

WEBMD CORP /NEW/  
Form 10-Q  
August 09, 2005

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**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-Q**

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

**For the quarterly period ended June 30, 2005**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 0-24975**

**WEBMD CORPORATION**

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

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**94-3236644**

*(I.R.S. Employer  
Identification Number)*

**669 River Drive, Center 2**

**Elmwood Park, New Jersey 07407-1361**

*(Address of principal executive offices)*

**(201) 703-3400**

*(Registrant's telephone number, including area code)*

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act) during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of August 3, 2005, there were 345,333,683 shares of the registrant's Common Stock outstanding.

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**WEBMD CORPORATION  
QUARTERLY REPORT ON FORM 10-Q  
For the period ended June 30, 2005  
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WebMD®, WebMD Health®, dakota imaging™, Digital Office Manager®, DIM<sub>DX</sub>®, Emdeon™, Emdeon Business Services™, Emdeon Practice Services™, Envoy®, ExpressBill®, Image Director<sup>SM</sup>, Intergy®, MedicineNet®, Medifax®, Medifax-EDI®, Medpulse®, Medscape®, MEDPOR®, Physician Flow<sup>SM</sup>, POREX®, Publishers' Circle®, RxList®, The Little Blue Book™, The Medical Manager® and ViPS<sup>SM</sup> are trademarks of WebMD Corporation or its subsidiaries.

#### ***Note Regarding Name Change***

*As previously announced and as discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations Introduction Recent Developments, we plan to seek stockholder approval, at our 2005 Annual Meeting of Stockholders, for changing our corporate name from WebMD Corporation to Emdeon Corporation and have begun to use Emdeon in the names of two of our segments, Emdeon Business Services (formerly WebMD Business Services) and Emdeon Practice Service (formerly WebMD Practice Services), and as a brand for some of their products and services.*

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**FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be, forward-looking statements. For example, statements concerning projections, predictions, expectations, estimates or forecasts and statements that describe our objectives, plans or goals are, or may be, forward-looking statements. These forward-looking statements reflect management's current expectations concerning future results and events and can generally be identified by the use of expressions such as may, will, should, could, would, likely, predict, potential, continue, future, estimate, believe, plan, foresee, and other similar words or phrases, as well as statements in the future tense.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be different from any future results, performance and achievements expressed or implied by these statements. The following important risks and uncertainties could affect future results, causing those results to differ materially from those expressed in our forward-looking statements:

the failure to achieve sufficient levels of customer utilization and market acceptance of new or updated products and services;

the inability to successfully deploy new or updated applications or services;

difficulties in forming and maintaining relationships with customers and strategic partners;

the anticipated benefits from acquisitions not being fully realized or not being realized within the expected time frames;

the inability to attract and retain qualified personnel;

general economic, business or regulatory conditions affecting the healthcare, information technology, Internet and plastic industries being less favorable than expected; and

the other risks and uncertainties described in this Quarterly Report on Form 10-Q under the heading Management's Discussion and Analysis of Financial Condition and Results of Operations Factors That May Affect Our Future Financial Condition or Results of Operations.

These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could have material adverse effects on our future results.

The forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date of this Quarterly Report. We expressly disclaim any intent or obligation to update any forward-looking statements to reflect subsequent events or circumstances.

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**PART I**  
**FINANCIAL INFORMATION**

**ITEM 1. Financial Statements**

**WEBMD CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**(In thousands, except share and per share data)**

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
<b>(Unaudited)</b>		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 35,930	\$ 46,019
Short-term investments	152,005	61,675
Accounts receivable, net of allowance for doubtful accounts of \$13,885 at June 30, 2005 and \$13,433 at December 31, 2004	220,817	204,447
Inventory	13,430	13,978
Prepaid expenses and other current assets	39,724	40,613
Total current assets	461,906	366,732
Marketable debt securities	323,182	511,864
Marketable equity securities	4,094	4,017
Property and equipment, net	112,118	89,677
Goodwill	1,028,592	1,010,564
Intangible assets, net	253,249	260,509
Other assets	44,822	48,871
	\$ 2,227,963	\$ 2,292,234

**LIABILITIES AND STOCKHOLDERS EQUITY**

## Current liabilities:

Accounts payable	\$ 11,167	\$ 17,366
Accrued expenses	151,993	201,528
Deferred revenue	114,227	99,543

Total current liabilities	277,387	318,437
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3 <sup>1</sup> / <sub>4</sub> % convertible subordinated notes due 2007		299,999
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1.75% convertible subordinated notes due 2023		350,000
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Other long-term liabilities		5,334
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Commitments and contingencies		
Convertible redeemable exchangeable preferred stock, \$0.0001 par value; 10,000 shares authorized, issued and outstanding at June 30, 2005 and December 31, 2004	98,416	98,299

Stockholders' equity:		
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Preferred stock, \$0.0001 par value; 4,990,000 shares authorized; no shares issued		
Common stock, \$0.0001 par value; 900,000,000 shares authorized; 425,134,952 shares issued at June 30, 2005; 394,041,320 shares issued at December 31, 2004	43	39
Additional paid-in capital	12,022,576	11,776,911
Deferred stock compensation	(5,665)	(7,819)
Treasury stock, at cost; 80,849,495 shares at June 30, 2005 and December 31, 2004	(379,968)	(379,968)
Accumulated deficit	(10,147,006)	(10,172,904)
Accumulated other comprehensive income	6,846	7,957
Total stockholders equity	1,496,826	1,224,216
	\$ 2,227,963	\$ 2,292,234

See accompanying notes.

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**WEBMD CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data, unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Revenue	\$ 322,556	\$ 281,881	\$ 626,490	\$ 553,095
Costs and expenses:				
Cost of operations	181,950	163,961	354,113	326,603
Development and engineering	14,457	12,991	29,097	24,087
Sales, marketing, general and administrative	83,533	83,298	165,670	160,292
Depreciation and amortization	17,541	13,148	34,045	25,733
Legal expense	4,283	2,215	8,443	4,252
Interest income	3,936	4,511	8,257	9,994
Interest expense	3,895	4,838	8,676	9,586
Other expense (income), net	1,712	(447)	5,544	(484)
Income before income tax provision	19,121	6,388	29,159	13,020
Income tax provision	2,955	613	3,144	1,544
Net income	\$ 16,166	\$ 5,775	\$ 26,015	\$ 11,476
Net income per common share:				
Basic	\$ 0.05	\$ 0.02	\$ 0.08	\$ 0.04
Diluted	\$ 0.05	\$ 0.02	\$ 0.08	\$ 0.03
Weighted-average shares outstanding used in computing net income per common share:				
Basic	337,303	322,919	331,318	316,965
Diluted	349,624	337,763	342,656	332,582

See accompanying notes.

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**WEBMD CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands, unaudited)

	Six Months Ended June 30,	
	2005	2004
<b>Cash flows from operating activities:</b>		
Net income	\$ 26,015	\$ 11,476
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	34,045	25,733
Amortization of debt issuance costs	1,333	1,498
Non-cash advertising and distribution services	5,013	11,284
Non-cash stock-based compensation	2,367	4,441
Bad debt expense	3,722	2,914
Loss on redemption of convertible debt	1,902	
Loss (gain) on investments	3,642	(363)
Gain on sale of property and equipment		(121)
Changes in operating assets and liabilities:		
Accounts receivable	(18,350)	(1,724)
Inventory	547	206
Prepaid expenses and other, net	1,294	(937)
Accounts payable	(5,881)	(900)
Accrued expenses	(2,450)	(19,179)
Deferred revenue	9,501	6,320
Net cash provided by operating activities	62,700	40,648
<b>Cash flows from investing activities:</b>		
Proceeds from maturities and sales of available-for-sale securities	190,673	1,011,914
Purchases of available-for-sale securities	(94,350)	(1,103,876)
Purchases of property and equipment	(38,717)	(12,047)
Proceeds received from sale of property and equipment	400	417
Cash paid in business combinations, net of cash acquired	(74,110)	(58,060)
Net cash used in investing activities	(16,104)	(161,652)
<b>Cash flows from financing activities:</b>		
Redemption of convertible debt	(86,694)	
Proceeds from issuance of common stock	31,437	25,011
Payments of notes payable and other	(304)	(257)
Net proceeds from issuance of preferred shares		98,115
Purchases of treasury stock		(4,877)
Net cash (used in) provided by financing activities	(55,561)	117,992
Effect of exchange rates on cash	(1,124)	(200)
Net decrease in cash and cash equivalents	(10,089)	(3,212)



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Cash and cash equivalents at beginning of period	46,019	39,648
Cash and cash equivalents at end of period	\$ 35,930	\$ 36,436

See accompanying notes.

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**WEBMD CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(In thousands, except share and per share data, unaudited)**

**1. Summary of Significant Accounting Policies**

**Basis of Presentation**

The unaudited consolidated financial statements of WebMD Corporation (the Company) have been prepared by management and reflect all adjustments (consisting of only normal recurring adjustments) that, in the opinion of management, are necessary for a fair presentation of the interim periods presented. The results of operations for the three and six months ended June 30, 2005 are not necessarily indicative of the results to be expected for any subsequent period or for the entire year ending December 31, 2005. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted under the Securities and Exchange Commission's rules and regulations.

The unaudited consolidated financial statements and notes included herein should be read in conjunction with the Company's audited consolidated financial statements and notes for the year ended December 31, 2004, which were included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

**Accounting Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company is subject to uncertainties such as the impact of future events, economic, environmental and political factors and changes in the Company's business environment; therefore, actual results could differ from these estimates. Accordingly, the accounting estimates used in the preparation of the Company's financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the Company's operating environment changes. Changes in estimates are made when circumstances warrant. Such changes in estimates and refinements in estimation methodologies are reflected in reported results of operations; if material, the effects of changes in estimates are disclosed in the notes to the consolidated financial statements. Significant estimates and assumptions by management affect: the allowance for doubtful accounts, the carrying value of inventory, the carrying value of prepaid advertising and distribution services, the carrying value of long-lived assets (including goodwill and intangible assets), the amortization period of long-lived assets (excluding goodwill), the carrying value, capitalization and amortization of software development costs, the carrying value of short-term and long-term investments, the provision for income taxes and related deferred tax accounts, certain accrued expenses, revenue recognition, contingencies, litigation and the value attributed to warrants issued for services.

**Inventory**

Inventory is stated at the lower of cost or market value using the first-in, first-out basis. Cost includes raw materials, direct labor and manufacturing overhead. Market value is based on current replacement cost for raw materials and supplies and on net realizable value for work-in-process and finished goods. Inventory consisted of the following:

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**WEBMD CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
Raw materials and supplies	\$ 3,331	\$ 3,925
Work-in-process	1,470	1,335
Finished goods and other	8,629	8,718
	\$ 13,430	\$ 13,978

**Accounting for Stock-Based Compensation**

The Company accounts for its stock-based employee compensation plans using the intrinsic value method under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees ( APB No. 25 ), and related interpretations. No stock-based employee compensation cost is reflected in net income with respect to options granted with an exercise price equal to the market value of the underlying common stock on the date of grant. Stock-based awards to non-employees are accounted for based on provisions of SFAS No. 123,

Accounting for Stock-Based Compensation ( SFAS No. 123 ), and EITF 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services. The following table illustrates the effect on net income and net income per common share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Net income as reported	\$ 16,166	\$ 5,775	\$ 26,015	\$ 11,476
Add: Stock-based employee compensation expense included in reported net income	716	2,736	2,367	4,441
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(8,828)	(19,889)	(19,368)	(36,941)
Pro forma net income (loss)	\$ 8,054	\$ (11,378)	\$ 9,014	\$ (21,024)
<b>Net income (loss) per common share:</b>				
Basic as reported	\$ 0.05	\$ 0.02	\$ 0.08	\$ 0.04
Diluted as reported	\$ 0.05	\$ 0.02	\$ 0.08	\$ 0.03
Basic and diluted pro forma	\$ 0.02	\$ (0.04)	\$ 0.03	\$ (0.07)

The pro forma results above are not intended to be indicative of or a projection of future results. Pro forma information regarding net income has been determined as if employee stock options granted subsequent to December 31, 1994 were accounted for under the fair value method of SFAS No. 123. The fair value for 2005 options

was estimated at the date of grant using the Black-Scholes option pricing model employing weighted average assumptions that were substantially consistent with the 2004 assumptions except with respect to the volatility assumption which was 0.5 for options granted during the six months ended June 30, 2005. The 2004 assumptions were included in Note 14 to the consolidated financial statements contained in the Company's 2004 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

**Net Income Per Common Share**

Basic income per common share and diluted income per common share are presented in conformity with SFAS No. 128, Earnings Per Share ( SFAS No. 128 ). In accordance with SFAS No. 128, basic

**Table of Contents****WEBMD CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

income per common share has been computed using the weighted-average number of shares of common stock outstanding during the period, increased to give effect to the assumed conversion of the Convertible Redeemable Exchangeable Preferred Stock. Diluted income per common share has been computed using the weighted-average number of shares of common stock outstanding during the period, increased to give effect to potentially dilutive securities. The following table presents the calculation of basic and diluted income per common share (shares in thousands):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Numerator:</b>				
Net income	\$ 16,166	\$ 5,775	\$ 26,015	\$ 11,476
<b>Denominator:</b>				
				1,223,600
Developers Diversified Realty Corp.				213,259
				2,392,766
Federal Realty Investment Trust				7,500
				612,450
Kimco Realty Corp.				184,167

	2,900,630
Ramco-Gershenson Properties Trust	
	42,970
	460,209
Regency Centers Corp.	
	36,081
	1,424,117
Tanger Factory Outlet Centers	
	14,000
	659,960
Urstadt Biddle Properties-Class A	
	48,776
	881,870
Weingarten Realty Investors	

75,209

1,641,060

12,196,662

FREE STANDING 0.4%

Excel Trust

37,905

427,189

REGIONAL MALL 10.9%

Macerich Co.

55,228

2,372,043

Simon Property Group

113,458

10,522,095

12,894,138

TOTAL SHOPPING CENTER

25,517,989

SPECIALTY 3.3%



Digital Realty Trust

33,535

2,069,109

DuPont Fabros Technology

35,836

901,275

Rayonier

18,430

923,712

3,894,096

TOTAL REAL ESTATE

91,956,276

TOTAL COMMON STOCK (Identified cost \$70,353,505)

92,184,276

	Number of Shares	Value
<b>PREFERRED SECURITIES \$25 PAR VALUE 17.9%</b>		
<b>BANK 0.2%</b>		
Synovus Financial Corp., 8.25%, due 5/15/13, Series tMED	9,400	\$ 224,848
<b>BANK FOREIGN 0.3%</b>		
National Westminster Bank PLC, 7.76%, Series C	13,358	319,122
<b>INSURANCE MULTI-LINE FOREIGN 0.3%</b>		
ING Groep N.V., 7.375%	15,000	364,200
<b>REAL ESTATE 17.1%</b>		
<b>DIVERSIFIED 3.9%</b>		
Capital Lease Funding, 8.125%, Series A	20,000	503,000
Cousins Properties, 7.75%, Series A	26,725	664,918
Duke Realty Corp., 6.95%, Series M	9,993	248,526
Forest City Enterprises, 7.375%, due 2/1/34, Class A	38,000	921,500
Lexington Realty Trust, 6.50%, Series C (\$50 par value)	24,900	1,058,748
Lexington Realty Trust, 7.55%, Series D	16,500	389,730
Vornado Realty Trust, 6.625%, Series G	19,975	490,586
Vornado Realty Trust, 6.625%, Series I	14,732	363,144
		4,640,152
<b>HEALTH CARE 0.3%</b>		
Health Care REIT, 7.625%, Series F	14,100	356,589
<b>HOTEL 0.7%</b>		
Hospitality Properties Trust, 7.00%, Series C	16,000	393,920
LaSalle Hotel Properties, 7.25%, Series G	8,900	210,752
Sunstone Hotel Investors, 8.00%, Series A	8,225	202,006
		806,678
<b>INDUSTRIAL 1.2%</b>		
AMB Property Corp., 6.75%, Series M	26,684	657,227
ProLogis Trust, 6.75%, Series F	30,000	707,100
		1,364,327

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	Number of Shares	Value
<b>OFFICE 0.9%</b>		
BioMed Realty Trust, 7.375%, Series A	32,800	\$ 830,168
Parkway Properties, 8.00%, Series D	10,000	255,000
		1,085,168
<b>OFFICE/INDUSTRIAL 0.7%</b>		
PS Business Parks, 6.70%, Series P	33,538	813,296
<b>RESIDENTIAL APARTMENT 3.1%</b>		
Alexandria Real Estate Equities, 7.00%, Series D	55,000	1,287,000
Apartment Investment & Management Co., 9.375%, Series G	20,200	516,110
Apartment Investment & Management Co., 7.75%, Series U	75,000	1,902,750
		3,705,860
<b>SHOPPING CENTER 5.4%</b>		
<b>COMMUNITY CENTER 4.1%</b>		
Cedar Shopping Centers, 8.875%, Series A	25,000	642,500
Developers Diversified Realty Corp., 8.00%, Series G	30,000	752,700
Developers Diversified Realty Corp., 7.375%, Series H	19,900	477,401
Kimco Realty Corp., 7.75%, Series G	10,025	256,840
Kimco Realty Corp., 6.90%, Series H	20,000	494,600
Regency Centers Corp., 7.25%, Series D	19,020	480,255
Saul Centers, 8.00%, Series A	18,700	475,915
Urstadt Biddle Properties, 8.50%, Series C (\$100 par value)(c)	4,000	429,900
Weingarten Realty Investors, 6.50%, Series F	34,028	837,089
		4,847,200
<b>REGIONAL MALL 1.3%</b>		
CBL & Associates Properties, 7.75%, Series C		