

WEBMD CORP /NEW/
Form 10-Q
November 08, 2002

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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 September 30, 2002

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 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

As of November 5, 2002, there were 297,268,556 shares of the

Registrant's Common Stock outstanding.

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WEBMD CORPORATION

QUARTERLY REPORT ON FORM 10-Q

For the period ended September 30, 2002

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CAUTIONARY STATEMENT REGARDING 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 deemed to be, forward-looking statements. These forward-looking statements are not based on historical facts, but rather reflect management's current expectations concerning future results and events. These forward-looking statements generally can be identified by use of expressions such as believe, expect, anticipate, intend, plan, foresee, likely, will or other similar words or phrases. Statements that describe our objectives, plans or goals are, or may be deemed to be, forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be different from any future results, performance and achievements expressed or implied by these statements. In addition to the risk factors described in Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Our Future Financial Condition or Results of Operations beginning on page 31, the following important risks and uncertainties could affect future results, causing these results to differ materially from those expressed in our forward-looking statements:

the failure to achieve sufficient levels of customer utilization and market acceptance of new services or newly integrated services,

the inability to successfully deploy new applications or newly integrated applications,

difficulties in forming and maintaining mutually beneficial relationships with customers and strategic partners,

the inability to attract and retain qualified personnel, and

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

These factors and the risk factors described in Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Our Future Financial Condition or Results of Operations beginning on page 31 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.

Table of Contents**PART I****FINANCIAL INFORMATION****ITEM 1. Financial Statements****WEBMD CORPORATION****CONSOLIDATED BALANCE SHEETS**
(In thousands, except share and per share data)

| | September 30, 2002 | December 31, 2001 |
|--|-----------------------|----------------------|
| | (Unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 143,024 | \$ 253,011 |
| Short-term investments | 8,977 | 99,194 |
| Accounts receivable, net | 145,089 | 150,252 |
| Federal income tax receivable | 12,887 | |
| Current portion of prepaid content and distribution services | 25,799 | 28,818 |
| Assets of discontinued operations | 217,337 | 232,552 |
| Other current assets | 24,103 | 19,068 |
| | <hr/> | <hr/> |
| Total current assets | 577,216 | 782,895 |
| Marketable debt securities | 450,725 | |
| Marketable equity securities | 14,025 | 15,707 |
| Property and equipment, net | 51,310 | 47,333 |
| Prepaid content and distribution services | 55,241 | 71,579 |
| Goodwill, net | 525,902 | 506,761 |
| Intangible assets, net | 65,608 | 153,538 |
| Other assets | 27,428 | 22,959 |
| | <hr/> | <hr/> |
| | \$ 1,767,455 | \$ 1,600,772 |
| | <hr/> | <hr/> |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 11,343 | \$ 16,180 |
| Accrued expenses | 212,792 | 224,317 |
| Deferred revenue | 73,702 | 65,861 |
| Liabilities of discontinued operations | 40,448 | 44,434 |
| | <hr/> | <hr/> |
| Total current liabilities | 338,285 | 350,792 |
| Convertible subordinated notes | 300,000 | |
| Other long-term liabilities | 506 | 1,208 |
| Series B convertible redeemable preferred stock, \$0.0001 par value; 200 shares authorized; no shares issued at September 30, 2002; 100 shares issued at December 31, 2001 | | 10,000 |
| Stockholders equity: | | |
| Preferred stock, \$0.0001 par value; 5,000,000 shares authorized; Series A convertible preferred stock, 213,000 shares authorized; no shares issued | | |

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| | | |
|--|-----------------------------|-----------------------------|
| Common stock, \$0.0001 par value; 600,000,000 shares authorized; 370,546,615 shares issued at September 30, 2002; 366,956,160 shares issued at December 31, 2001 | 37 | 37 |
| Additional paid-in capital | 11,665,791 | 11,652,743 |
| Treasury stock, at cost; 74,074,669 shares at September 30, 2002; 56,091,935 shares at December 31, 2001 | (326,366) | (222,582) |
| Accumulated other comprehensive income | 17,146 | 12,093 |
| Deferred stock compensation | (19,325) | (42,173) |
| Accumulated deficit | (10,208,619) | (10,161,346) |
| | <u> </u> | <u> </u> |
| Total stockholders' equity | 1,128,664 | 1,238,772 |
| | <u> </u> | <u> </u> |
| | \$ 1,767,455 | \$ 1,600,772 |
| | <u> </u> | <u> </u> |

See notes to consolidated financial statements.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|----------------|------------------------------------|----------------|
| | 2002 | 2001 | 2002 | 2001 |
| Revenue (1) | \$ 200,201 | \$ 185,128 | \$ 592,668 | \$ 585,513 |
| Costs and expenses: | | | | |
| Cost of operations | 116,714 | 129,699 | 359,536 | 411,589 |
| Development and engineering | 9,739 | 8,958 | 29,539 | 30,471 |
| Sales, marketing, general and administrative | 62,981 | 98,804 | 207,141 | 341,171 |
| Depreciation and amortization | 31,011 | 751,487 | 92,446 | 2,266,357 |
| Impairment of long-lived and other assets | | 3,826,893 | | 3,826,893 |
| Restructuring and integration | (2,100) | 267 | (5,850) | 220,161 |
| Gain on investments | 681 | | 6,547 | |
| Interest income | 5,093 | 6,449 | 13,932 | 25,656 |
| Interest expense | 2,819 | 69 | 5,675 | 269 |
| Other income | 2,323 | | 2,323 | |
| Loss from continuing operations before income tax benefit | (12,866) | (4,624,600) | (73,017) | (6,485,742) |
| Federal income tax benefit | 12,887 | | 12,887 | |
| Income (loss) from continuing operations | 21 | (4,624,600) | (60,130) | (6,485,742) |
| Discontinued operations: | | | | |
| Income from discontinued operations | 4,517 | 954 | 12,857 | 954 |
| Net income (loss) | \$ 4,538 | \$ (4,623,646) | \$ (47,273) | \$ (6,484,788) |
| Basic net income (loss) per common share: | | | | |
| Income (loss) from continuing operations | \$.00 | \$ (12.86) | \$ (.20) | \$ (18.11) |
| Income from discontinued operations | .02 | .00 | .05 | .00 |
| Net income (loss) | \$.02 | \$ (12.86) | \$ (.15) | \$ (18.11) |
| Diluted net income (loss) per common share: | | | | |
| Income (loss) from continuing operations | \$.00 | \$ (12.86) | \$ (.20) | \$ (18.11) |
| Income from discontinued operations | .01 | .00 | .05 | .00 |
| Net income (loss) | \$.01 | \$ (12.86) | \$ (.15) | \$ (18.11) |
| Weighted-average shares outstanding used in computing net income (loss) per common share: | | | | |
| Basic | 297,352 | 359,600 | 306,161 | 358,095 |
| Diluted | 308,537 | 359,600 | 306,161 | 358,095 |

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- (1) Includes revenue from related parties of \$3,000 for the nine months ended September 30, 2001.
See notes to consolidated financial statements.

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WEBMD CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, unaudited)

| | Nine Months Ended September 30, | |
|---|------------------------------------|---------------|
| | 2002 | 2001 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (47,273) | \$(6,484,788) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 92,446 | 2,266,357 |
| Impairment of long-lived and other assets | | 3,826,893 |
| Amortization of debt issuance costs | 740 | |
| Non-cash content and distribution services and stock compensation | 41,117 | 96,414 |
| Non-cash portion of restructuring and integration charge | | 185,498 |
| Gain on investments | (6,547) | |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 5,384 | 37,358 |
| Federal income tax receivable | (12,887) | |
| Prepaid content and distribution services | (201) | (8,071) |
| Other assets, net | (5,378) | 23,758 |
| Net assets of discontinued operations | 11,229 | (954) |
| Accounts payable | (3,122) | (7,716) |
| Accrued expenses | (6,037) | (32,874) |
| Deferred revenue | 6,822 | 10,630 |
| | 76,293 | (87,495) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from maturities and sales of available-for-sale securities | 106,108 | 119,000 |
| Proceeds from the redemption of held-to-maturity securities | 56,000 | |
| Purchases of available-for-sale securities | (206,983) | |
| Purchases of held-to-maturity securities | (299,111) | |
| Purchases of property and equipment | (16,834) | (20,689) |
| Cash paid in business combinations, net of cash acquired | (9,574) | (6,042) |
| | (370,394) | 92,269 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from issuance of common stock | 8,783 | 9,545 |
| Net proceeds from issuance of convertible debt | 292,000 | |
| Payments of notes payable and other | (2,885) | (2,489) |
| Redemption of Series B Preferred Stock | (10,000) | |
| Purchases of treasury stock | (103,784) | (12,195) |
| | | |

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| | | |
|--|-------------------|-------------------|
| Net cash provided by (used in) financing activities | 184,114 | (5,139) |
| | <u> </u> | <u> </u> |
| Net decrease in cash and cash equivalents | (109,987) | (365) |
| Cash and cash equivalents at beginning of period | 253,011 | 490,797 |
| | <u> </u> | <u> </u> |
| Cash and cash equivalents at end of period | \$ 143,024 | \$ 490,432 |
| | <u> </u> | <u> </u> |
| SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES | | |
| Issuance of equity securities in connection with strategic alliances and services | \$ 24 | \$ 10,246 |
| | <u> </u> | <u> </u> |
| Issuance of equity securities to satisfy retirement plan obligations | \$ 5,530 | \$ 590 |
| | <u> </u> | <u> </u> |
| Reacquisition of convertible preferred stock and issuance of warrants in connection with revision of strategic alliances | \$ | \$ (151,171) |
| | <u> </u> | <u> </u> |

See notes to consolidated financial statements.

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