WEBMD CORP /NEW/
Form S-3
November 20, 2003

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**As filed with the Securities and Exchange Commission on November 20, 2003**

**Registration No.**

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

## Form S-3

**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

# WebMD Corporation

*(Exact name of registrant as specified in its charter)*

| **Delaware** | **94-3236644** |
|---|---|
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification Number)* |

**669 River Drive, Center 2**
**Elmwood Park**
**New Jersey 07407-1361**
**(201) 703-3400**
*(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)*

**Charles A. Mele, Esq.**
**Executive Vice President and General Counsel**
**WebMD Corporation**
**669 River Drive, Center 2**
**Elmwood Park, New Jersey 07407-1361**
**(201) 703-3400**
*(Name and address, including zip code, and telephone number, including area code, of agent for service of process)*

***Copies to:***
**Stephen T. Giove, Esq.**
**Shearman & Sterling**
**599 Lexington Avenue**
**New York, New York 10022**
**(212) 848-4000**

**Approximate date of commencement of proposed sale to the public:** From time to time after the effective date of this Registration Statement as determined by market conditions.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering: o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: o

**CALCULATION OF REGISTRATION FEE**

| Title of each class of securities to be registered | Amount to be registered | Proposed maximum offering price per unit or share(1) | Proposed maximum aggregate offering price(1) | Amount of registration fee |
|---|---|---|---|---|
| 1.75% Convertible Subordinated Notes Due 2023 | $350,000,000 | 100% | $350,000,000 | $28,315(3) |
| Common Stock, $.0001 par value | (2) | (2) | (2) | (4) |

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457.
(2) Includes 22,742,040 shares of common stock issuable upon conversion of the notes at the rate of 64.9773 shares of common stock per $1,000 principal amount of the notes. Under Rule 416 under the Securities Act, the number of shares of common stock registered includes an indeterminate number of shares of common stock that may be issued in connection with a stock split, stock dividend, recapitalization or similar event.
(3) Of this amount, $18,400 is offset under Rule 457(p) under the Securities Act by filing fees in this amount previously paid by Porex Holdings Inc., a wholly-owned subsidiary of the registrant, in connection with the filing and subsequent withdrawal of Registration Statement No. 333-88218, which was initially filed with the Securities and Exchange Commission on May 14, 2002.
(4) Under Rule 457(i), there is no additional filing fee payable with respect to the shares of common stock issuable upon conversion of the notes because no additional consideration will be received in connection with the exercise of the conversion privilege.

**The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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Information contained in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED NOVEMBER 20, 2003

PROSPECTUS

# $350,000,000

# WebMD Corporation

## 1.75% Convertible Subordinated Notes due 2023

## and
## Common Stock Issuable Upon Conversion of the Notes

We issued $300,000,000 and $50,000,000 aggregate principal amount of our 1.75% convertible subordinated notes due 2023 in a private placement in June 2003 and July 2003, respectively.

We will pay interest on the notes on June 15 and December 15 of each year. The first interest payment will be made on December 15, 2003. In addition, we will pay contingent interest during the period from June 20, 2010 to December 14, 2010 and during any period from December 15 to June 14 and from June 15 to December 14 thereafter, if the average trading price of a note for the five trading days ending on the second trading day immediately preceding the first day of the applicable period equals 120% or more of the principal amount of the note. The amount of contingent interest payable per $1,000 principal amount of notes in respect of any such period will equal 0.25% per annum of the average trading price of the notes for the five trading days ending on the second trading day immediately preceding such period. The notes were issued only in denominations of $1,000 and integral multiples of $1,000. The notes will mature on June 15, 2023.

The selling securityholders identified in this prospectus may offer from time to time up to $350,000,000 of the notes and shares of our common stock issuable upon conversion of the notes. If required, we will set forth the names of any other selling securityholders in a post-effective amendment to the registration statement of which this prospectus is a part. We will not receive any proceeds from the sale of the notes or shares of common stock issuable upon conversion of the notes by any of the selling securityholders. The notes and the shares of common stock may be offered in negotiated transactions or otherwise, at market prices prevailing at the time of sale or at negotiated prices. In addition, shares of our common stock may be offered from time to time through ordinary brokerage transactions on the Nasdaq National Market. See Plan of Distribution.

Before June 15, 2008, the notes are not subject to redemption. We may redeem the notes in whole or in part at any time on or after June 15, 2008 and prior to June 20, 2010, subject to certain conditions, for cash, at a redemption price equal to 100% of the principal amount of the notes to be redeemed plus any accrued and unpaid interest to, but not including, the redemption date. If we redeem the notes under these circumstances, we will make an additional cash payment on the redeemed notes equal to $259.26 per $1,000 principal amount of notes, less the amount of any interest actually paid and accrued and unpaid on the notes. On or after June 20, 2010, we may, at our option, redeem the notes, in whole or in part, for cash at 100% of the principal amount of the notes, plus any accrued and unpaid interest to, but not including, the redemption date.

Holders may require us to purchase for cash all or a portion of their notes on June 15, 2010, June 15, 2013 and June 15, 2018, for a price equal to 100% of the principal amount of the notes being repurchased, plus any accrued and unpaid interest to, but not including, the date of repurchase. Holders have the option, subject to certain conditions, to require us to repurchase any notes held by them in the event of a change in control, as described in this prospectus, at a price equal to 100% of the principal amount of notes plus accrued and unpaid interest to the date of repurchase in cash or, at our option, in shares of our common stock, or a combination thereof.

Holders may surrender their notes for conversion into 64.9773 shares of our common stock per $1,000 principal amount of notes (subject to adjustment) under any of the following circumstances: (1) during any conversion period, as described in this prospectus, prior to June 15, 2021, if the sale price of our common stock for at least 20 trading days in the 30 consecutive trading day period ending on the first day of such conversion period is more than 120% of the conversion price per share of our common stock on the first day of the conversion period; (2) at any

time on or after June 15, 2021 through the business day immediately prior to the maturity of the notes, if the sale price of our common stock on any date on or after June 15, 2021 is more than 120% of the then current conversion price per share of our common stock; (3) during the five consecutive business day period following any five consecutive trading day period in which the average of the trading prices of a note was less than 95% of the average sale price of our common stock during such five trading day period multiplied by the then current conversion rate; *provided, however,* if, on the day before the conversion date, the sale price of our common stock is greater than 100% of the conversion price but less than or equal to 120% of the conversion price, then holders converting their notes would receive, in lieu of our common stock based on the applicable conversion rate, at our option, cash, common stock or a combination of cash and common stock with a value equal to 100% of the principal amount of the notes on the conversion date; (4) if we call the notes for redemption; or (5) upon the occurrence of specified corporate transactions. The conversion rate of 64.9773 shares of common stock per $1,000 principal amount of notes is equivalent to an initial conversion price of approximately $15.39 per share. For a more detailed description of the notes, see Description of Notes beginning on page 39.

On November 19, 2003, the last reported sale price for our common stock on the Nasdaq National Market was $8.50 per share. Our common stock is listed on the Nasdaq National Market under the symbol HLTH.

We do not intend to apply for listing of the notes on any securities exchange or for inclusion of the notes in any automated quotation system. The notes originally issued in the private placement are eligible for trading in The Portal[SM] Market of the National Association of Securities Dealers, Inc. However, notes sold pursuant to this prospectus will no longer be eligible for trading in The Portal[SM] Market.

**Investing in the notes and common stock involves risks. See Risk Factors beginning on page 10.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

The date of this prospectus is , 2003.

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## IMPORTANT NOTICE TO READERS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, using a shelf registration process. Under this shelf registration process, the selling securityholders may, from time to time, offer notes or shares of our common stock owned by them. Each time the selling securityholders offer notes or common stock under this prospectus, they will provide a copy of this prospectus and, if applicable, a copy of a prospectus supplement. You should read both this prospectus and, if applicable, any prospectus supplement together with the information incorporated by reference in this prospectus. See Where You Can Find More Information and Incorporation by Reference for more information.

You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone else to provide you with different information. If anyone provides you with different information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus or any documents incorporated by reference in this prospectus is accurate only as of the date on the front cover of the applicable document or as specifically indicated in the document. Our business, financial condition, results of operations and prospects may have changed since that date.

Unless otherwise indicated, in this prospectus, WebMD, we, us and our refer to WebMD Corporation and its subsidiaries.

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## PROSPECTUS SUMMARY

*This summary highlights information contained elsewhere in this prospectus. It is not complete and is qualified in its entirety by, and should be read in conjunction with, the more detailed information (including Risk Factors and financial information) appearing elsewhere in this prospectus, as well as in the documents incorporated by reference in this prospectus.*

### Our Company

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

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

*WebMD Health.* Our Portal Services segment, WebMD Health, provides online healthcare information, educational services and other resources for consumers and healthcare professionals. Our online offerings for consumers help them become better informed about healthcare choices and assist them in playing an active role in managing their own health. Our offerings for healthcare professionals help them improve their clinical knowledge, as well as their communication with patients regarding treatment options for specific health conditions. We also provide online content for use by media and healthcare partners in their Web sites.

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

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

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

*WebMD Envoy.* Our Transaction Services segment, WebMD Envoy, provides healthcare reimbursement cycle management services, including transmission of electronic transactions between healthcare payers and physicians, pharmacies, dentists, hospitals, laboratory companies and other healthcare providers. The use of electronic transactions significantly reduces

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processing time and costs, as compared to mail, fax or telephone, and increases productivity for both payers and providers. The transactions that we facilitate include:

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

We also provide automated patient billing services to providers, including statement printing and mailing services. In addition, through Advanced Business Fulfillment, Inc., which we acquired on July 17, 2003, we provide healthcare paid-claims communications services for third-party administrators and health insurers, including print-and-mail services for the distribution of checks, remittance advice, and explanations of benefits. We are focused on continuing to increase the percentage of healthcare transactions that are handled electronically and on providing value-added services to providers and payers in connection with our transmission of their transactions.

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

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

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

In addition, through Medical Manager Network Services, we provide integrated access to our WebMD Envoy transaction services. These systems and services allow physician offices to automate their scheduling, billing and other administrative tasks, to transmit transactions electronically, to maintain electronic medical records and to automate documentation of patient encounters.

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

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

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

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

**Recent Developments**

*Pending Acquisition of Medifax-EDI*

On October 21, 2003, we entered into a definitive agreement to acquire Medifax-EDI, Inc., a leading provider of real-time medical eligibility transaction services and other claims management solutions to hospitals, medical centers, physician practices and other medical organizations throughout the United States. These services enable healthcare providers to verify insurance coverage for their patients on a real-time basis. Medifax-EDI is a privately held company based in Nashville, Tennessee.

The purchase price is $280 million, including certain assumed liabilities, and will be paid in cash. The purchase price is subject to customary, post-closing adjustments. Prior to closing, Medifax-EDI will distribute its Pharmacy Services companies to its owner, an affiliate of Crescent Capital Investments, Inc., and these companies are not included in the transaction. The completion of the acquisition is conditioned upon the expiration or termination of the waiting period under the Hart-Scott-Rodino Act and other customary closing conditions. Upon closing, Medifax-EDI will be combined with WebMD Envoy, our Nashville-based Transaction Services business.

We believe that the acquisition of Medifax-EDI will strengthen WebMD Envoy s position as a single-source vendor of all-payer, all-transaction service offerings to the healthcare provider marketplace. When combined, WebMD Envoy would become a leading supplier of both medical claims and real-time transaction solutions for both commercial and government payers.

WebMD Corporation is a Delaware corporation that was incorporated in December 1995 and commenced operations in January 1996 as Healtheon Corporation. Our principal executive offices are located at 669 River Drive, Center 2, Elmwood Park, New Jersey 07407-1361 and our telephone number is (201) 703-3400. Our common stock has traded on the Nasdaq National Market under the symbol HLTH since February 11, 1999.

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**The Offering**

| | |
|---|---|
| Issuer | WebMD Corporation. |
| Notes | We issued $300,000,000 and $50,000,000 aggregate principal amount of our 1.75% convertible subordinated notes due 2023 in a private placement in June 2003 and July 2003, respectively. The selling securityholders identified in this prospectus may offer from time to time up to $350,000,000 of the notes and shares of our common stock issuable upon conversion of the notes. |
| Maturity | The notes will mature on June 15, 2023. |
| Interest Payment Dates | We will pay interest on the notes semi-annually in arrears on June 15 and December 15 of each year, starting on December 15, 2003. The first interest payment will include interest from June 25, 2003, the date of original issuance. The first interest payment also will include liquidated damages accrued from and including September 24, 2003 to but excluding November 20, 2003 at the rate of 0.25% of the principal amount of the notes per annum, representing liquidated damages accrued as a result of our failure to file the shelf registration statement of which this prospectus is a part by September 23, 2003 (the 90th day following the date the notes were originally issued). See Description of Notes Registration Rights. |
| Contingent Interest | We will pay contingent interest to the holders of the notes during the period from June 20, 2010 to December 14, 2010 and during any period from December 15 to June 14 and from June 15 to December 14 thereafter, if the average trading price of a note for the five trading days ending on the second trading day immediately preceding the first day of the applicable period equals 120% or more of the principal amount of the note. The amount of contingent interest payable per $1,000 principal amount of notes in respect of any such period will equal 0.25% per annum of the average trading price of the notes for the five trading days ending on the second trading day immediately preceding such period. We will pay contingent interest, if any, in the same manner as we will pay interest. |
| Conversion | Holders may surrender their notes for conversion into our common stock at the applicable conversion rate under any of the following circumstances:<br><br>(i) during any conversion period prior to June 15, 2021, if the sale price of our common stock for at least 20 trading days in the 30 consecutive trading day period ending on the first day of such conversion period is more than 120% of the conversion price per share of our common stock on the first day of the conversion period;<br><br>(ii) at any time on or after June 15, 2021 through the business day immediately prior to the maturity of the notes, if the sale price of our common stock on any date on or after June 15, 2021 is more than 120% of the then current conversion price per share of our common stock;<br><br>(iii) during the five consecutive business day period following any five consecutive trading day period in which the average of the |

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trading prices of a note was less than 95% of the average sale price of our common stock during such five trading day period multiplied by the then current conversion rate; *provided, however,* if, on the day before the conversion date, the sale price of our common stock is greater than 100% of the conversion price but less than or equal to 120% of the conversion price, then holders converting their notes would receive, in lieu of our common stock based on the applicable conversion rate, at our option, cash, our common stock or a combination of cash and our common stock with a value equal to 100% of the principal amount of the notes on the conversion date;

(iv) if we call the notes for redemption; or

(v) upon the occurrence of specified corporate transactions described under Description of Notes Conversion Rights.

A conversion period will be the period from and including the eleventh trading day in a fiscal quarter up to, but not including, the eleventh trading day of the following fiscal quarter.

For each note surrendered for conversion, a holder will receive 64.9773 shares of our common stock. This is equivalent to an initial conversion price of approximately $15.39 per share of our common stock. The conversion rate may be adjusted under certain circumstances, but will not be adjusted for accrued interest.

Ranking

The notes are:

unsecured;

junior to all of our existing and future senior indebtedness; and

structurally subordinated to all existing and future liabilities of our subsidiaries, including trade payables, lease commitments and monies borrowed.

As of September 30, 2003, we and our subsidiaries had approximately $410 million of consolidated obligations effectively ranking senior to the notes. The notes rank equal in right of payment to our outstanding 3 1/4% convertible subordinated notes due 2007, $300 million principal amount of which are outstanding as of November 19, 2003. The indenture under which the notes were issued does not restrict our or our subsidiaries ability to incur additional senior or other indebtedness. See Description of Notes Subordination of Notes.

Sinking Fund

None.

No Redemption Period

Before June 15, 2008, the notes are not subject to redemption.

Provisional Redemption Period

We may redeem the notes in whole or in part at any time on or after June 15, 2008 and prior to June 20, 2010 for cash, at a redemption price equal to 100% of the principal amount of the notes to be redeemed plus any accrued and unpaid interest to, but not including, the redemption date if: (1) the sale price of our common stock has exceeded 125% of the conversion price for at least 20 trading days within a period of 30 consecutive trading days ending on the trading day prior to the mailing of the notice of redemption; and (2) the registration statement of which this prospectus is a part covering

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| | resales of the notes and the common stock issuable upon conversion of the notes is effective and expected to remain effective and available for use for the 30 days following the redemption date, unless registration is no longer required pursuant to the terms of the registration rights agreement with the initial purchaser of the notes. If we redeem the notes under these circumstances, we will make an additional cash payment on the redeemed notes equal to $259.26 per $1,000 principal amount of notes, less the amount of any interest actually paid and accrued and unpaid on the notes. See Description of Notes Redemption by WebMD. |
| Optional Redemption | On or after June 20, 2010, we may, at our option, redeem the notes, in whole or in part, for cash at 100% of the principal amount of the notes, plus any accrued and unpaid interest to, but not including, the redemption date. See Description of Notes Redemption by WebMD. |
| Repurchase at the Option of the Holders | Holders may require us to purchase for cash all or a portion of their notes on June 15, 2010, June 15, 2013 and June 15, 2018, for a price equal to 100% of the principal amount of the notes being repurchased, plus any accrued and unpaid interest to, but not including, the date of repurchase. See Description of Notes Repurchase at Option of the Holders. |
| Repurchase Upon a Change in Control | Holders may require us to repurchase their notes upon a change in control in cash, or, at our option, in our common stock or a combination of cash and common stock, at 100% of the principal amount of the notes, plus any accrued and unpaid interest to, but not including, the date of repurchase. If we pay the repurchase price in common stock, the common stock will be valued at 95% of the average sale price of our common stock for the five consecutive trading days ending on the third trading day prior to the repurchase date. See Description of Notes Repurchase Upon a Change in Control. |
| Use of Proceeds | We will not receive any proceeds from the sale by any selling securityholder of the notes or the shares of common stock issuable upon conversion of the notes. |
| Events of Default | The following will be events of default for the notes:<br><br>default in the payment of the principal amount, redemption price or repurchase price of any note, including on a redemption or repurchase date, when such amount becomes due and payable, whether or not prohibited by the subordination provisions of the indenture;<br><br>default in the payment of accrued and unpaid interest, if any (including liquidated damages), on the notes for 30 days, whether or not prohibited by the subordinated provisions of the indenture;<br><br>failure by us to provide notice of a change in control as required by the indenture; |

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| | failure by us to comply with any of our other covenants in the notes or the indenture upon receipt by us of notice of such default by the trustee or by holders of not less than 25% in aggregate principal amount of the notes then outstanding and our failure to cure (or obtain a waiver of) such default within 60 days after receipt of such notice;<br><br>default by us or any significant subsidiary in the payment at the final maturity thereof, after the expiration of any applicable grace period, of principal of, or premium, if any, on indebtedness for money borrowed, other than non-recourse indebtedness, in the aggregate principal amount then outstanding of $30,000,000 or more, or acceleration of any indebtedness for money borrowed in such aggregate principal amount so that it becomes due and payable prior to the date on which it would otherwise have become due and payable and such acceleration is not rescinded or such default is not cured within 30 business days after notice to us in accordance with the indenture; or<br><br>certain events of bankruptcy, insolvency or reorganization affecting us or a significant subsidiary.<br><br>See Description of Notes Events of Default. |
| Nasdaq National Market Symbol for Common Stock | HLTH. |
| U.S. Federal Income Tax Considerations | The notes will be debt instruments subject to the U.S. federal income tax contingent payment debt regulations, and we and each holder agree in the indenture to treat the notes as such for U.S. federal income tax purposes. Pursuant to such treatment, the notes will be deemed to be issued with original issue discount for U.S. federal income tax purposes. Holders will accrue the original issue discount on a constant yield to maturity basis at a rate comparable to the rate at which we would borrow in a noncontingent, nonconvertible borrowing, even though the notes will have a significantly lower stated yield to maturity. We intend to compute and report, and pursuant to the terms of the indenture each holder agrees to compute, accruals of the original issue discount based upon a yield of 8.0%, compounded semiannually.<br><br>In accordance with our application of the contingent payment debt tax regulations, holders will also recognize gain or loss on the sale, purchase by us at their option, exchange, conversion or redemption of a note in an amount equal to the difference between the amount realized, including the fair market value of any common stock received, and their adjusted tax basis in the note. Any gain recognized by holders generally will be ordinary interest income; any loss will be ordinary loss to the extent of the interest previously included in income and, thereafter, capital loss. See Certain U.S. Federal Income Tax Considerations. |
| PORTAL Trading of Notes | The notes are eligible for trading on The Portal[SM] Market until the notes are sold pursuant to this prospectus. |

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| Governing Law | The indenture and the notes are governed by the laws of the State of New York. |
| Risk Factors | In analyzing an investment in the notes and common stock offered by this prospectus, prospective investors should carefully consider, along with other matters referred to in this prospectus, the information set forth under Risk Factors. |

For a more complete description of the terms of the notes, see Description of Notes. For a more complete description of the common stock, see Description of Capital Stock.

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**RATIO OF EARNINGS TO FIXED CHARGES**

The following table sets forth our consolidated ratio of earnings to fixed charges for each of the periods indicated:

| | Fiscal years ended December 31, | | | | | Nine months ended September 30, | |
|---|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2002 | 2003 |
| Ratio of Earnings to Fixed Charges | * | * | * | * | * | * | 1.6 |

* The earnings for the years ended December 31, 2002 through 1998 and for the nine months ended September 30, 2002 were inadequate to cover total fixed charges. The coverage deficiencies for the years ended December 31, 2002 through 1998 were (in thousands): $63,192, $6,665,789, $3,082,115, $287,992 and $54,048, respectively. The coverage deficiency for the nine months ended September 30, 2002 was $60,213.

In computing the ratio of earnings to fixed charges, earnings have been based on income (loss) from continuing operations before income taxes plus fixed charges. Fixed charges consist of interest, amortization of debt issuance costs and the portion of rental expense on operating leases attributable to interest.

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## RISK FACTORS

*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. You should carefully consider all of the information contained or incorporated by reference in this prospectus before deciding whether to invest in the notes and, in particular, the risks and uncertainties described below.*

### Risks Related to Our Relationships with Customers and Strategic Partners

***WebMD Envoy s 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 electronic data interchange, or EDI, transactions***

We have developed relationships with practice management system vendors and large submitters of healthcare claims to increase the usage of our WebMD Envoy transaction services. WebMD 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 Envoy. Some other large submitters of claims compete with, or may have significant relationships with entities that compete with, WebMD Envoy 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 Envoy s transaction volume and financial results could be adversely affected.

***WebMD Envoy s transaction volume and financial results could be adversely affected if payers and providers conduct EDI transactions without using a clearinghouse***

There can be no assurance that healthcare payers and providers will continue to use WebMD Envoy and other independent companies to transmit healthcare transactions. Some payers currently offer electronic data transmission services to healthcare providers that establish a direct link between the provider and payer, bypassing third-party EDI service providers such as WebMD Envoy. We cannot provide assurance that we will be able to maintain our existing links to payers and providers or develop new connections on satisfactory terms, if at all. The standardization of formats and data standards required by the Health Insurance Portability and Accountability Act of 1996, or HIPAA, may facilitate additional use of direct EDI links, allowing 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 Envoy s transaction volume and financial results.

***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 sponsors. We expect this to continue in the future. Thus, the loss of a small number of relationships with sponsors or a reduction of their purchases could have a material adverse effect on our Portal Services 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. See Risks Related to Providing Products and Services to the Healthcare Industry Developments in the healthcare industry could adversely affect our business and Certain Considerations Relating to the Healthcare Industry below.

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***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 information, see Business Healthcare Information Services and Technology Solutions Competition for Our Healthcare Information Services and Technology Solutions in our annual report on Form 10-K for the year ended December 31, 2002.

***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.

For example, we have been incurring, and expect to continue to incur, significant expenses relating to implementation of the HIPAA electronic transaction and code sets standards and our all-payer suite of services, including expenses for additional technical and customer service personnel.

Implementation of the HIPAA transaction standards requires us, among other things, to make significant changes to the software WebMD Envoy 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.

Implementation of our all-payer suite of transaction services requires us to expand our connectivity to support a broader set of transaction services to non-commercial payers in key markets as well as to improve the functional capability of our claims and accounts receivable management solutions. We may not have enough technicians, programmers and customer service

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

The amount and timing of future expenses for the HIPAA and all-payer implementations are difficult to estimate and may exceed amounts we have budgeted or continue for longer than expected. For more information about HIPAA, please see Certain Considerations Relating to the Healthcare Industry Health Insurance Portability and Accountability Act of 1996 below and Business Healthcare Information Services and Technology Solutions WebMD Envoy HIPAA in our annual report on Form 10-K for the year ended December 31, 2002. For a description of our all-payer suite of services, see Business Healthcare Information Services and Technology Solutions WebMD Envoy Value-Added Services in our annual report on Form 10-K for the year ended December 31, 2002.

***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 from 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 Envoy from a commercial claims clearinghouse to a supplier of a full complement of reimbursement cycle management solutions, including outsourcing for 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 value-added services, that value-added 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.

***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

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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 general 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 Envoy s 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 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 Envoy experiences transmission delays or failures or loss of data in its systems. WebMD Envoy s 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. Even if new products and services do not 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. See Developing and implementing new or updated products and services may take longer and

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cost more than expected above. These problems include: 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 the implementation of 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 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.

***Performance problems with WebMD Envoy s systems could affect our relationships with customers of our Practice Services business***

WebMD Envoy 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 Envoy s ability to provide transaction services depends on services provided by telecommunications companies***

WebMD Envoy 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 Envoy. WebMD Envoy s 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.

**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 Envoy 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

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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, Certain Considerations Relating to the Healthcare Industry below and Part II, Item 5 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2003);

- 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.

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.

***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 annual report on Form 10-K for the year ended December 31, 2002.

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. In August 2002, ACCME awarded Medscape a two-year provisional accreditation as a CME provider, allowing Medscape to certify online CME activities. Provision of CME is also subject to government regulation by the 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

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laws relating to healthcare. Among the goals of regulation of CME is ensuring that funding of CME programs by pharmaceutical and medical device companies is not a means of providing improper remuneration to physicians or others in a position to generate business for those companies and does not result in improper influence or control of the content of CME programs by the sponsoring companies. See Certain Considerations Relating to the Healthcare Industry Regulation of Healthcare Relationships and FDA and FTC Regulation of Advertising below.

Increased scrutiny by regulators of CME sponsorship by pharmaceutical or medical device companies, changes to existing regulation or ACCME guidelines 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.

***Government regulation of healthcare and healthcare information technology, including HIPAA, 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.

*Risks Related to the HIPAA Transaction Standards.* Under HIPAA, Congress mandated a package of interlocking administrative simplification rules to establish standards and requirements for the electronic transmission of certain health information. The HIPAA transaction standards and code sets rule, which we refer to as the Transaction Standards, establish format and data content standards for eight of the most common healthcare transactions, using technical standards promulgated by recognized standards publishing organizations. These transactions include healthcare claims, enrollment, payment and eligibility. The effect of the Transaction Standards on our business is difficult to predict and there can be no assurances that we will adequately address the risks created by the Transaction Standards and their implementation or that we will be able to take advantage of any resulting opportunities. In addition, we are unable to predict what changes might be made in the future to the Transaction Standards or how those changes could affect our business.

*Risks Relating to CMS Guidance and Implementation of our Contingency Plan.* October 16, 2003 was the deadline for covered entities to comply with the Transaction Standards. Failure to comply with the Transaction Standards may subject covered entities, including our WebMD Envoy clearinghouse, to civil monetary penalties and possibly to criminal penalties. As discussed below in Certain Considerations Relating to the Healthcare Industry Health Insurance Portability and Accountability Act of 1996 HIPAA Transactions Standards, 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 has 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

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readiness of its electronic trading partners. In its announcement, the agency stated: Implementing this contingency plan moves us toward the dual goals of achieving HIPAA compliance while not disrupting providers cash flow and operations, so that beneficiaries can continue to get the health care services they need. In response, WebMD Envoy has announced a contingency plan, pursuant to which it will continue to process HIPAA standard transactions, and for a limited period of time, will also process legacy transactions as appropriate based on the needs of our business partners.

The CMS Guidance makes clear that CMS expects each party to every transaction to be accountable for compliance with the new standards as of October 16, 2003. 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 to the Transaction Standards assisted in reducing disruptions in the flow of electronic transactions that otherwise could have occurred beginning on or before October 16, 2003. However, one short-term effect of CMS s approach and related transition matters may be that, as a result of the extended period of testing and implementation, there could be fewer electronic transactions for us to process in late 2003 than would otherwise have been the case.

We cannot provide assurance regarding how CMS will regulate clearinghouses in general or WebMD Envoy 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, there have been isolated disruptions and we expect that there will continue to be some problems for a period of time. 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 occur 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 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.

*Risks Relating to HIPAA Content.* We are working with our trading partners to complete quality assurance and testing on our enhanced clearinghouse data services for transmitting additional data content provided for in the Transaction Standards. We do not plan to place these services into full production until both our systems and payers adjudication systems are capable of handling the production volume of transactions with the additional data content. As with any highly complex data transition involving significant modifications to submitter, clearinghouse and payer systems, we are experiencing some problems during this process. 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 Risks Related to the Development and Performance of Our Healthcare Information Services and Technology Solutions Developing and implementing new or updated products and services may take longer and cost more than expected and 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 prospectus, the vast majority of claims we have received from submitters used legacy formats and did not contain 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

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production criteria for additional HIPAA content have not had a material effect on our ability to process and transmit transactions.

*Cost of Compliance and Related Risks.* We have been incurring, and expect to continue to incur, significant expenses relating to implementation of the Transaction Standards. Implementation of the Transaction Standards requires us, among other things, to make significant changes to the software WebMD Envoy 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