable at an exercise price of $20.79 per ordinary share. The warrants will not be transferable for a period of one year after the closing date, except to any successor, officer or partner of Sunrise Securities. We have also granted certain demand and "piggyback" registration rights to the holders of the warrants. Sunrise Securities has no obligation to purchase any of our ordinary shares under the placement agency agreement. The obligations of Sunrise Securities under the agency agreement may be terminated at its discretion upon the occurrence of certain stated events.

All investor funds will be deposited into an escrow account set up at JPMorgan Chase Bank for the benefit of the investors. JPMorgan Chase Bank, acting as escrow agent, will invest all funds it receives in a non-interest bearing account in accordance with Rule 15c2-4 under the Exchange Act. The escrow agent will not accept any investor funds until the date of this prospectus supplement. On the closing date, we will deposit the shares with The Depository Trust Company and JPMorgan Chase Bank will notify the placement agent that all of the funds to pay for the shares have been received. The Depository Trust Company will credit the shares to the respective accounts of the investors.

The agency agreement also provides that we will indemnify Sunrise Securities against certain liabilities and expenses, including liabilities under the Securities Act of 1933, or will contribute to payments that Sunrise Securities may be required to make in respect thereof. We have been advised that, in the opinion of the SEC, indemnification for liabilities under the Securities Act of 1933 is against public policy as expressed in the Securities Act of 1933 and is therefore unenforceable.

We have agreed to pay to Sunrise Securities a non-accountable expense allowance of $250,000. In addition, we have also agreed to pay the legal fees of Sunrise Securities as well as all reasonable out-of-pocket costs and expenses.

Sunrise Securities has served in the past, and may serve in the future, as a placement agent in connection with the offering of our securities. Since 1999, Sunrise Securities and its affiliates have provided us with advisory and financing services. In exchange for these consulting services, we have paid $251,800 and issued to Sunrise Securities and its affiliates a total of 46,286 ordinary shares, warrants to purchase 180,000 of our ordinary shares and options to purchase 45,000 of our ordinary shares and reimbursed certain out-of-pocket expenses. We plan to continue our consulting relationship with Sunrise Securities.

We have agreed to pay to Robert Newman, Jr. $1,500,000 and to issue him five-year warrants to purchase 300,000 of our ordinary shares for financial advisory and consulting services, including services in connection with this offering. The warrants will be nonexercisable for one year after the closing date.

Thereafter, for a period of four years, the warrants will be exercisable at an exercise price of $20.79 per ordinary share. The warrants will not be transferable for a period of one year after the closing date.

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a summary of certain Cayman Islands and U.S. federal income tax consequences of the ownership of our ordinary shares by an investor that holds the shares as capital assets. The discussion is based on the Internal Revenue Code and the tax laws of the Cayman Islands and the U.S. as in effect on the date of this prospectus, which are subject to change. The discussion does not address all material tax consequences of the ownership of the ordinary shares, and does not consider any specific facts or circumstances that may apply to a particular investor, including tax-exempt entities, insurance companies, banks, broker-dealers, investors liable for alternative minimum tax, investors who hold ordinary shares as part of straddles or hedging or conversion transactions or constructive sales, and investors whose functional currency is not the U.S. dollar, which may be subject to special rules. In addition, the discussion does not address special rules that could, in some circumstances, apply to a U.S. Holder of ordinary shares that owns directly or by attribution 10% or more of the ordinary shares.

Because the discussion is not exhaustive of all possible tax considerations relevant to the ownership of ordinary shares and individual circumstances may vary, and because the discussion is not based upon an opinion of counsel, prospective investors are urged to consult their tax advisors regarding the U.S. federal, state, local and foreign tax consequences, including the Cayman Islands tax consequences, of the acquisition, ownership and disposition of ordinary shares in their particular circumstances.

Cayman Islands Taxation

There is, at present, no direct income taxation in the Cayman Islands. Accordingly, income and gains we receive, and distributions we make to our shareholders and gains realized upon the disposition of ordinary shares, will be received free of all Cayman Islands income and withholding taxes. We are registered as an exempted company under Cayman Islands law, and we have received an undertaking from the Governor-in-Council of the Cayman Islands to the effect that, for a period of 20 years from the date of the undertaking, no law that is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations will apply to us nor shall any tax in the nature of estate duty or inheritance tax be payable on the shares, debentures or our other obligations.

United States Federal Income Taxation

For purposes of this discussion, a U.S. Holder is any beneficial owner that owns ordinary shares as capital assets and is:

a citizen or resident of the U.S.,

a corporation or partnership that is created or organized in the U.S. or under the law of the U.S. or any state,

an estate that is subject to U.S. federal income tax on its income regardless of source, or

a trust, if a court within the U.S. is able to exercise primary supervision over the administration of the trust and one or more U.S. fiduciaries have authority to control all substantial decisions of the trust.

U.S. Holders

Ownership and Disposition of Ordinary Shares

Taxation of Dividends

Subject to the discussion under "Passive Foreign Investment Company Considerations" and "Foreign Personal Holding Company Considerations," under U.S. federal income tax law, U.S. Holders must include in gross income as a dividend the gross amount of any distribution we pay to the extent of current or accumulated earnings and profits, as determined for U.S. federal income tax purposes, as ordinary income when the dividend is received by the U.S. Holder. A distribution on ordinary shares taxed as a dividend may be eligible for the 15% maximum federal income tax rate that applies to dividends received by individuals before January 1, 2009 from certain foreign corporations, provided that the ordinary shares are readily tradable on an established securities market in the United States. However, the 15% maximum tax rate will not be available if we were a passive foreign investment company, a foreign personal holding company or a foreign investment company in either the taxable year of the distribution or the preceding taxable year. See "Passive Foreign Investment Company Considerations" and "Foreign Personal Holding Company Considerations." The dividend will not be eligible for the dividends-received deduction generally allowed to U.S. corporations. In general, the dividend will be income from sources outside the U.S., and generally will be treated together with other items of "passive income" or, in the case of certain holders, "financial services income" for U.S. foreign tax credit purposes.

Taxation of Capital Gains

Except as otherwise set forth under "Passive Foreign Investment Company Considerations," upon a sale or other disposition of ordinary shares, a U.S. Holder will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized and the U.S. Holder's tax basis, determined in U.S. dollars, in the ordinary shares. Subject to the discussion of passive foreign investment companies below, this gain or loss will be capital gain or loss and, if the U.S. Holder's holding period for those

ordinary shares exceeds one year, will be long-term capital gain or loss.

Long-term capital gains of individual U.S. Holders are generally subject to a 15% maximum U.S. federal income tax rate, for capital gains recognized before January 1, 2009. An individual taxpayer may deduct capital losses not offset by capital gains against its ordinary income only up to a maximum annual amount of $3,000 ($1,500 for married taxpayers filed separately). An individual taxpayer may carry forward unused capital losses indefinitely. A corporate taxpayer must pay tax on its net capital gain at ordinary corporate rates. A corporate taxpayer may deduct capital losses only to the extent of capital gains, with unused losses being carried back three years and forward five years.

Passive Foreign Investment Company Considerations

Classification as a PFIC. We may be a passive foreign investment company (PFIC) for any taxable year, and believe we likely have been a PFIC for one or more prior taxable years. We will be a PFIC for any taxable year if 75 percent or more of our gross income for the taxable year is "passive" income or 50 percent or more of our assets produce or are held for the production of "passive" income. For purposes of applying these income and asset tests, we are deemed to receive our pro rata share of the income, and to own our pro rata share of the assets, of any corporation in which we directly or indirectly own 25 percent or more of the stock, measured by value. In addition, although not free from doubt, it is expected that we will be deemed to receive our pro rata share of the income, and to own our pro rata share of the assets, of any partnership in which we are a partner, either directly or through one or more intervening partnerships. U.S. Holders should be aware that the ordinary shares may be treated as stock of a PFIC for U.S. federal income tax purposes because we will earn significant

passive income from investments relative to any of our non-passive income prior to our commencement of substantial mining operations. Further, the Internal Revenue Code treats gains from transactions in commodities, such as silver, as passive income for PFIC purposes unless "substantially all" of a company's business is as an active producer of the commodity. Applicable U.S. Treasury Regulations interpret "substantially all" to mean that 85 percent or more of a producer's taxable income must be gross receipts from sales in the active conduct of a commodities business or certain related activities. Under these rules, we cannot assure you that we would not be treated as a PFIC even after we have begun to earn income from mining operations. In this regard, prospective investors should note that we would likely constitute a PFIC even after we begin to generate significant income from mining operations in the event we conduct our mining operations predominantly through the use of independent contractors rather than directly through the use of our own employees.

Prospective investors should note that the PFIC classification rules are complex and may apply in numerous unexpected circumstances. Under these rules, we could be classified as a PFIC in various circumstances in addition to those described in the preceding paragraphs. For example, we could constitute a PFIC for any taxable year as a consequence of owning substantial "passive assets" such as cash and marketable securities, including any cash derived from the issuance of our securities or the sale of our assets, even in a year in which we generate significant income from direct mining operations.

Consequences of PFIC Status. If we were treated as a PFIC for any taxable year of a U.S. Holder's holding period for its shares, unless a U.S. Holder makes a qualified electing fund election (a "QEF" election) or mark to market election in respect of us, that U.S. Holder will be subject to a special tax regime (1) in respect of gains realized on the sale or other disposition of ordinary shares, and (2) in respect of distributions on ordinary shares held for more than one taxable year to the extent those distributions constitute "excess distributions." Although not entirely free from doubt, the PFIC rules should not apply to gain realized in respect of any ordinary shares disposed of during the same taxable year in which the ordinary shares are acquired. An excess distribution generally includes dividends or other distributions received from a PFIC in any taxable year to the extent the amount of such distributions exceeds 125 percent of the average distributions for the three preceding years or, if shorter, the investor's holding period. In general, under the PFIC rules, a U.S. Holder will be required to allocate such excess distributions and any gain realized on the sale of the ordinary shares to each day during the Holder's holding period for the ordinary shares, and will be taxable at the highest rate of taxation applicable to ordinary income for the year to which the excess distribution or gain is allocable, without regard to the U.S. Holder's other items of income and loss for such taxable year. This deferred tax, other than the tax on amounts allocable to the year of disposition or receipt of the distribution, will then be increased by an interest charge computed by reference to the rate generally applicable to underpayments of tax, which interest charge generally will be non-deductible interest expense for individual taxpayers.

QEF Election. The special PFIC tax rules described above will not apply to a U.S. Holder if the U.S. Holder makes a QEF election in the first taxable year of the holder's ownership of the ordinary shares during which we are a PFIC and we comply with specified reporting requirements. Upon request, we will endeavor to provide to a U.S. Holder no later than ninety days after the request the information that may be required to make a QEF election effective. We do not intend to make or issue to our shareholders determinations as to our PFIC status for any taxable year.

A U.S. Holder that makes a QEF election with respect to us will be currently taxable on its pro rata share of our ordinary earnings and net capital gain for each of our taxable years in which we qualify as a PFIC, regardless of whether the holder receives any distribution from us. The

U.S. Holder's basis in our ordinary shares will be increased to reflect our taxed but undistributed income. Distributions of income that previously have been taxed will result in a corresponding reduction of basis in the ordinary shares and will not be taxed again as a distribution to the U.S. Holder.

During the period in which we may be a PFIC, we may be entitled to deductions under U.S. federal income tax principles that may substantially offset our earnings. As a result, the pro rata share of our ordinary earnings and net capital gain that would be includable by a U.S. Holder making a QEF election may not be material. If this were the case, U.S. Holders generally could obtain the benefits of making a QEF election in respect of us, including the elimination of deferred tax and interest charges on excess distributions and realized gains, without having to bear current inclusions of income substantially in excess of distributions received. U.S. Holders should consult their own tax advisors concerning the most appropriate manner in which to make a QEF election.

Lower-Tier PFICs. At the present time, none of our non-U.S. subsidiaries is or will be classified as a corporation for U.S. federal income tax purposes. Accordingly, U.S. Holders are not subject to the PFIC rules with respect to their indirect ownership interests in these subsidiaries.

If we are a PFIC and, in the future, we acquire a non-U.S. subsidiary that is classified as a corporation for U.S. federal income tax purposes, U.S. Holders generally would be deemed to own, and also would be subject to the PFIC rules with respect to, their indirect ownership interests in any of our corporate subsidiaries which themselves constitute PFICs. These indirect corporate subsidiaries are referred to as "lower-tier PFICs." If we were a PFIC and a U.S. Holder does not make a QEF election in respect of any lower-tier PFIC, the U.S. Holder could incur liability for the deferred tax and interest charge described above if either (1) we receive a distribution from, or disposes of all or part of its interest in, a lower-tier PFIC or (2) the U.S. Holder disposes of all or part of its ordinary shares. We intend to cause any lower-tier PFIC to comply with all reporting requirements necessary for a U.S. Holder to make a QEF election with respect to the lower-tier PFIC.

Mark to Market Election. A U.S. Holder who owns "marketable" stock of a PFIC (as defined in the Code and Treasury Regulations) may elect to recognize any gain or loss on the stock on a mark-to-market basis at the end of the U.S. Holder's taxable year. If an election is made, any mark-to-market gains, and any gains realized on disposition of the stock, will be treated as ordinary income. Mark-to-market losses, and any losses recognized on disposition of the stock to the extent of the holder's net mark-to-market gains, will be treated as ordinary losses. U.S. Holders should consult their tax advisors regarding the availability of the mark-to-market election and the effect of making a mark-to-market election with respect to the ordinary shares, including the effect of such an election on any lower-tier PFICs that the holder is deemed to own.

A U.S. Holder who owns ordinary shares during any year that we are a PFIC must file an Internal Revenue Service Form 8621 in respect of such ordinary shares and, under proposed U.S. Treasury Regulations, in respect of interests in any lower-tier PFICs.

Prospective investors are urged to consult their own tax advisors regarding the possible classification of us as a PFIC as well as the potential tax consequences arising from the ownership and disposition, directly or indirectly, of interests in a PFIC.

Foreign Personal Holding Company Considerations

Prospective investors should also be aware that special U.S. tax laws would apply to U.S. Holders of ordinary shares if we, or any of our corporate subsidiaries, is characterized as a foreign personal holding company (FPHC). In particular, if we, or any of our corporate subsidiaries, is an FPHC in respect of any of our taxable years, U.S. Holders may be subject to current tax on their direct or indirect pro rata share of the income of the FPHC, as determined for purposes of the FPHC rules, even if no cash dividend is actually paid by the FPHC. In general, we, or any of our corporate subsidiaries, will constitute a FPHC during a taxable year if (1) a specified percentage of our income is passive for purposes of the FPHC rules, and (2) at any time during the taxable year five or fewer individuals who are U.S. citizens or residents own directly, indirectly or constructively more than 50 percent of the voting power or value of our ordinary shares. We do not anticipate that we or any of

our subsidiaries will be an FPHC immediately following this offering or in the future. We, however, can provide no assurance as to this conclusion.

Non-U.S. Holders

An investor who is not a U.S. Holder will not be subject to U.S. federal income tax on any dividends received on the ordinary shares unless (1) the investor has an office or other fixed place of business in the U.S. to which the dividends are attributable and either the dividends are derived in the active conduct of a banking, finance or similar business in the U.S. or the investor is a non-U.S. corporation the principal business of which consists of trading in stocks or securities for its own account and other specified conditions are met or (2) the investor is a foreign insurance company that conducts business in the U.S. and the dividends are attributable to that business.

An investor who is not a U.S. Holder will not be subject to U.S. federal income tax on any gain realized on the sale or other disposition of ordinary shares unless (1) the investor is engaged in the conduct of a trade or business in the United States and the gain is effectively connected with that trade or business or (2) the investor is an individual who is present in the U.S. for 183 days or more during the taxable year in which the gain is realized and other specified conditions are met.

United States Information Reporting and Backup Withholding

Under current U.S. federal income tax law, payments of dividends to some U.S. Holders are subject to information reporting, and a "back up" withholding tax presently at a rate of 28 percent if these persons fail to supply correct taxpayer identification numbers and other information in the required manner. Payments of dividends to a U.S. Holder (1) made by mail or wire transfer to an address in the U.S., (2) made by a paying agent, broker or other intermediary in the U.S. or (3) made by a U.S. broker or by a custodian, nominee or agent that is (a) a U.S. person, (b) a controlled foreign corporation for U.S. tax purposes, or (c) a foreign person 50% or more of whose gross income is from a U.S. trade or business (the persons described in (a), (b) and (c) shall be referred to as a "U.S. Controlled Person") to that holder outside the U.S. may be subject to U.S. information reporting requirements. Payments of dividends received by investors who are not U.S. Holders generally would be exempt from these reporting requirements, but these persons may be required to comply with certification and identification procedures in order to prove their exemption from the reporting requirements.

The payment of proceeds of the disposition of ordinary shares by a holder to or through the U.S. office of a broker generally will be subject to information reporting and backup withholding, presently at a rate of 28 percent, unless the holder either certifies its status as a non-U.S. Holder under penalties of perjury or otherwise establishes an exemption. The payment of proceeds of the disposition by a holder of ordinary shares to or through a non-U.S. office of a broker generally will not be subject to backup withholding and information reporting. However, information reporting, but not backup withholding, may apply to such a holder who sells a beneficial interest in ordinary shares through a non U.S. branch of a U.S. broker, or through a non-U.S. office of a U.S. Controlled Person, in either case, unless the holder establishes an exemption or the broker has documentary evidence in its files of the holder's status as a non-U.S. person.

Any amounts withheld under the backup withholding rules from payment to a holder will be refunded, or credited against the holder's U.S. federal income tax liability, if any, provided that the required information is furnished to the U.S. Internal Revenue Service.

LEGAL MATTERS

W.S. Walker & Company, George Town, Grand Cayman, Cayman Islands, has provided its opinion on the validity of the ordinary shares. Certain matters in connection with the offering and sale of the ordinary shares will be passed on for us by Davis Graham & Stubbs LLP, Denver, Colorado. Certain legal matters in connection with this offering will be passed upon for the placement agent by Mintz Levin Cohn Ferris Glovsky and Popeo, P.C., New York, New York.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

The SEC allows us to incorporate by reference our publicly filed reports into this prospectus supplement and the related prospectus, which means that information included in those reports is considered part of this prospectus supplement and the related prospectus. Information that we file with the SEC after the date of this prospectus supplement will automatically update and supersede the information contained in this prospectus supplement and the related prospectus. We incorporate by reference the following documents filed with the SEC and any future filings made with the SEC under sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934:

1. Our Annual Report on Form 10-K for the year ended December 31, 2002;

2.

Our Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, our Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2003;

3. The description of the ordinary shares and other classes or series of shares contained under the caption "Description of Ordinary Shares" in our registration statement on Form S-1, as amended (File No. 333-34685), and incorporated by reference into our registration statement on Form 8-A under the Securities Exchange Act of 1934 filed with the SEC on November 18, 1997.

We will furnish without charge to you, on written or oral request, a copy of any or all of the above documents, other than exhibits to such documents which are not specifically incorporated by reference therein. You should direct any requests for documents to Investor Relations, Apex Silver Mines Limited, c/o Apex Silver Mines Corporation 1700 Lincoln St. Suite 3050 Denver, Colorado 80203, telephone (303) 830-9000.

The information relating to us contained in this prospectus supplement is not comprehensive and should be read together with the information contained in the related prospectus and in the incorporated documents. Descriptions contained in the incorporated documents as to the contents of any contract or other document may not contain all of the information which is of interest to you. You should refer to the copy of such contract or other document filed as an exhibit to our filings.

This prospectus supplement and the related prospectus are pursuant to a registration statement on Form S-3 that we filed with the SEC. Certain information in the registration statement has been omitted from this prospectus supplement and the related prospectus in accordance with SEC rules.

We file annual, quarterly and current reports and other information with the SEC. You may read and copy the registration statement and any other document that we file at the SEC's public reference room located at Room 1024, Judiciary Plaza, 450 Fifth Street N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-00330 for further information on the public reference rooms. Our SEC filings are also available to you free of charge at the SEC's web site at http://www.sec.gov. Our ordinary shares are listed on the American Stock Exchange and you may inspect reports, proxy statements and other information concerning us at the office of the American Stock Exchange at 86 Trinity Place, New York, New York 10006.

You should rely only on the information incorporated by reference or provided in this prospectus supplement or the related prospectus. We have authorized no one to provide you with different information. We are not making an offer of these securities in any state or jurisdiction where the offer is not permitted. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of this document.

APEX SILVER MINES LIMITED

8,100,750 Ordinary Shares

PROSPECTUS SUPPLEMENT

January 27, 2004

58.1 410,556 58.2

Development and engineering
14,392 4.8 11,334 4.5 38,479 4.5 32,654 4.6
Sales, marketing, general and administrative
84,762 28.3 72,450 28.9 245,054 28.7 209,917 29.8
Depreciation, amortization and other
15,189 5.1 11,097 4.4 40,922 4.8 52,961 7.5
Legal expense
2,325 0.8 493 0.2 6,577 0.8 493 0.1
Restructuring and integration charge
4,535 1.5 4,535 0.5
Interest income
4,512 1.5 6,401 2.6 14,506 1.7 16,434 2.3
Interest expense
4,843 1.6 4,703 1.9 14,429 1.7 10,444 1.5
Other income, net
94 0.1 3,039 1.2 578 0.1 4,340 0.7

Income from continuing operations before income tax provision
9,604 3.2 10,728 4.3 22,624 2.7 9,333 1.3
Income tax provision
1,435 0.5 1,273 0.5 2,979 0.4 3,261 0.4

Income from continuing operations							
8,169	2.7	9,455	3.8	19,645	2.3	6,072	0.9
Loss from discontinued operations							
(3,366)	(1.4)			(33,611)	(4.8)		
Net income (loss)							
8,169	2.7	6,089	2.4	19,645	2.3	(27,539)	(3.9)

Revenue is derived from our four business segments: Transaction Services, Physician Services, Portal Services and Plastic Technologies. Our Transaction Services include: transaction processing for medical, dental and pharmacy claims; transaction processing technology, decision support solutions, consulting services and outsourcing services for healthcare payers, including document management services for transaction processing and print-and-mail services for the distribution of checks, remittance advice and explanation of benefits; and automated patient billing services for healthcare providers, including statement printing and mailing services. Additionally, we provide software products and

related maintenance contracts to Blue Cross Blue Shield and commercial healthcare payers and we perform software maintenance and consulting services for governmental agencies. A significant portion of Transaction Services revenue is generated from the country s largest national and regional healthcare payers. Our Physician Services include sales of practice management systems, including administrative, financial and clinical applications and services, under The Medical Manager, Intergy, ULTIA and Medical Manager Network Services brands. We also sell support and maintenance services related to the hardware and software associated with our practice management systems. Portal Services include advertising, sponsorship, continuing medical education, content syndication and distribution, and e-commerce transactions through our online distribution channels and the online and offline distribution channels of our strategic partners. A significant portion of Portal Services revenue is derived from a small number of customers. Our customers include pharmaceutical companies, biotech companies, medical device companies and media companies. Portal Services also provides a suite of online tools and related services to employers and health plans for use by their employees and plan members. Our Plastic Technologies revenue includes the sale of porous plastic components used to control the flow of fluids and gases for use in healthcare, industrial and consumer applications, as well as in finished products used in the medical device and surgical markets.

Cost of operations consists of costs related to services and products we provide to customers and costs associated with the operation and maintenance of our networks. These costs include salaries and related expenses for network operations personnel and customer support personnel, telecommunication costs, maintenance of network equipment, cost of postage related to our automated print-and-mail services and paid-claims communication services, cost of hardware related to the sale of practice management systems, a portion of facilities expenses, leased personnel and facilities costs, sales commissions paid to certain distributors of our Transaction Services products and non-cash expenses related to content and distribution services. In addition, cost of operations includes raw materials, direct labor and manufacturing overhead, such as fringe benefits and indirect labor related to our Plastic Technologies segment.

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Development and engineering expense consists primarily of salaries and related expenses associated with the development of applications and services. Expenses include compensation paid to development and engineering personnel, fees to outside contractors and consultants, and the maintenance of capital equipment used in the development process.

Sales, marketing, general and administrative expense consists primarily of advertising, product and brand promotion, salaries and related expenses for sales, administrative, finance, legal, information technology, human resources and executive personnel. These expenses include items related to account management and marketing personnel, commissions, costs and expenses for marketing programs and trade shows, and fees for professional marketing and advertising services, as well as fees for professional services, costs of general insurance and costs of accounting and internal control systems to support our operations. Also included are non-cash expenses related to content and distribution services acquired in exchange for our equity securities and stock compensation expense primarily related to the amortization of deferred compensation. Content and distribution services consist of advertising, promotion and distribution services from our arrangements with News Corporation, Microsoft, AOL and other partners. Stock compensation primarily relates to deferred compensation associated with the intrinsic value of the unvested portion of stock options issued in exchange for outstanding stock options of companies we acquired in 2000, the excess of the market price over the exercise price of options granted to employees and the market price of restricted stock granted to employees.

Legal expense consists of costs and expenses related to the investigation by the United States Attorney for the District of South Carolina and the SEC.

The following discussion includes a comparison of the results of operations for the three and nine months ended September 30, 2004 to the three and nine months ended September 30, 2003. Amounts are in thousands unless otherwise noted.

Revenues

Revenues for the three months ended September 30, 2004 were $299,615, compared to $250,635 for the three months ended September 30, 2003. Each operating segment experienced growth during the three months ended September 30, 2004, compared to a year ago. The Transaction Services, Portal Services, Physician Services and Plastic Technologies segments were responsible for $42,666, $5,853, $1,437 and $292, respectively, of the revenue increase for the quarter, which was partially offset by an increase of $1,268 in inter-segment eliminations.

Revenues for the nine months ended September 30, 2004 were $852,710, compared to $705,584 for the nine months ended September 30, 2003. The Transaction Services, Portal Services and Plastic Technologies segments were responsible for $138,968, $15,296 and $3,528, respectively, of the revenue increase for the nine-month period, which was partially offset by a decrease in revenue of $4,592 in Physician Services and an increase of $6,074 in inter-segment eliminations.

Revenue from customers acquired through the 2004 Acquisitions and 2003 Acquisitions contributed $30,050 to the overall increase in revenue of $48,980, for the three months ended September 30, 2004, and $109,702 to the overall increase in revenue of $147,126, for the nine months ended September 30, 2004. For purposes of this discussion, only revenue from existing customers of the acquired business on the date of the acquisition is considered to be revenue from acquired customers. We integrate acquisitions as quickly as practicable, and only revenue recognized during the first twelve months following the quarter in which the acquisition closed is considered to be revenue from acquired customers.

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Costs and Expenses

Cost of Operations. Cost of operations was $168,571 and $495,174 for the three and nine months ended September 30, 2004, compared to $149,270 and $410,556 in the prior year periods. Our cost of operations represented 56.3% and 58.1% of revenues for the three and nine months ended September 30, 2004, compared to 59.6% and 58.2% for the three and nine months ended September 30, 2003. The inclusion of the Medifax operations had a favorable impact on cost of operations as a percentage of revenue for both the three and nine months ended September 30, 2004 when compared to a year ago, as Medifax products have higher gross margins than the average gross margins of other products we offer. Also favorably impacting cost of operations as a percentage of revenue for the three and nine months ended September 30, 2004, when compared to a year ago, was the impact of productivity gains as a result of streamlining our delivery and service infrastructure within the Practice Services operating segment. Partially offsetting these items for both the three and nine months ended September 30, 2004, when compared to a year ago, was the inclusion of the ABF operations which have products with lower gross margins, due to the high cost of postage associated with providing ABF s services. Additionally, we experienced higher sales commissions, as a percentage of revenue, paid to our channel partners and higher costs related to our implementation efforts with respect to the HIPAA Transaction Standards and our all-payer transaction services during the 2004 periods, when compared to a year ago. Included in cost of operations were non-cash expenses related to content and distribution services of $104 and $705 during the three and nine months ended September 30, 2004 compared to $1,105 and $1,932 during the three and nine months ended September 30, 2003, respectively.

Development and Engineering. Development and engineering expense was $14,392 and $38,479 for the three and nine months ended September 30, 2004, compared to $11,334 and $32,654 in the prior year periods. The increase in development and engineering expense was primarily attributable to the development and engineering expense of the Medifax and Dakota operations during both the three and nine months ended September 30, 2004 which, due to the timing of these acquisitions, were not included in our results during the respective 2003 periods. The ABF operations had a similar impact on development and engineering expense during the nine months ended September 30, 2004 compared to a year ago. Also contributing to the increase in development and engineering expenses during the 2004 periods, when compared to a year ago, is the increased investment in our product development efforts within the Practice Services operating segment.

Sales, Marketing, General and Administrative. Sales, marketing, general and administrative expense was $84,762 and $245,054 for the three and nine months ended September 30, 2004, compared to $72,450 and $209,917 in the prior year periods. Included in sales, marketing, general and administrative expense are non-cash expenses related to content and distribution services and stock compensation. Non-cash expenses related to content and distribution services were $3,505 and $14,188 for the three and nine months ended September 30, 2004, compared to $4,970 and $16,292 for the prior year periods. Non-cash stock compensation was $2,800 and $7,241 for the three and nine months ended September 30, 2004, compared to $3,390 and $10,948 for the prior year periods. The decrease in non-cash stock compensation is primarily related to the vesting schedules of options issued and assumed in connection with acquisitions we made in 2000, partially offset by additional compensation expense during the three and nine months ended September 30, 2004 related to restricted stock issued to certain employees in March 2004.

Sales, marketing, general and administrative expense, excluding the non-cash expenses discussed above, increased to $78,457 and $223,625 or 26.2% and 26.2% of revenue, for the three and nine months ended September 30, 2004, compared to $64,090 and $182,677, or 25.6% and 25.9% of revenue, for the prior year periods. The increase in sales, marketing, general and administrative expense for both the three and nine months ended September 30, 2004 is due to higher personnel and professional services costs related to our implementation efforts with respect to the HIPAA Transaction Standards and our all-payer transaction services and our readiness efforts related to Section 404 of the Sarbanes-Oxley Act of 2002. Partially offsetting the increase in sales, marketing, general and administrative expense, as a percentage of revenue, for both the three and nine months ended September 30, 2004 was the impact of

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the inclusion, in 2004, of the ABF, Medifax and ViPS operations which have lower administrative expenses as a percentage of revenue than our other operations.

Depreciation, Amortization and Other. Depreciation, amortization and other expense increased to $15,189 for the three months ended September 30, 2004, compared to $11,097 in the prior year period. The increase was the result of the amortization expense of the tangible and intangible assets related to the Medifax, ViPS and Dakota acquisitions, which, due to the timing of these acquisitions, did not exist in the same period a year ago. Depreciation, amortization and other expense during the nine months ended September 30, 2004 was $40,922 compared to $52,961 during the nine months ended September 30, 2003. This decrease was primarily due to intangible assets relating to certain acquisitions made in 2000 becoming fully amortized since the beginning of the prior year periods. This decrease was partially offset by depreciation and amortization expense related to the tangible and intangible assets acquired through our 2004 and 2003 Acquisitions.

Legal Expense. Legal expense was $2,325 and $6,577 for the three and nine months ended September 30, 2004 compared to $493 for both the three and nine months ended September 30, 2003. Legal expense represents the costs and expenses incurred related to the investigation by the United States Attorney for the District of South Carolina and the SEC. Over the course of the investigation, we expect that these costs and expenses may continue to be significant.

Restructuring and Integration Charge. Restructuring and integration charge of $4,535 represents an incremental charge taken in connection with the settlement of a lawsuit against the landlord of a property leased in 2000, but never occupied. The remaining cost of the settlement was previously expensed in connection with the restructuring and integration plan that we announced in September 2000.

Interest Income. Interest income was $4,512 and $14,506 during the three and nine months ended September 30, 2004, compared to $6,401 and $16,434 in the prior year periods. This decrease was due to lower average investment balances as well as lower average interest rates.

Interest Expense. Interest expense was $4,843 and $14,429 for the three and nine months ended September 30, 2004, compared to $4,703 and $10,444 for the prior year periods. While interest expense was relatively unchanged for the three months ended September 30, 2004, compared to the prior year period, the increase for the nine months ended September 30, 2004, compared to the prior year period, was primarily a result of interest expense and amortization of debt issuance costs related to the 1.75% Convertible Subordinated Notes issued in June and July of 2003.

Other Income, Net. Other income during the three and nine months ended September 30, 2004 and 2003 primarily related to net gains on the sale of marketable securities. Included in other income during the nine months ended September 30, 2003 was a benefit of $1,118, related to a state tax refund which applied to a pre-acquisition tax year of a company we acquired.

Income Tax Provision. The income tax provision of $1,435 and $2,979 for the three and nine months ended September 30, 2004, and $1,273 and $3,261 for the three and nine months ended September 30, 2003, primarily related to tax expense for operations that are profitable in certain states and foreign countries in which we do not have net operating losses to offset that income.

Discontinued Operations. Loss from discontinued operations during the three and nine months ended September 30, 2003 represents the operating results of the discontinued units of the Plastic Technologies segment as well as a loss of $3,491 recognized in connection with their disposal on August 1, 2003. Included in the loss from discontinued operations during the nine months ended September 30, 2003 was an impairment charge of $33,113 to reduce certain long-lived assets of the discontinued units to fair value.

Results of Operations by Operating Segment

We evaluate the performance of our business segments based upon income or loss before restructuring, taxes, non-cash and other items. Non-cash and other items include depreciation, amortization, costs and expenses related to the investigation by the United States Attorney for the District

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of South Carolina and the SEC (legal expense), gain on investments, other income, non-cash expenses related to content, advertising and distribution services acquired in exchange for our equity securities in acquisitions and strategic alliances, and stock compensation expense primarily related to stock options issued and assumed in connection with acquisitions and restricted stock issued to employees. The accounting policies of the segments are consistent with those described in the summary of significant accounting policies in Note 1 to the consolidated financial statements contained in our 2003 Annual Report on Form 10-K. We record inter-segment revenues at rates comparable to those charged to third parties for comparable services. Inter-segment revenues are eliminated in consolidation.

Summarized financial information for each of our operating segments and a reconciliation to net income (loss) are presented below (amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Revenues				
Transaction services	$174,643	$131,977	$504,459	$365,491
Physician services	76,924	75,487	219,703	224,295
Portal services	37,017	31,164	95,178	79,882
Plastic technologies	19,385	19,093	58,543	55,015
Inter-segment eliminations	(8,354)	(7,086)	(25,173)	(19,099)
	$299,615	$250,635	$852,710	$705,584
Income (loss) before restructuring, taxes, non-cash and other items				
Transaction services	$ 31,750	$ 21,767	$ 90,514	$ 68,160
Physician services	5,856	3,686	8,978	16,342
Portal services	10,040	8,712	22,208	18,922
Plastic technologies	5,823	5,690	17,140	15,857
Corporate	(15,170)	(12,809)	(42,703)	(37,652)
Interest income	4,512	6,401	14,506	16,434
Interest expense	(4,843)	(4,703)	(14,429)	(10,444)
	37,968	28,744	96,214	87,619
Restructuring, taxes, non-cash and other items				
Depreciation, amortization and other	(15,189)	(11,097)	(40,922)	(52,961)
Non-cash content and distribution services and stock compensation	(6,409)	(9,465)	(22,134)	(29,172)
Legal expense	(2,325)	(493)	(6,577)	(493)
Restructuring and integration charge	(4,535)		(4,535)	
Other income, net	94	3,039	578	4,340
Income tax provision	(1,435)	(1,273)	(2,979)	(3,261)
Income from continuing operations	8,169	9,455	19,645	6,072
Loss from discontinued operations		(3,366)		(33,611)
Net income (loss)	$ 8,169	$ 6,089	$ 19,645	$ (27,539)

The following discussion is a comparison of the results of operations for each of our operating segments for the three and nine months ended September 30, 2004 to the three and nine months ended September 30, 2003.

Transaction Services. Revenues were $174,643 and $504,459 for the three and nine months ended September 30, 2004, compared to $131,977 and $365,491 for the prior year periods. Revenues from customers acquired through the 2004 Acquisitions and 2003 Acquisitions contributed $29,745 and $107,939 to the increase for the three and nine months ended September 30, 2004. The remaining increases of $12,921 and $31,029 for the three and nine months ended September 30, 2004 were primarily

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the result of increased sales of our paid-claims communication services, electronic data interchange, or EDI transaction services and automated print-and-mail services.

Income before restructuring, taxes, non-cash and other items was $31,750 and $90,514 for the three and nine months ended September 30, 2004, an increase of $9,983 or 45.9% and $22,354 or 32.8%, compared to the prior year periods. As a percentage of revenue, income before restructuring, taxes, non-cash and other items increased to 18.2% for the three months ended September 30, 2004, compared to 16.5% a year ago, and decreased to 17.9% for the nine months ended September 30, 2004, compared to 18.6% a year ago. The acquisitions of Medifax, ABF and ViPS had a favorable impact on operating margins for both the three and nine months ended September 30, 2004. Offsetting the higher margins of these acquisitions were higher sales commissions paid to our channel partners and increased costs related to our implementation efforts with respect to the HIPAA Transaction Standards and our all-payer transaction services.

Physician Services. Revenues were $76,924 and $219,703 for the three and nine months ended September 30, 2004, an increase (decrease) of $1,437 and $(4,592) compared to the prior year periods. The increase in revenues for the three months ended September 30, 2004, compared to a year ago, is primarily due to an increase in Network Services revenue offset by lower systems sales. Network Services revenues were also higher during the nine months ended September 30, 2004, compared to a year ago, however that increase was more than offset by lower systems sales. Systems sales have been impacted by longer and more complex sales cycles and from HIPAA implementation and other transition challenges related to our all-payer transaction services. Revenue from customers acquired through the 2004 Acquisitions and 2003 Acquisitions was $305 and $1,263 for the three and nine months ended September 30, 2004.

Income before restructuring, taxes, non-cash and other items was $5,856 and $8,978 for the three and nine months ended September 30, 2004, compared to $3,686 and $16,342 in the prior year periods. As a percentage of revenue, income before restructuring, taxes, non-cash and other items was 7.6% and 4.1% for the three and nine months ended September 30, 2004, compared to 4.9% and 7.3% for the prior year periods. Lower systems sales combined with lower margins, particularly during the March 2004 and June 2004 quarters, were primarily responsible for the operating margin of 4.1% during the nine months ended September 30, 2004. Productivity gains combined with the increased revenues during the three months ended September 30, 2004 have resulted in an increased margin of 7.6% for this period.

Portal Services. Revenues were $37,017 and $95,178 for the three and nine months ended September 30, 2004, an increase of $5,853 or 18.8% and $15,296 or 19.1%, compared to the prior year periods. The increase in revenues for the three months ended September 30, 2004, compared to a year ago, is due to increased sponsorship and advertising revenue, in addition to an increase in revenues from large employers and commercial payers for our web-based health and benefit management solutions. The increase in revenues for the nine months ended September 30, 2004, compared to a year ago, is the result of growth in online revenues from pharmaceutical and medical companies and increased revenues from large employers and commercial payers. Revenues from customers acquired through the 2003 Acquisitions contributed $500 to the increase in Portal Services revenue for the nine months ended September 30, 2004.

Income before restructuring, taxes, non-cash and other items was $10,040 and $22,208 for the three and nine months ended September 30, 2004, an increase of $1,328 or 15.2% and $3,286 or 17.4%, compared to the prior year periods. As a percentage of revenue, income before restructuring, taxes, non-cash and other items was 27.1% and 23.3% for the three and nine months ended September 30, 2004, compared to 28.0% and 23.7% for the prior year periods. The decrease as a percentage of revenue for the three and nine months ended September 30, 2004, compared to a year ago, was primarily the result of increased compensation costs offset by reduced marketing expenses.

Plastic Technologies. Revenues were $19,385 and $58,543 for the three and nine months ended September 30, 2004, compared to $19,093 and $55,015 for the prior year periods. The increase for the three and nine months ended September 30, 2004, compared to a year ago, was primarily due to increased

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sales of writing instrument components and surgical products. Also contributing to the increase in revenues during the nine months ended September 30, 2004, compared to a year ago, was the favorable impact of foreign exchange rates.

Income before restructuring, taxes, non-cash and other items was $5,823 and $17,140 for the three and nine months ended September 30, 2004, compared to $5,690 and $15,857 in the prior year periods. As a percentage of revenue, income before restructuring, taxes, non-cash and other items was 30.0% and 29.3% for the three and nine months ended September 30, 2004, compared to 29.8% and 28.8% for the prior year periods. These increases as a percentage of revenue were primarily due to the leveraging effect of certain fixed manufacturing costs.

Corporate includes expenses shared across all operating segments, such as executive, corporate finance, legal, human resources and risk management. Corporate expenses increased to $15,170 and $42,703 during the three and nine months ended September 30, 2004, compared to $12,809 and $37,652 in the prior year periods. As a percentage of revenue, corporate expenses were 5.1% and 5.0% during the three and nine months ended September 30, 2004, compared to 5.1% and 5.3% for the same periods a year ago. While the dollar amounts of corporate expenses have increased when compared to a year ago, these expenses comprise a slightly lower percentage of revenue. Contributing to the increase in the dollar amount of these expenses, when compared to a year ago, were higher professional services costs related to our readiness efforts related to Section 404 of the Sarbanes-Oxley Act of 2002.

Inter-Segment Eliminations. The increase in inter-segment eliminations for the three and nine months ended September 30, 2004, compared to the prior year periods, resulted from higher sales of Transaction Services products into the Physician Services customer base.

Liquidity and Capital Resources

We have incurred significant operating and net losses since we began operations and, as of September 30, 2004, we had an accumulated deficit of $10.2 billion. We plan to continue to invest in acquisitions, strategic relationships, infrastructure and product development.

As of September 30, 2004, we had $133,988 in cash and cash equivalents and short-term investments and working capital of $68,212. Additionally, we had long-term investments of $515,096 in marketable debt securities and $3,373 in marketable equity securities. We invest our excess cash principally in U.S. Treasury obligations and Federal Agency Notes and expect to do so in the future.

Cash provided by operating activities was $79,200 for the nine months ended September 30, 2004, compared to $84,025 for the nine months ended September 30, 2003. The cash provided by operating activities for the nine months ended September 30, 2004 was primarily attributable to the net income of $19,645 and non-cash charges of $65,311, partially offset by net changes in operating assets and liabilities of $5,178. The negative impact of changes in operating assets and liabilities may reverse in future periods, depending on the timing of each period end in relation to items such as payroll and billing cycles, payments from customers, payments to vendors, interest payments relating to our 1.75% and 3 1/4% Convertible Subordinated Notes and interest receipts relating to our investments in marketable securities. The cash provided by operating activities for the nine months ended September 30, 2003 was primarily attributable to non-cash charges of $83,638 and the loss from discontinued operations of $33,611, partially offset by a net loss of $27,539 and net changes in operating assets and liabilities of $7,593. The non-cash charges consist of depreciation and amortization, non-cash expenses related to content and distribution services, stock compensation and amortization of debt issuance costs.

Cash used in investing activities was $140,209 for the nine months ended September 30, 2004, compared to $530,015 for the nine months ended September 30, 2003. Cash used in investing activities for the nine months ended September 30, 2004 related to $274,600 of purchases of available-for-sale securities and cash paid in relation to business combinations of $225,375, net of cash acquired, offset by $384,238 of proceeds from maturities and sales of available-for-sale securities. Cash used in investing activities for the nine months ended September 30, 2003 primarily related to $597,867 of purchases of available-for-sale

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securities and held-to-maturity securities, partially offset by $169,241 of proceeds from the maturities, sales and redemptions of available-for-sale securities and held-to-maturity securities. Additionally, the 2003 Acquisitions consumed cash of $133,471, net of cash acquired. Investments in property and equipment were $24,889 and $13,643 for the nine months ended September 30, 2004 and 2003.

Cash provided by financing activities was $105,943 for the nine months ended September 30, 2004, compared to $349,610 for the nine months ended September 30, 2003. Cash provided by financing activities for the nine months ended September 30, 2004 principally related to the net proceeds of $98,115 from the issuance of our Convertible Redeemable Exchangeable Preferred Stock and proceeds of $30,528 primarily related to exercises of employee stock options. Cash provided by financing activities for the nine months ended September 30, 2003 primarily related to $339,125 of net proceeds from the issuance of our 1.75% Convertible Subordinated Notes on June 25, 2003 and July 7, 2003. During the nine months ended September 30, 2004 and 2003, $22,267 and $18,125 was used for repurchases of our common stock.

As of September 30, 2004, we did not have any material commitments for capital expenditures. Our principal commitments at September 30, 2004 were our commitments related to the $350,000 of 1.75% Convertible Subordinated Notes due in June of 2023, the $299,999 of 3 1/4% Convertible Subordinated Notes due in April of 2007, our $100,000 of Convertible Redeemable Exchangeable Preferred Stock and obligations under operating leases. Additionally, we had commitments to make potential earnout payments of up to an aggregate of $163,400, as of September 30, 2004, related to completed acquisitions.

Since December 31, 2003, our contractual obligations, contingencies and commitments for minimum lease payment obligations under non-cancelable operating leases have increased approximately $40,000 as a result of new operating leases related to our Tampa, Florida and New York, New York operations and approximately $13,000 as a result of new operating leases related to our acquisitions completed in 2004. Offsetting these increases was the termination of a remaining obligation of $45,000 relating to an operating lease for a property we leased in 2000, for our then Santa Clara, California operations. We will pay approximately $23,000 during the three months ending December 31, 2004, in connection with the termination of the Santa Clara, California lease.

We believe that, for the foreseeable future, we will have sufficient cash resources to meet the commitments described above and our current anticipated working capital and capital expenditure requirements, including the capital requirements related to the roll-out of new or updated products in 2004 and 2005. Our future liquidity and capital requirements will depend upon numerous factors, including retention of customers at current volume and revenue levels, our existing and new application and service offerings, competing technological and market developments, potential future acquisitions and additional repurchases of our common stock. In addition, we have been incurring, and may continue to incur, costs relating to our own implementation of the HIPAA Transaction Standards and for assistance we provide to our customers in their implementation efforts. We may need to raise additional funds to support expansion, develop new or enhanced applications and services, respond to competitive pressures, acquire complementary businesses or technologies or take advantage of unanticipated opportunities. If required, we may raise such additional funds through public or private debt or equity financing, strategic relationships or other arrangements. There can be no assurance that such financing will be available on acceptable terms, if at all, or that such financing will not be dilutive to our stockholders.

As described above under Introduction Background Information on Certain Trends and Strategies WebMD Health IPO, WebMD plans to take the steps necessary for a sale of approximately 10% of the equity of WebMD Health in an initial public offering in early 2005, following the release of its year-end financial statements, subject to the WebMD Board s evaluation of market conditions at that time. WebMD does not anticipate making any decisions until after the IPO is completed regarding whether any additional equity will be sold or any other subsequent transaction will occur.

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Factors That May Affect Our Future Financial Condition or Results of Operations

This section describes circumstances or events that could have a negative effect on our financial results or operations or that could change, for the worse, existing trends in some or all of our businesses. The occurrence of one or more of the circumstances or events described below could have a material adverse effect on our financial condition, results of operations and cash flows or on the trading prices of the common stock and convertible notes that we have issued. The risks and uncertainties described below are not the only ones facing WebMD. Additional risks and uncertainties that are not currently known to us or that we currently believe are immaterial may also adversely affect our business and operations.

Risks Related to Our Relationships with Customers and Strategic Partners

The financial results of WebMD Business Services could be adversely affected if payers conduct electronic data interchange, or EDI, transactions without using a clearinghouse or if their ability to do so allows them to terminate or modify their relationships with us

There can be no assurance that healthcare payers will continue to use WebMD Business Services and other independent companies to transmit healthcare transactions. Some payers currently offer electronic data transmission services to healthcare providers that bypass third-party EDI service providers such as WebMD Business Services. In addition, some payers currently offer electronic data transmission services through affiliated clearinghouses that compete with WebMD Business Services. See We may lose customers that compete with one or more of our businesses because they perform services internally instead of using a third party provider below. We cannot provide assurance that we will be able to maintain our existing relationships with payers or develop new relationships on satisfactory terms, if at all. Although the standardization of formats and data standards required by HIPAA is only partial and we believe that use of clearinghouses will continue to be the most efficient way for most providers to transact electronically with multiple payers, such standardization may facilitate additional use of EDI links for transmission of transactions between a greater number of healthcare payers and providers without use of a clearinghouse. Any significant increase in the utilization of links between healthcare providers and payers without use of a third party clearinghouse could have a material adverse effect on WebMD Business Services transaction volume and financial results. In addition, any increase in the ability of payers to bypass third party EDI service providers may adversely affect the terms and conditions we are able to negotiate in our agreements with them, which could also have a material adverse impact on WebMD Business Services business and financial results.

We may lose customers that compete with one or more of our businesses or because they perform services internally instead of using a third party provider

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, through affiliated clearinghouses, Web portals and other means, electronic data transmission services to healthcare providers that allow the provider to bypass third party EDI service providers such as WebMD Business Services. We cannot provide assurance that we will be able to maintain our existing relationships with payers or develop new relationships on satisfactory terms, if at all. In addition, some of our other services allow healthcare payers to outsource business processes that they have been or could be performing internally and, in order for us to be able to compete, use of our services must be more efficient for them than use of internal resources.

WebMD Business Services transaction volume and financial results could be adversely affected if we do not maintain relationships with practice management system vendors and large submitters of healthcare EDI transactions

We have developed relationships with practice management system vendors and large submitters of healthcare claims to increase the usage of our WebMD Business Services transaction services. WebMD

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Practice Services is a competitor of these practice management system vendors. These vendors, as a result of our ownership of WebMD Practice Services or for other reasons, may choose in the future to diminish or terminate their relationships with WebMD Business Services. Some other large submitters of claims compete with, or may have significant relationships with entities that compete with, WebMD Business Services or WebMD Health. To the extent that we are not able to maintain mutually satisfactory relationships with the larger practice management system vendors and large submitters of healthcare EDI transactions, WebMD Business Services transaction volume and financial results could be adversely affected.

Contractual relationships with governmental customers may impose special burdens on us and provide special benefits to those customers, including the right to change or terminate the contract in response to budgetary constraints or policy changes

A portion of WebMD Business Services revenues comes from customers that are governmental agencies. The recent acquisition of ViPS has increased that portion and we intend to seek additional government contracts and subcontracts. Government contracts may be subject to some or all of the following:

termination when appropriated funding for the current fiscal year is exhausted;

termination for the governmental customer s convenience, subject to a negotiated settlement for costs incurred and profit on work completed, along with the right to place contracts out for bid before the full contract term, as well as the right to make unilateral changes in contract requirements, subject to negotiated price adjustments;

most-favored pricing requirements to ensure that the government receives the lowest price offered to a specified class of customers and submissions of proprietary cost or pricing data to ensure that pricing is fair and reasonable;

more favorable licensing terms for software than we would ordinarily offer non-governmental customers;

reporting and compliance requirements related to, among other things: equal employment opportunity, affirmative action, and accessibility for the disabled;

broader audit rights than we would usually grant to non-governmental customers;

specialized remedies for breach and default, including setoff rights, retroactive price adjustments, and civil or criminal fraud penalties, as well as mandatory administrative dispute resolution procedures instead of state contract law remedies.

In addition, certain violations of federal law may subject U.S. government contractors to having their contracts terminated and, under certain circumstances, suspension and debarment from future U.S. government contracts. Finally, some of our governmental contracts are priced based on our cost of providing products and services. Those contracts are subject to regulatory cost-allowability standards and a specialized system of cost accounting standards.

Lengthened sales, installation and implementation cycles for WebMD Practice Services applications may result in unanticipated fluctuations in its revenues

WebMD Practice Services is seeking to increase its sales to larger physician groups and clinics. These sales are typically not only larger in size, but also involve more complex practice management and electronic medical records applications. As a result, we expect longer sales, contracting, installation and implementation cycles for these customers. These sales may be subject to delays due to customers internal procedures for approving large expenditures and for deploying new technologies; implementation may be subject to delays based on the availability of the internal customer resources needed. We are unable to control many of the factors that will influence the timing of the buying decisions of potential customers or

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the pace at which installation and training may occur. Unexpected delays in these sales or in their implementation may result in unanticipated fluctuations in the revenues of WebMD Practice Services.

WebMD Practice Services faces competition in providing support services to owners of The Medical Manager and other systems

WebMD Practices Services faces competition for the support services it markets to owners of The Medical Manager systems, as well as for similar services that we market to owners of certain other practice management systems that we have acquired. Physician practices may seek such support from third parties, including businesses that support or manage information technology for various types of clients and businesses that specialize in systems for physicians, some of whom may formerly have been independent dealers of The Medical Manager software or of practice management systems we have acquired. We cannot provide assurance that we will be able to compete successfully against these service providers. In addition, some physician practices, especially larger ones, may use their own employees and other internal resources to support their practice management systems.

Loss of a small number of sponsors could have a material adverse effect on WebMD Health s revenues

A substantial portion of WebMD Health s revenues come from a relatively small number of companies. Thus, the loss of a small number of these relationships or a reduction in the purchases by a portion of these sponsors could have a material adverse effect on WebMD Health s revenues. We may lose such relationships or experience a reduction in purchases if customers decide not to renew their commitments or renew at lower levels, which may occur if we fail to meet our customers expectations or needs or fail to keep up with our competition or for reasons outside our control, including changes in economic and regulatory conditions affecting the healthcare industry or changes specific to the businesses of particular customers. For more information, see Risks Related to Providing Products and Services to the Healthcare Industry Developments in the healthcare industry could adversely affect our business below and Business Government Regulation in our 2003 Annual Report on Form 10-K.

Third parties may bring claims as a result of the activities of our strategic partners or resellers of our products and services

We could be subject to claims by third parties, and to liability, as a result of the activities, products or services of our strategic partners or resellers of our products and services. Even if these claims do not result in liability to us, investigating and defending these claims could be expensive, time-consuming and result in adverse publicity that could harm our business.

Risks Related to the Development and Performance of Our Healthcare Information Services and Technology Solutions

Our ability to generate revenue could suffer if we do not continue to update and improve our existing products and services and develop new ones

We must introduce new healthcare information services and technology solutions and improve the functionality of our existing products and services in a timely manner in order to retain existing customers and attract new ones. However, we may not be successful in responding to technological and regulatory developments and changing customer needs. The pace of change in the markets we serve is rapid, and there are frequent new product and service introductions by our competitors and by vendors whose products and services we use in providing our own products and services. If we do not respond successfully to technological and regulatory changes and evolving industry standards, our products and services may become obsolete. Technological changes may also result in the offering of competitive products and services at lower prices than we are charging for our products and services, which could result in our losing sales unless we lower the prices we charge. In addition, there can be no assurance that the products we develop or license will be able to compete with the alternatives available to our customers. For more

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information about the competition we face, see Business Healthcare Information Services and Technology Solutions Competition for Our Healthcare Information Services and Technology Solutions in our 2003 Annual Report on Form 10-K.

Developing and implementing new or updated products and services may take longer and cost more than expected

We rely on a combination of internal development, strategic relationships, licensing and acquisitions to develop our products and services. The cost of developing new healthcare information services and technology solutions is inherently difficult to estimate. Our development and implementation of proposed products and services may take longer than originally expected, require more testing than originally anticipated and require the acquisition of additional personnel and other resources. If we are unable to develop new or updated products and services on a timely basis and implement them without significant disruptions to the existing systems and processes of our customers, we may lose potential sales and harm our relationships with current or potential customers.

New or updated products and services will not become profitable unless they achieve sufficient levels of market acceptance

There can be no assurance that healthcare providers and payers will accept from us new or updated products and services or products and services that result from integrating existing and/or acquired products and services. Providers and payers may choose to use similar products and services offered by our competitors if they are already using products and services of those competitors and have made extensive investments in hardware, software and training relating to those products and services. Even providers and payers who are already our customers may not purchase new or updated products or services, especially when they are initially offered. Providers and payers using our existing products and services may refuse to adopt new or updated products and services when they have made extensive investments in hardware, software and training relating to those existing products and services. In addition, there can be no assurance that any pricing strategy that we implement for any such products and services will be economically viable or acceptable to the target markets. Failure to achieve broad penetration in target markets with respect to new or updated products and services could have a material adverse effect on our business prospects.

For example, we are working to transform WebMD Business Services from a commercial claims clearinghouse to a supplier of a full complement of reimbursement cycle management solutions, including outsourcing of pre-and post-adjudication services for payer customers, sending claims transactions and receiving electronic remittance advice transactions for our provider and vendor customers, and other value-added services. However, there can be no assurance that customers who use our services for sending and receiving claims will use our other services, that our other services will attract additional customers or that such services will generate sufficient revenues to cover the costs of developing, marketing and providing those services.

Achieving market acceptance of new or updated products and services is likely to require significant efforts and expenditures

Achieving market acceptance for new or updated products and services is likely to require substantial marketing efforts and expenditure of significant funds to create awareness and demand by participants in the healthcare industry. In addition, deployment of new or updated products and services may require the use of additional resources for training our existing sales force and customer service personnel and for hiring and training additional salespersons and customer service personnel. There can be no assurance that the revenue opportunities from new or updated products and services will justify amounts spent for their development, marketing and roll-out.

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We could be subject to breach of warranty, product liability or other claims if our software products, information technology systems or transmission systems contain errors or experience failures

Undetected errors in the software and systems we provide to customers or the software and systems we use to provide services could cause serious problems for our customers. For example, errors in our transaction processing systems can result in healthcare payers paying the wrong amount or making payments to the wrong payee. If problems like these occur, our customers may seek compensation from us or may seek to terminate their agreements with us, withhold payments due to us, seek refunds from us of part or all of the fees charged under those agreements or initiate litigation or other dispute resolution procedures. We also provide products and services that assist in healthcare decision-making, including some that relate to patient medical histories and treatment plans. If these products malfunction or fail to provide accurate and timely information, we could be subject to product liability claims. In addition, we could face breach of warranty or other claims or additional development costs if our software and systems do not meet contractual performance standards, do not perform in accordance with their documentation, or do not meet the expectations that our customers have for them. Our software and systems are inherently complex and, despite testing and quality control, we cannot be certain that errors will not be found in prior versions, current versions or future versions or enhancements. See also During times when we are making significant changes to our products and services, there are increased risks of performance problems below.

We attempt to limit, by contract, our liability for damages arising from negligence, errors or mistakes. However, contractual limitations on liability may not be enforceable in certain circumstances or may otherwise not provide sufficient protection to us from liability for damages. We maintain liability insurance coverage, including coverage for errors and omissions. However, it is possible that claims could exceed the amount of our applicable insurance coverage or that this coverage may not continue to be available on acceptable terms or in sufficient amounts. Even if these claims do not result in liability to us, investigating and defending against them could be expensive and time consuming and could divert management s attention away from our operations. In addition, negative publicity caused by these events may delay market acceptance of our products and services, including unrelated products and services.

Performance problems with WebMD Business Services systems or system failures could cause us to lose customers or cause customers to reduce the number of transactions we process for them

We process payer and provider transactions and data at our own facilities and at a data center in Tampa, Florida that is operated by an independent third party. We have contingency plans for emergencies with our systems; however, we have limited backup facilities to process information if these facilities are not functioning. The occurrence of a major catastrophic event or other system failure at any of our facilities or at the third-party facility could interrupt data processing or result in the loss of stored data, which could have a material adverse impact on our business.

Our payer and provider customer satisfaction and our business could be harmed if WebMD Business Services experiences transmission delays or failures or loss of data in its systems. WebMD Business Services systems are complex and, despite testing and quality control, we cannot be certain that problems will not occur or that they will be detected and corrected promptly if they do occur. See also During times when we are making significant changes to our products and services, there are increased risks of performance problems below.

During times when we are making significant changes to our products and services, there are increased risks of performance problems

If we do not respond successfully to technological and regulatory changes and evolving industry standards, our products and services may become obsolete. See Our ability to generate revenue could suffer if we do not continue to update and improve our existing products and services and develop new ones above. The software and systems that we sell and that we use to provide services are inherently complex and, despite testing and quality control, we cannot be certain that errors will not be found in any enhancements, updates and new versions that we market or use. Even if new products and services do not

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have performance problems, our technical and customer service personnel may have difficulties in installing them or in their efforts to provide any necessary training and support to customers.

For example, we have had and may continue to have transmission or processing problems relating to implementation of the HIPAA electronic transaction and code sets standards and our all-payer suite of services. These problems included: transmission failures resulting from sending large batches of electronic transactions to non-commercial payers who have been accustomed to receiving transactions through a greater number of smaller batches; enrollment and other set-up errors resulting from initiating services to large numbers of customers simultaneously; and various other transmission, processing, interfacing and service problems resulting from the implementation of new software and new business processes.

If our systems or the Internet experience security breaches or are otherwise perceived to be insecure, our business could suffer

A significant security breach could damage our reputation or result in liability. We retain and transmit confidential information, including patient health information, in our processing centers and other facilities. It is critical that these facilities and infrastructure remain secure and be perceived by the marketplace as secure. We may be required to expend significant capital and other resources to protect against security breaches and hackers or to alleviate problems caused by breaches. Despite the implementation of security measures, this infrastructure or other systems that we interface with, including the Internet and related systems, may be vulnerable to physical break-ins, hackers, improper employee or contractor access, computer viruses, programming errors, attacks by third parties or similar disruptive problems. Any compromise of our security, whether as a result of our own systems or systems that they interface with, could reduce demand for our services. See also Business Government Regulation Health Insurance Portability and Accountability Act of 1996 Security Standards in our 2003 Annual Report on Form 10-K.

Performance problems with WebMD Business Services systems could affect our relationships with customers of our Practice Services business

WebMD Business Services provides the transaction services, including the all-payer transaction services, used by the Medical Manager Network Services customers of our Practice Services business. As an increasing number of our WebMD Practice Services customers rely on us to provide our all-payer suite of transaction services, disruptions to those services could cause some of those customers to obtain some or all of their software support requirements from competitors of ours or could cause some customers to switch to a competing physician practice management or billing software solution.

WebMD Business Services ability to provide transaction services depends on services provided by telecommunications companies

WebMD Business Services relies on a limited number of suppliers to provide some of the telecommunications services necessary for its transaction services. The telecommunications industry has been subject to significant changes as a result of changes in technology, regulation and the underlying economy. Recently, many telecommunications companies have experienced financial problems and some have sought bankruptcy protection. Some of these companies have discontinued telecommunications services for which they had contractual obligations to WebMD Business Services. WebMD Business Services inability to source telecommunications services at reasonable prices due to a loss of competitive suppliers could affect its ability to maintain its margins until it is able to raise its prices to its customers and, if it is not able to raise its prices, could have a material adverse effect on its financial results.

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Risks Related to Providing Products and Services to the Healthcare Industry

Developments in the healthcare industry could adversely affect our business

Almost all of the revenues of WebMD Health, WebMD Business Services and WebMD Practice Services come from customers in various parts of the healthcare industry. In addition, a significant portion of Porex s revenues come from products used in healthcare or related applications. Developments that result in a reduction of expenditures by customers or potential customers in the healthcare industry could have a material adverse effect on our business. General reductions in expenditures by healthcare industry participants could result from, among other things:

- government regulation or private initiatives that affect the manner in which healthcare providers interact with patients, payers or other healthcare industry participants, including changes in pricing or means of delivery of healthcare products and services (for additional discussion of the potential effects of regulatory matters on our business and on participants in the healthcare industry, see the other Risks Related to Providing Products and Services to the Healthcare Industry described below in this section and Business Government Regulation in our 2003 Annual Report on Form 10-K);
- consolidation of healthcare industry participants;
- reductions in governmental funding for healthcare; and
- adverse changes in business or economic conditions affecting healthcare payers or providers, pharmaceutical companies, medical device manufacturers or other healthcare industry participants.

Even if general expenditures by industry participants remain the same or increase, developments in the healthcare industry may result in reduced spending on information technology and services or in some or all of the specific segments of that market we serve or are planning to serve. For example, use of our products and services could be affected by:

- changes in the billing patterns of healthcare providers;
- changes in the design of health insurance plans;
- changes in the contracting methods payers use in their relationships with providers; and
- decreases in marketing expenditures by pharmaceutical companies or medical device manufacturers, including as a result of governmental regulation or private initiatives that discourage or prohibit promotional activities by pharmaceutical or medical device companies.

In addition, expectations of our customers regarding pending or potential industry developments may also affect their budgeting processes and spending plans with respect to products and services of the types we provide. See also Governmental and private initiatives to support adoption of healthcare information technology may encourage additional companies to enter our markets or result in the development of technology solutions that compete with ours below.

The healthcare industry has changed significantly in recent years and we expect that significant changes will continue to occur. However, the timing and impact of developments in the healthcare industry are difficult to predict. We cannot provide assurance that the markets for our products and services will continue to exist at current levels or that we will have adequate technical, financial and marketing resources to react to changes in those markets.

Governmental and private initiatives to support adoption of healthcare information technology may encourage additional companies to enter our markets or result in the development of technology solutions that compete with ours

There are currently numerous federal, state and private initiatives and studies seeking ways to increase the use of information technology in healthcare, including in the physician s office, as a means of

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improving care and reducing costs. For example, the Department of Health and Human Services issued a report earlier this year entitled The Decade of Health Information Technology: Delivering Consumer-centric and Information-rich Health Care. At WebMD, an important part of our mission has been fostering adoption of information technology and electronic communications in healthcare. Accordingly, we welcome governmental and private initiatives designed to achieve the same goals. However, these initiatives may encourage more companies to enter our markets or result in the development of technology solutions that compete with ours. The effect that these initiatives may have on our business is difficult to predict and there can be no assurances that we will adequately address the risks created by these initiatives or that we will be able to take advantage of any resulting opportunities.

The HIPAA Transaction and Code Sets Standards creates risks and challenges with respect to our compliance efforts, business strategies and customer relationships

Application of the Transaction Standards to WebMD. October 16, 2003 was the deadline for covered entities to comply with HIPAA s electronic transaction and code sets standards (which we refer to as the Transaction Standards). Failure to comply with the Transaction Standards may subject WebMD Business Services to civil monetary penalties, and possibly to criminal penalties. On July 24, 2003, the Centers for Medicare & Medicaid Services, or CMS, released its Guidance on Compliance with HIPAA Transactions and Code Sets After the October 16, 2003 Implementation Deadline (which we refer to as the CMS Guidance). In addition, on July 24, 2003, CMS officials participated in an Open Door Forum teleconference during which they provided additional clarification on planned enforcement practices. CMS also urged the adoption of contingency plans to help prevent disruptions in the healthcare payment system. Under CMS s contingency plan for Medicare, it will continue to accept claims in both HIPAA standard and legacy formats, with the legacy formats to be accepted for a period to be determined by CMS based upon a regular reassessment of the readiness of its electronic trading partners. In response, WebMD Business Services announced a contingency plan, pursuant to which it continues to process HIPAA standard transactions and, for a limited period of time, will also process legacy transactions as appropriate based on applicable law and the needs of our business partners.

On February 27, 2004, CMS modified its Medicare contingency plan to delay the payment of electronic claims that are not HIPAA-compliant. Specifically, effective July 1, 2004, only claims that are compliant with the Transaction Standards are reported as electronic media claims (EMC), which may be paid no earlier than after a 13-day waiting period. All other claims (including both electronic claims that are not compliant with the Transaction Standards, as well as paper claims) may be paid no earlier than after a 26-day waiting period. Calling it a measured step toward ending the contingency plan entirely, CMS implemented the change to encourage providers to move more quickly with their efforts to achieve HIPAA compliance. This policy may provide an incentive for providers who cannot send HIPAA standard claims from their desktop to use a clearinghouse, such as WebMD Business Services, to do so.

CMS has made clear that it expects each party to every transaction to be accountable for compliance with the new standards. However, the CMS Guidance provides for a flexible, complaint-driven enforcement strategy that will take into consideration good faith efforts to comply with the Transaction Standards. We believe that CMS s enforcement approach assisted in reducing disruptions in the flow of electronic transactions that otherwise could have occurred. We cannot provide assurance regarding how CMS will regulate clearinghouses in general or WebMD Business Services in particular. In addition, even though major disruptions in the flow of electronic transactions may be less likely in light of CMS s current approach to enforcement of the Transaction Standards, we have experienced isolated disruptions and some delays and we expect that there will continue to be some problems for a period of time. We continue to work diligently to identify and resolve problems as they occur. The costs to us of dealing with those problems are inherently difficult to estimate and may be more than we expect and/or continue for longer than anticipated. In addition, most of our trading partners are currently operating under their own contingency plans and, accordingly, we would expect that there will be further disruptions during the adjustment period that occurs once CMS requires all applicable parties to perform in accordance with the Transaction Standards. We may not have enough technicians, programmers and customer service personnel

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to meet the demands placed on those functions by our customers and partners during that adjustment period, which could adversely affect our relationships with them.

Implementation Challenges. Implementation of the Transaction Standards has presented us with significant technical and operational challenges. For example, the Transaction Standards cover not only transaction formats, but also required content, including some content not previously collected by most providers. We are working with our trading partners on quality assurance and testing as we enhance our clearinghouse services for transmitting additional data content provided for in the Transaction Standards. We plan to place these services into production as both our systems and payers adjudication systems become fully capable of handling the additional data content. As with any highly complex transition involving significant modifications to trading partner systems, we have experienced some problems during this process. Another aspect of the implementation challenges resulting from the Transaction Standards is the increase in computing capacity required. The Transaction Standards formats are much larger than the pre-existing ones. We are utilizing more computing capacity than we had anticipated. As a result, our systems have experienced inefficiencies that have resulted in processing delays. We seek to resolve all such problems when identified, but testing continues with numerous submitters and payers and no assurance can be given that we will identify all problems promptly or that we will not continue to experience problems that delay the full implementation of these enhanced data services. See also During times when we are making significant changes to our products and services, there are increased risks of performance problems above.

From October 16, 2003 to the date of this Quarterly Report, a large majority of the claims we have received from submitters used legacy formats and very few contained the additional data content provided for in the Transaction Standards. A small number of our submitters currently send some additional HIPAA data content that does not yet pass through our clearinghouse. In order to facilitate transmission of claims with the standard HIPAA format, our clearinghouse software uses edits, including the use of default data, in the transmission of claims from our clearinghouse and some data received by us is not transmitted by us. To date, our software, editing procedures and production criteria for additional HIPAA content have not had a material effect on our ability to process and transmit transactions.

Implementation Costs. We have been incurring, and may continue to incur, significant expenses relating to implementation of the Transaction Standards. Implementation of the Transaction Standards has required us, among other things, to make significant changes to the software WebMD Business Services uses internally, to engage in testing with its customers and to implement additional quality assurance processes. If our reprogramming and testing are not completed on a timely basis, we could lose customers and revenues. In addition, our ability to perform our transaction services in compliance with HIPAA and the cost to us of doing so 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 will comply with the 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. Our technological and strategic responses to the Transaction Standards 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.

Use of Direct Links. Although the standardization of formats and data standards required by HIPAA is only partial and we believe that use of clearinghouses will continue to be the most efficient way for most providers to transact electronically with multiple payers, such standardization may facilitate use of direct EDI links for transmission of transactions between a greater number of 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 Business Services transaction volume and financial results. See also The financial results of WebMD Business Services could be adversely affected if payers conduct electronic data interchange, or EDI, transactions without using a

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clearinghouse or if their ability to do so allows them to terminate or modify their relationships with us above.

For additional information regarding the Transaction Standards and a discussion of the risks and challenges associated with other portions of HIPAA and related regulations, see Business Government Regulation in our 2003 Annual Report on Form 10-K.

Other regulations under HIPAA create risks and challenges with respect to our compliance efforts, business strategies and customer relationships

Risks Relating to the HIPAA Privacy Standards. The HIPAA Standards for Privacy of Individually Identifiable Health Information, which we refer to as the Privacy Standards, establish 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 information. This rule became effective on April 14, 2001 and the compliance date for most entities was April 14, 2003. The Privacy Standards apply to the portions of our business that process healthcare transactions or provide certain technical services to other participants in the healthcare industry, and certain of our portal services may be affected through contractual relationships. 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 restrict the manner in which we transmit and use certain information. There can be no assurances that we will adequately address the risks created by the Privacy Standards or that we will be able to take advantage of any resulting opportunities. In addition, we are unable to predict what changes to the Privacy Standards might be made in the future or how those changes could affect our business.

Risks Relating to the HIPAA Unique Employer Identifier Standard. The HIPAA Unique Employer Identifier Standard establishes a standard for identifying employers in healthcare transactions where information about the employer is transmitted electronically, as well as requirements concerning its use by covered entities. This rule requires the use of an employer identification number (EIN) as assigned by the IRS on all standard transactions that require an employer identifier to identify a person or entity as an employer. This standard applies to the portions of our business that process healthcare transactions or provide certain technical services to other participants in the healthcare industry, and certain of our portal services may be affected through contractual relationships. Most participants in the healthcare industry were required to be in compliance with the Unique Employer Identifier Standard by July 30, 2004. The effect of the Unique Employer Identifier Standard on our business is difficult to predict and there can be no assurances that we will adequately address the risks created by the Unique Employer Identifier Standard and its implementation or that we will be able to take advantage of any resulting opportunities.

Risks Relating to the HIPAA Security Standards. On February 20, 2003, HHS published the final HIPAA Security Standards. The Security Standards establish 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 apply to the portions of our business that process healthcare transactions, that provide certain technical services to other participants in the healthcare industry, or that enable electronic communications of patient information among healthcare industry participants, and certain of our portal services may be affected through contractual relationships. Most participants in the healthcare industry must be in compliance with the Security Standards 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 Standards may require us to incur significant costs in evaluating our products and in establishing that our systems meet the legal requirements. We are unable to

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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 on our business is difficult to predict and there can be no assurances that we will adequately address the risks created by the Security Standards and their implementation or that we will be able to take advantage of any resulting opportunities.

Risks Relating to the HIPAA NPI Standard. On January 23, 2004, HHS published the final HIPAA standard for a unique health identifier for health care providers, commonly referred to as the National Provider Identifier Standard, or the NPI Standard. The NPI Standard requires health care providers that transmit any health information in electronic form in connection with a HIPAA covered transaction to obtain a single, 10 position all-numeric NPI from the National Provider System (NPS), and to use the NPI in standard transactions where a provider identifier is required. The NPI Standard requires health plans and health care clearinghouses to use a provider s NPI to identify the provider on all standard transactions where that provider s identifier is required. The NPI Standard is effective May 23, 2005. Most participants in the healthcare industry must be in compliance with the NPI Standard by May 23, 2007. There can be no assurances that we will adequately address any business risks created by the NPI rule and its implementation or that we will be able to take advantage of any resulting business opportunities.

Changes in government regulation or industry guidelines could adversely affect our continuing medical education offerings

WebMD Health s Medscape physician portal is a leading provider of online continuing medical education, or CME, to physicians and other healthcare professionals, offering a wide selection of free, regularly updated online CME activities. We receive funding from pharmaceutical and medical device companies for these CME programs. See Business Healthcare Information Services and Technology Solutions WebMD Health *Medscape from WebMD* Continuing Medical Education (CME) in our 2003 Annual Report on Form 10-K.

Our CME activities are 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 other applicable accreditation standards. In addition, some of our programs have been produced in collaboration with other ACCME-accredited CME providers. Medscape received provisional ACCME accreditation as a CME provider in July 2002 and full accreditation, for a four-year period, beginning in July 2004. Such accreditation allows Medscape to continue to certify online CME activities. In September 2004, ACCME revised its standards for commercial support of CME. The revised standards are intended to ensure that CME activities of ACCME-accredited providers are independent of providers of healthcare goods and services that fund the development of CME. ACCME expects accredited providers to implement these standards by May 2005. Implementation has required additional disclosures to CME participants about those in a position to influence content and other adjustments to the management and operations of our CME programs. Medscape believes it has modified its procedures as appropriate to meet the revised standards. However, we cannot be certain whether these adjustments will ensure that we meet the new standards or predict whether ACCME may impose additional requirements.

Provision of CME may also be subject to government regulation by the Food and Drug Administration, or FDA, and the Office of Inspector General, or OIG, of the United States Department of Health and Human Services, a federal agency responsible for interpreting certain federal laws relating to healthcare. Among the goals of regulation of CME are ensuring that funding of CME programs by pharmaceutical and medical device companies is not a means for them to

improperly promote their products,

provide improper remuneration to physicians or others in a position to generate business for the sponsoring companies, or

improperly influence or control the content of CME programs.

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See Business Government Regulation Regulation of Healthcare Relationships and FDA and FTC Regulation of Drug and Medical Device Advertising and Promotion in our 2003 Annual Report on Form 10-K and Other government regulation of healthcare and healthcare information technology creates risks and challenges with respect to our compliance efforts and our business strategies below.

Increased regulatory scrutiny of CME sponsorship by pharmaceutical or medical device companies, changes to existing regulations or accreditation standards, or changes in internal compliance procedures of potential sponsors may require Medscape to make changes in the way it offers or provides CME programs, may slow sponsors internal approval processes for CME, and may reduce the volume of sponsored CME programs implemented by Medscape to levels that are lower than expected.

Other government regulation of healthcare and healthcare information technology creates risks and challenges with respect to our compliance efforts and our business strategies

General. 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. 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 applications and services. We are unable to predict future proposals with any certainty or to predict the effect they would have on our business. In addition, existing laws and regulations could create liability, cause us to incur additional costs or restrict our operations. Although 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 are complex and subject to interpretation by courts and other governmental authorities, who may take positions that are inconsistent with our practices.

Healthcare Relationships. A federal law commonly known as the Federal Healthcare Programs anti-kickback law and several similar state laws prohibit payments that are intended to induce healthcare providers either to refer patients or to acquire or arrange for or recommend the acquisition of healthcare products or services. These laws are broad and may apply to some of our activities or our relationships with our customers, advertisers or strategic partners. Other federal and state laws generally prohibit individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third-party payers that are false or fraudulent, or are for items or services that were not provided as claimed. Since we provide transaction services to healthcare providers, we cannot provide assurance that the government will regard errors in transactions processed by us as inadvertent and not in violation of these laws. In addition, our transaction services include providing edits, using logic, mapping and defaults, to enhance the information submitted in claims in order to assist in claims processing. We believe that our editing practices are in compliance with industry practice; however, it is possible that a court or governmental agency might interpret these laws in a different manner, which could result in liability and adversely affect our business. In addition, changes in these laws could also require us to incur costs or restrict our business operations. Many anti-kickback and false claims laws prescribe civil and criminal penalties for noncompliance that can be substantial. Even an unsuccessful challenge by regulatory authorities of our practices could cause us adverse publicity and be costly for us to respond to.

Regulation of Medical Devices. Certain of Porex s products are medical devices regulated by the Food and Drug Administration, or FDA, such as plastic and reconstructive surgical implants. These products are subject to comprehensive FDA regulation under the Food, Drug and Cosmetic Act and implementing regulations. In addition, the FDA regulates WebMD Practice Services DIMDX® System as a medical image management device. If the FDA were to find that we have not complied with regulatory requirements, it can bring a wide variety of enforcement actions that could result in severe civil and criminal sanctions. Porex is also subject to similar regulation in international markets, with similar risks. Future products that we wish to bring to market may require clearances or approvals from governmental

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authorities, which may be expensive, time-consuming and burdensome to obtain or which may never be obtained.

For more information regarding healthcare regulation to which we are or may be subject, see Business Government Regulation in our 2003 Annual Report on Form 10-K.

Risks Related to Our Web Sites and Our Use of the Internet

Government regulation of the Internet could adversely affect our business

The Internet and its associated technologies are subject to government regulation. Our failure, or the failure of our business partners, to accurately anticipate the application of applicable laws and regulations, or any other failure to comply, could create liability for us, result in adverse publicity, or negatively affect our business. In addition, new laws and regulations, or new interpretations of existing laws and regulations, may be adopted with respect to the Internet or other online services covering user privacy, patient confidentiality, consumer protection and other issues, including pricing, content, copyrights and patents, distribution, and characteristics and quality of products and services. We cannot predict whether these laws or regulations will change or how such changes will affect our business. Government regulation of the Internet could limit the effectiveness of the Internet for services that we are providing or developing or even prohibit particular services.

For more information regarding government regulation of the Internet to which we are or may be subject, see Business Government Regulation in our 2003 Annual Report on Form 10-K.

We face potential liability related to the privacy and security of personal information we collect on our Web sites

Internet user privacy has become a controversial issue both in the United States and abroad. We have privacy policies posted on our consumer portals and our professional portal that we believe comply with applicable laws requiring notice to users about our information collection, use and disclosure practices. However, whether and how existing privacy and consumer protection laws in various jurisdictions apply to the Internet is still uncertain and may take years to resolve. Any legislation or regulation in the area of privacy of personal information could affect the way we operate our Web sites and could harm our business. Further, we can give no assurance that the statements on our portals, or our practices, will be found sufficient to protect us from liability or adverse publicity in this area.

Some of our portal services may, through contractual relationships, be affected by the HIPAA Privacy Standards and Security Standards. For more information regarding the HIPAA Privacy and Security Standards and other regulation of the collection, use and disclosure of personal information to which we may be subject, see Business Government Regulation in our 2003 Annual Report on Form 10-K.

Our ability to maintain or increase our Portal Services sponsorship revenues will depend, in part, on our ability to retain or increase usage of our Portal Services by consumers and physicians

WebMD Health generates revenues by, among other things, selling sponsorships of specific pages, sections or events on its online physician and consumer portals and related e-mailed newsletters. Our WebMD Health sponsors include pharmaceutical, biotech, medical device and consumer products companies that are interested in communicating with and educating our audience or parts of our audience. While we currently attract a large audience of health-involved consumers and clinically active healthcare professionals to our online offerings, we cannot provide assurance that we will continue to do so. Users of our portals have numerous other online and offline sources of healthcare information services. In addition, some of WebMD Health s traffic and new members come to it through relationships with third parties, including MSN and AOL, and, as a result, may vary based on the amount of traffic to sites of the third parties and other factors outside our control. We expect that our relationship with MSN will not continue after the end of 2004.

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Implementation of changes in hardware and software platforms used to deliver our Web sites may result in performance problems

From time to time, we implement changes to the hardware and software platforms we use for creating and delivering our Web sites. During and after the implementation of those changes, a platform may not perform as expected, which could result in interruptions in the operation of our Web sites, an increase in response time of those sites or an inability to track performance metrics.

Any significant interruption in our ability to operate our Web sites could have an adverse effect on our relationship with users and sponsors and, as a result, on our financial results.

Our Internet-based services require uninterrupted communications and computer service from third-party service providers and our own systems

Our Web sites are designed to operate 24 hours a day, seven days a week, without interruption. To do so, we rely on communications and hosting services provided by third parties. We also rely on internal systems to prepare and deliver content for our Web sites and for other purposes. We do not maintain redundant systems or facilities for some of these services. To operate without interruption, both we and our service providers must guard against:

damage from fire, power loss and other natural disasters;

communications failures;

software and hardware errors, failures or crashes;

security breaches, computer viruses and similar disruptive problems; and

other potential interruptions.

We have experienced periodic system interruptions in the past, and we cannot guarantee that they will not occur again. In addition, our Web sites may, at times, be required to accommodate higher than usual volumes of traffic. At those times, our Web sites may experience slower response times or system failures. Any sustained or repeated interruptions or disruptions in these systems or increase in their response times could result in reduced usage of our Web sites and could damage our relationships with strategic partners, advertisers and sponsors. Although we maintain insurance for our business, we cannot guarantee that our insurance will be adequate to compensate us for all losses that may occur or to provide for costs associated with business interruptions.

Our Internet-based services are dependent on the development and maintenance of the Internet infrastructure

Our ability to deliver our Internet-based services is dependent on the development and maintenance of the infrastructure of the Internet by third parties. This includes maintenance of a reliable network backbone with the necessary speed, data capacity and security, as well as timely development of complementary products such as high-speed modems, for providing reliable Internet access and services. The Internet has experienced, and is likely to continue to experience, significant growth in the number of users and the amount of traffic. If the Internet continues to experience increased usage, the Internet infrastructure may be unable to support the demands placed on it. In addition, the performance of the Internet may be harmed by increased usage.

The Internet has experienced a variety of outages and other delays as a result of damages to portions of its infrastructure, and it could face outages and delays in the future. These outages and delays could reduce the level of Internet usage as well as the availability of the Internet to us for delivery of our Internet-based services. In addition, our customers who utilize our Web-based services depend on Internet service providers, online service providers and other Web site operators for access to our Web site. All of these providers have experienced significant outages in the past and could experience outages, delays and other difficulties in the future due to system failures unrelated to our systems. Any significant interruptions

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in our services or increases in response time could result in a loss of potential or existing users of and advertisers and sponsors on our Web site and, if sustained or repeated, could reduce the attractiveness of our services.

Third parties may challenge the enforceability of our online agreements

The law governing the validity and enforceability of online agreements and other electronic transactions is evolving. We could be subject to claims by third parties that our online agreements with consumers and physicians that provide the terms and conditions for use of our portal services are unenforceable. A finding by a court that these agreements are invalid could harm our business and require costly changes to our portals.

Third parties may bring claims against us as a result of content provided on our Web sites, which may be expensive and time consuming to defend

We could be subject to third-party claims based on the nature and content of information supplied on our Web sites by us or third parties, including content providers, medical advisors or users. We could also be subject to liability for content that may be accessible through our Web sites or third-party Web sites linked from our Web sites or through content and information that may be posted by users in chat rooms, bulletin boards or on Web sites created by professionals using our Web site application. Even if these claims do not result in liability to us, investigating and defending against these claims could be expensive and time consuming and could divert management s attention away from our operations.

Risks Related to Porex s Business and Industry

Porex s success depends upon demand for its products, which in some cases ultimately depends upon end-user demand for the products of its customers

Demand for our Porex products may change materially as a result of economic or market conditions and other trends that affect the industries in which Porex participates. In addition, because a significant portion of our Porex products are components that are eventually integrated into or used with products manufactured by customers for resale to end-users, the demand for these product components is dependent on product development cycles and marketing efforts of these other manufacturers, as well as variations in their inventory levels, which are factors that we are unable to control. Accordingly, the amount of Porex s sales to manufacturer customers can be difficult to predict and subject to wide quarter-to-quarter variances.

Porex s success may depend on satisfying rapidly changing customer requirements

A significant portion of our Porex products are integrated into end products used in various industries, some of which are characterized by rapidly changing technology, evolving industry standards and practices and frequent new product introductions. Accordingly, Porex s success depends to a substantial degree on our ability to develop and introduce in a timely manner products that meet changing customer requirements and to differentiate our offerings from those of our competitors. If we do not introduce new Porex products in a timely manner and make enhancements to existing products to meet the changing needs of our Porex customers, some of our products could become obsolete over time, in which case our customer relationships, revenue and operating results would be negatively impacted.

Potential new or enhanced Porex products may not achieve sufficient sales to be profitable or justify the cost of their development

We cannot be certain, when we engage in Porex research and development activities, whether potential new products or product enhancements will be accepted by the customers for which they are intended. Achieving market acceptance for new or enhanced products may require substantial marketing efforts and expenditure of significant funds to create awareness and demand by potential customers. In

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addition, sales and marketing efforts with respect to these products may require the use of additional resources for training our existing Porex sales forces and customer service personnel and for hiring and training additional salespersons and customer service personnel. There can be no assurance that the revenue opportunities from new or enhanced products will justify amounts spent for their development and marketing. In addition, there can be no assurance that any pricing strategy that we implement for any new or enhanced Porex products will be economically viable or acceptable to the target markets.

Porex may not be able to source the raw materials it needs or may have to pay more for those raw materials

Some of Porex s products 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.

Disruptions in Porex s manufacturing operations could have a material adverse effect on its business and financial results

Any significant disruption in Porex s manufacturing operations, including as a result of fire, power interruptions, equipment malfunctions, labor disputes, material shortages, earthquakes, floods, computer viruses, sabotage, terrorist acts or other force majeure, could have a material adverse effect on Porex s ability to deliver products to customers and, accordingly, its financial results.

The nature of Porex s products exposes it to product liability claims that may not be adequately covered by indemnity agreements or insurance

The products sold by Porex, whether sold directly to end-users or sold to other manufacturers for inclusion in the products that they sell, expose it to potential risk of product liability claims, particularly with respect to Porex s life sciences, clinical, surgical and medical products. Some of Porex s products are designed to be permanently implanted in the human body. Design defects and manufacturing defects with respect to such products sold by Porex or failures that occur with the products of Porex s manufacturer customers that contain components made by Porex could result in product liability claims and/or a recall of one or more of Porex s products. Porex believes that it carries adequate insurance coverage against product liability claims and other risks. We cannot assure you, however, that claims in excess of Porex s insurance coverage will not arise. In addition, Porex s insurance policies must be renewed annually. Although Porex has been able to obtain adequate insurance coverage at an acceptable cost in the past, we cannot assure you that Porex will continue to be able to obtain adequate insurance coverage at an acceptable cost.

In most instances, Porex enters into indemnity agreements with its manufacturing customers. These indemnity agreements generally provide that these customers would indemnify Porex from liabilities that may arise from the sale of their products that incorporate Porex components to, or the use of such products by, end-users. While Porex generally seeks contractual indemnification from its customers, any such indemnification is limited, as a practical matter, to the creditworthiness of the indemnifying party. If Porex does not have adequate contractual indemnification available, product liability claims, to the extent not covered by insurance, could have a material adverse effect on its business, operating results and financial condition.

Since March 1991, Porex has been named as one of many co-defendants in a number of actions brought by recipients of mammary implants distributed by Porex in the United States. For a description of these actions, see the information under Legal Proceedings Porex Mammary Implant Litigation in our 2003 Annual Report on Form 10-K.

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Economic, political and other risks associated with Porex s international sales and geographically diverse operations could adversely affect Porex s operations and results

Since Porex sells its products worldwide, its business is subject to risks associated with doing business internationally. In addition, Porex has manufacturing facilities in the United Kingdom, Germany and Malaysia. Accordingly, Porex s operations and financial results could be harmed by a variety of factors, including:

changes in foreign currency exchange rates;

changes in a specific country s or region s political or economic conditions, particularly in emerging markets;

trade protection measures and import or export licensing requirements;

potentially negative consequences from changes in tax laws;

difficulties in managing international and geographically diverse operations;

differing protection of intellectual property; and

unexpected changes in regulatory requirements.

Environmental regulation could adversely affect Porex s business

Porex is subject to foreign and domestic environmental laws and regulations and is subject to scheduled and random checks by environmental authorities. Porex s business involves the handling, storage and disposal of materials that are classified as hazardous. Although Porex s safety procedures for handling, storage and disposal of these materials are designed to comply with the standards prescribed by applicable laws and regulations, Porex may be held liable for any environmental damages that result from Porex s operations. Porex may be required to pay fines, remediation costs and damages, which could have a material adverse effect on its results of operations.

Risks Applicable to Our Entire Company

The ongoing investigations by the United States Attorney for the District of South Carolina and the SEC could negatively impact our company and divert management attention from our business operations

The United States Attorney for the District of South Carolina is conducting an investigation of our company. Based on the information available to WebMD as of the date of this Quarterly Report, we believe that the investigation relates principally to issues of financial accounting improprieties for Medical Manager Corporation, a predecessor of WebMD (by its merger into WebMD in September 2000), and our Medical Manager Health Systems subsidiary; however, we cannot be sure of the investigation s exact scope or how long it may continue. In addition, WebMD understands that the SEC is conducting a formal investigation into this matter. Adverse developments in connection with the investigations, if any, including as a result of matters that the authorities or WebMD may discover, could have a negative impact on our company and on how it is perceived by investors and potential investors and customers and potential customers. In addition, the management effort and attention required to respond to the investigations and any such developments could have a negative impact on our business operations. For additional information, see Legal Proceedings in Part II, Item 1 of this Quarterly Report.

WebMD intends to continue to fully cooperate with the authorities in this matter. While we are not able to estimate, at this time, the amount of the expenses that we will incur in connection with the investigations, we expect that they may continue to be significant.

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We face significant competition for our products and services

The markets in which we operate are intensely competitive, continually evolving and, in some cases, subject to rapid technological change. 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. For more information about the competition we face, see Business Healthcare Information Services and Technology Solutions Competition for Our Healthcare Information Services and Technology Solutions and Business Porex Competition in our 2003 Annual Report on Form 10-K.

The performance of our businesses depends on attracting and retaining qualified executives and employees

Our performance depends on attracting and retaining key personnel, including executives, product managers, software developers and other technical personnel and sales and marketing personnel. Failure to do so could have a material adverse effect on the performance of our business and the results of our operations.

We may not be successful in protecting our intellectual property and proprietary rights

Our intellectual property is important to all of our businesses. We rely on a combination of trade secret, patent and other intellectual property laws and confidentiality procedures and non-disclosure contractual provisions to protect our intellectual property. We believe that our non-patented proprietary technologies and business and manufacturing processes are protected under trade secret, contractual and other intellectual property rights. However, those rights do not afford the statutory exclusivity provided by patented processes. In addition, the steps that we take to protect our intellectual property, proprietary information and trade secrets may prove to be inadequate and, whether or not adequate, may be expensive.

There can be no assurance that we will be able to detect potential or actual misappropriation or infringement of our intellectual property, proprietary information or trade secrets. Even if we detect misappropriation or infringement by a third party, there can be no assurance that we will be able to enforce our rights at a reasonable cost, or at all. In addition, our rights to intellectual property, proprietary information and trade secrets may not prevent independent third-party development and commercialization of competing products or services.

Third parties may claim that we are infringing their intellectual property, and we could suffer significant litigation or licensing expenses or be prevented from selling products or services

We could be subject to claims that we are misappropriating or infringing intellectual property or other proprietary rights of others. These claims, even if not meritorious, could be expensive to defend and divert management s attention from our operations. If we become liable to third parties for infringing these rights, we could be required to pay a substantial damage award and to develop non-infringing technology, obtain a license or cease selling the products or services that use or contain the infringing intellectual property. We may be unable to develop non-infringing products or services or obtain a license on commercially reasonable terms, or at all. We may also be required to indemnify our customers if they become subject to third-party claims relating to intellectual property that we license or otherwise provide to them, which could be costly.

We have incurred and may continue to incur losses

We began operations in January 1996 and have incurred net losses in each year since our inception and, as of September 30, 2004, we had an accumulated deficit of approximately $10.2 billion. Although we generated net income, determined in accordance with U.S. generally accepted accounting principles, during certain quarterly periods, including the quarterly period ended September 30, 2004, we incurred a net loss for the year ended December 31, 2003. We currently intend to continue to invest in infrastructure

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development, applications development, sales and marketing, and acquisitions and whether we continue to incur losses in a particular period will depend on, among other things, the amount of such investments and whether those investments lead to increased revenues.

We may be subject to litigation

Our business and operations may subject us to claims, litigation and other proceedings brought by private parties and governmental authorities. For information regarding certain proceedings to which we are currently a party, see Legal Proceedings in our 2003 Annual Report on Form 10-K and Part II, Item 1 of this Quarterly Report.

Business combinations and other transactions may be difficult to complete and, if completed, may have negative consequences for our business and our securityholders

We intend to seek to acquire or to engage in business combinations with companies engaged in complementary businesses. In addition, we may enter into joint ventures, strategic alliances or similar arrangements with third parties. These transactions may result in changes in the nature and scope of our operations and changes in our financial condition. Our success in completing these types of transactions will depend on, among other things, our ability to locate suitable candidates and negotiate mutually acceptable terms with them, as well as the availability of financing. Significant competition for these opportunities exists, which may increase the cost of and decrease the opportunities for these types of transactions. Financing for these transactions may come from several sources, including:

cash and cash equivalents on hand and marketable securities,

proceeds from the incurrence of indebtedness, and

proceeds from the issuance of additional common stock, preferred stock, convertible debt or other securities.

Our issuance of additional securities could:

cause substantial dilution of the percentage ownership of our stockholders at the time of the issuance,

cause substantial dilution of our earnings per share, and

adversely affect the prevailing market price for our outstanding securities.

We do not intend to seek securityholder approval for any such acquisition or security issuance unless required by applicable law or regulation or the terms of existing securities.

Our business will suffer if we fail to successfully integrate acquired businesses and technologies or to assess the risks in particular transactions

We have in the past acquired, and may in the future acquire, businesses, technologies, services, product lines and other assets. The successful integration of the acquired businesses and assets into our operations, on a cost-effective basis, can be critical to our future performance. The amount and timing of the expected benefits of any acquisition, including potential synergies between WebMD and the acquired business, are subject to significant risks and uncertainties. These risks and uncertainties include, but are not limited to, those relating to:

our ability to maintain relationships with the customers of the acquired business;

our ability to cross-sell products and services to customers with which we have established relationships and those with which the acquired businesses have established relationships;

our ability to retain or replace key personnel;

potential conflicts in payer, provider, strategic partner, sponsor or advertising relationships;

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our ability to coordinate organizations that are geographically diverse and may have different business cultures; and

compliance with regulatory requirements.

We cannot guarantee that any acquired businesses will be successfully integrated with our operations in a timely or cost-effective manner, or at all. Failure to successfully integrate acquired businesses or to achieve anticipated operating synergies, revenue enhancements or cost savings could have a material adverse effect on our business, financial condition and results of operations.

Although our management attempts to evaluate the risks inherent in each transaction and to value acquisition candidates appropriately, we cannot assure you that we will properly ascertain all such risks or that acquired businesses and assets will perform as we expect or enhance the value of our company as a whole. In addition, acquired companies or businesses may have larger than expected liabilities that are not covered by the indemnification, if any, we are able to obtain from the sellers.

We may not be able to raise additional funds when needed for our business or to exploit opportunities

Our future liquidity and capital requirements will depend upon numerous factors, including the success of the integration of our businesses, our existing and new applications and service offerings, competing technologies and market developments, potential future acquisitions and additional repurchases of our common stock. We may need to raise additional funds to support expansion, develop new or enhanced applications and services, respond to competitive pressures, acquire complementary businesses or technologies or take advantage of unanticipated opportunities. If required, we may raise such additional funds through public or private debt or equity financing, strategic relationships or other arrangements. There can be no assurance that such financing will be available on acceptable terms, if at all, or that such financing will not be dilutive to our stockholders.

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ITEM 3. ***Quantitative and Qualitative Disclosures About Market Risk***

Interest Rate Sensitivity

The primary objective of our investment activities is to preserve principal and maintain adequate liquidity, while at the same time maximizing the yield we receive from our investment portfolio. This objective is accomplished by adherence to our investment policy, which establishes the list of eligible securities and credit requirements for each investment.

Changes in prevailing interest rates will cause the principal amount of the investment to fluctuate. To minimize this risk, we maintain our portfolio of cash equivalents, short-term investments and marketable securities in commercial paper, non-government debt securities, money market funds and highly liquid U.S. Treasury Notes. We view these high grade securities within our portfolio as having similar market risk characteristics.

Principal amounts expected to mature are $0.2 million, $55.6 million, $398.7 million and $85.0 million during the remainder of 2004, 2005, 2006 and 2007, respectively. These include investments totaling $452.6 million in Federal Agency Notes that are callable, subjecting us to interest rate risk on the reinvestment of these securities. We believe that the impact of any call and resulting reinvestment of proceeds would not have a material effect on our financial condition or results of operations.

We have not utilized derivative financial instruments in our investment portfolio.

Exchange Rate Sensitivity

Currently, substantially all of our sales and expenses are denominated in United States dollars; however, Porex is exposed to fluctuations in foreign currency exchange rates, primarily the rate of exchange of the United States dollar against the Euro. This exposure arises primarily as a result of translating the results of Porex s foreign operations to the United States dollar at exchange rates that have fluctuated from the beginning of the accounting period. Porex has not engaged in foreign currency hedging activities to date. Foreign currency translation gains (losses) were $0.2 million and $(0.1) million, during the three and nine month periods ended September 30, 2004, and $0.1 million and $1.6 million, during the three and nine month periods ended September 30, 2003.

ITEM 4. ***Controls and Procedures***

As required by Exchange Act Rule 13a-15(b), WebMD management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of WebMD s disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of September 30, 2004. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that WebMD s disclosure controls and procedures provided reasonable assurance that all material information required to be filed in this Quarterly Report has been made known to them in a timely fashion.

In connection with the evaluation required by Exchange Act Rule 13a-15(d), WebMD management, including the Chief Executive Officer and Chief Financial Officer, concluded that no changes in WebMD s internal control over financial reporting occurred during the third quarter of 2004 that have materially affected, or are reasonably likely to materially affect, WebMD s internal control over financial reporting.

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PART II

OTHER INFORMATION

ITEM 1. ***Legal Proceedings***

Merrill Lynch Fundamental Growth Fund, Inc. et al. v. McKesson HBOC, Inc., et al.

As more fully described in Part I, Item 3 of our 2003 Annual Report on Form 10-K (and as previously updated in Part II, Item 1 of our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004 and June 30, 2004), WebMD was named as a defendant in the action *Merrill Lynch Fundamental Growth Fund, Inc., et al. v. McKesson HBOC, Inc., et al.*, Case No. 405792, in the San Francisco Superior Court (which we refer to as the California Action). The original complaint in this matter alleged that McKesson HBOC (now known as McKesson Corp.), HBO and Company (which we refer to as HBOC), certain officers and directors of those firms, Arthur Andersen LLP, and Bear Stearns & Co. engaged in a number of practices whereby HBOC and later McKesson HBOC improperly recognized revenues. On September 4, 2003, the plaintiffs filed a fourth amended complaint, naming WebMD and two other defendants, General Electric Capital Corporation, Inc. and Computer Associates International, Inc., for the first time. The complaint alleges that WebMD aided and abetted alleged fraud by certain defendants and conspired with those defendants in relation to HBOC s and McKesson HBOC s alleged improper recognition of approximately $14 million in revenue on two software transactions. The plaintiffs also allege that WebMD made certain negligent misrepresentations with respect to these transactions. On December 16, 2003, WebMD filed a demurrer, seeking dismissal of plaintiffs two claims against it.

In March 2004, McKesson Corp. filed cross-complaints against General Electric Capital Corporation, Inc., Computer Associates International, Inc., and WebMD for declaratory relief and indemnification, alleging that each of these cross-defendants is obligated to indemnify McKesson if McKesson is compelled to pay any sum as the result of any damages, judgment or other awards recovered by the plaintiffs against McKesson. McKesson seeks judicial determinations of the comparative fault of McKesson and each cross-defendant for damages claimed by the plaintiffs, if any such damages are found to exist, and declarations of the amount that each cross-defendant is obligated to indemnify McKesson if McKesson is compelled to pay any sum as the result of any damages, judgment or other awards recovered by the plaintiffs against McKesson. On June 8, 2004, WebMD filed a demurrer, seeking dismissal of McKesson s claims.

On July 22, 2004, the Court sustained WebMD s demurrer to the plaintiffs claims against WebMD, finding that the plaintiffs claims against WebMD are time barred. On September 10, 2004, the Court sustained WebMD s demurrer to McKesson s cross-complaint.

On September 13, 2004, McKesson Corp. filed a motion for leave to amend its cross-complaint against WebMD. On September 20, McKesson Corp. filed a motion for reconsideration of the Court s ruling on WebMD s demurrer. These motions, along with WebMD s motion for entry of judgment on the demurrer ruling, are pending before the Court.

On October 6, 2004, the original plaintiffs in the California Action, Merrill Lynch Fundamental Growth Fund, Inc. and Merrill Lynch Global Value Fund, Inc., served WebMD with a new complaint filed in the Superior Court of New Jersey, Middlesex County, alleging fraud, aiding and abetting and conspiracy to commit fraud, and negligent misrepresentation, based on essentially the same allegations that they made in the California Action. WebMD intends to vigorously defend this action.

At Home Corporation General Unsecured Creditors Trust

As more fully described in Part I, Item 3 of our 2003 Annual Report on Form 10-K (and as previously updated in Part II, Item 1 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2004), on December 4, 2003, WebMD was served with a complaint in an adversary proceeding in the Bankruptcy Court for the Northern District of California brought by the trustee for the At Home Corporation General Unsecured Creditors Trust alleging, among other things, breach of contract. Although

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the plaintiff originally claimed that its damages were in excess of $8 million, the plaintiff later increased its claim of damages to up to $39 million. On September 21, 2004, WebMD settled this matter for $150 thousand.

Investigations by United States Attorney for the District of South Carolina and the SEC

As previously disclosed, the United States Attorney for the District of South Carolina is conducting an investigation of our company, which we first learned about on September 3, 2003. On that date, Federal Bureau of Investigation and Internal Revenue Service agents executed search warrants at our corporate headquarters in Elmwood Park, New Jersey and the offices of Medical Manager Health Systems in Tampa, Florida and Alachua, Florida and delivered subpoenas for documents and financial records. Based on the information available to us, we believe that the investigation relates principally to issues of financial accounting improprieties for Medical Manager Corporation, a predecessor of WebMD (by its merger into WebMD in September 2000), and our Medical Manager Health Systems subsidiary; however, we cannot be sure of the investigation s exact scope or how long it will continue. Included among the materials removed or subject to subpoena are records relating to a $5.5 million restatement of revenue by Medical Manager Corporation in August 1999 and to acquisitions by our Medical Manager Health Systems subsidiary of other companies, most of which were dealers of Medical Manager products and services. In August 1999, Medical Manager Corporation announced that it would restate previously reported results of Medical Manager Health Systems, which it had acquired in July 1999, for the six months ended immediately prior to the acquisition. Medical Manager Corporation determined at the time that the accounting treatment previously accorded to five transactions involving the bulk sales of software licenses entered into concurrently with business combinations and other related transactions should be restated to reflect the software license revenues as a reduction of the acquisition price of the related transactions. At the time, Medical Manager Corporation also noted that the transactions represented $5,532,000 of revenue and $3,502,000 of net income for the six months ended June 30, 1999.

WebMD has been cooperating and intends to continue to cooperate fully with the U.S. Attorney s Office. As previously reported, our Board of Directors has formed a special committee consisting solely of independent directors to oversee this matter with the sole authority to direct WebMD s response to the allegations that have been raised. The Special Committee has retained independent legal counsel to advise it. WebMD has retained counsel to advise it in connection with the investigation and such counsel reports directly to the Special Committee.

In connection with this matter, WebMD has uncovered evidence that, prior to Medical Manager s acquisition by WebMD Corporation in September 2000, Medical Manager s dealer acquisition program was improperly used to artificially inflate the revenue, earnings and goodwill of Medical Manager. Also, as we have stated in the past, WebMD has evidence of kickback payments by former dealers to certain former employees of Medical Manager who were responsible for the acquisition program. WebMD has commenced lawsuits against two of those former employees. These kickback payments appear to have continued until sometime in 2002. To date, we have not uncovered information which we believe would require a restatement for any of the years covered by our financial statements. The amount of the kickback payments were immaterial and have already been reflected in our financial statements.

It is our understanding that the investigation by the U.S. Attorney s Office also relates to allegations of improper revenue recognition practices in connection with system sales in the Medical Manager business. WebMD has identified evidence that some employees had in the past engaged in practices to improperly recognize revenue in connection with system sales. As with the issues relating to the dealer acquisition program, to date we have not uncovered information which would require a restatement for any of the years covered by our financial statements.

As previously disclosed, WebMD understands that the SEC is also conducting a formal investigation into this matter.

While WebMD is not able to estimate, at this time, the amount of the expenses that it will incur in connection with the investigations, it expects that they may continue to be significant. For the three and

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nine month periods ended September 30, 2004 and 2003, those expenses are reflected as Legal Expense in the Consolidated Statements of Operations included in this Quarterly Report.

ITEM 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

(b) The following table provides information about purchases by WebMD during the three months ended September 30, 2004 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(1)
07/01/04-07/31/04	650,356	$8.16	650,356	$33,458,075
08/01/04-08/31/04	1,581,000	$7.47	1,581,000	$71,647,638
09/01/04-09/30/04	40,000	$6.83	40,000	$71,374,334
Total	2,271,356	$7.66	2,271,356	$71,374,334

(1) These repurchases were made pursuant to the repurchase program that we announced on March 29, 2001, under which WebMD was originally authorized to use up to $50 million to purchase shares of its common stock from time to time beginning on April 2, 2001. On November 2, 2001, the maximum aggregate amount of purchases under the Program was increased to $100 million; on November 7, 2002, it was increased to $150 million; and on August 19, 2004, it was increased to $200 million.

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

At our Annual Meeting of Stockholders held on September 23, 2004, our common stockholders voted with respect to the following matters:

Proposal 1 To elect as Class III directors to serve three-year terms ending in 2007:

Mark J. Adler, M.D.	votes for	281,888,513
	votes withheld	11,806,744
Herman Sarkowsky	votes for	286,147,377
	votes withheld	7,547,880

Proposal 2 To approve amendments to WebMD s Certificate of Incorporation to provide certain voting rights to the holders of Convertible Redeemable Exchange Preferred Stock and to insert a sentence reciting the total number of shares of all capital stock that WebMD is authorized to issue:

Votes for:	185,527,545
Votes against:	6,578,431
Abstentions:	429,089
Broker non-votes:	101,160,192

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Proposal 3 To approve amendments to WebMD s Certificate of Incorporation to reduce the number of authorized shares of Convertible Redeemable Exchangeable Preferred Stock from 5,000,000 to 10,000:

Votes for:	184,409,109
Votes against:	7,687,296
Abstentions:	429,660
Broker non-votes:	101,169,192

Proposal 4 To approve amendments to WebMD s Certificate of Incorporation to clarify the authority of WebMD s Board of Directors to designate and authorize the issuance of new series of preferred stock with voting powers by creating a new class of 4,990,000 shares of preferred stock describing such authority with specificity:

Votes for:	171,113,364
Votes against:	20,975,376
Abstentions:	437,324
Broker non-votes:	101,169,192

Proposals 2 and 3 were also voted on by our Convertible Redeemable Exchangeable Preferred Stock, all 10,000 shares of which were voted for each of Proposals 2 and 3.

In addition to the directors elected at the Annual Meeting, our Board of Directors consists of: Neil F. Dimick, Roger C. Holstein and Joseph E. Smith, whose terms expire in 2005; Paul A. Brooke, James V. Manning and Martin J. Wygod, whose terms expire in 2006; and Kevin Cameron, whose term expires in 2007.

ITEM 6. ***Exhibits***

The exhibits listed in the accompanying Exhibit Index on page E-1 are filed or furnished as part of this Quarterly Report.

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SIGNATURES

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

WEBMD CORPORATION

By: /s/ ANDREW C. CORBIN

Andrew C. Corbin
Executive Vice President and Chief Financial Officer

Date: November 9, 2004

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EXHIBIT INDEX

Exhibit No.	Description
3.1	Eleventh Amended and Restated Certificate of Incorporation of Registrant, as amended
3.2	Certificate of Designations for Convertible Redeemable Exchangeable Preferred Stock, as amended
3.3	Amended and Restated Bylaws of Registrant (incorporated by reference to Exhibit 3.3 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004)
10.1	2004 Non-Qualified Stock Option Plan for Employees of Dakota Imaging, Inc.
10.2	2004 Non-Qualified Stock Option Plan for Employees of VIPS, Inc.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of Registrant
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Registrant
32.1	Section 1350 Certification of Chief Executive Officer of Registrant
32.2	Section 1350 Certification of Chief Financial Officer of Registrant