WEBMD CORP /NEW/
Form 10-Q
August 09, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2004

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	**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
(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 x No o

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

Yes x No o

As of August 2, 2004, there were 313,040,051 shares of the

registrant s Common Stock outstanding.

WEBMD CORPORATION

QUARTERLY REPORT ON FORM 10-Q

For the period ended June 30, 2004

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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 phras 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 that may cause our actual results, performance or achievements to be different from any future results, performance and achievements expressed or implied by these statements. In addition to the risk factors described in Management s Discussion and Analysis of Financial Condition and Results of Operations Factors That May Affect Our Future Financial Condition or Results of Operations beginning on page 32, 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,
- difficulties in forming and maintaining relationships with customers and strategic partners,
- the inability to attract and retain qualified personnel, and
- general economic, business or regulatory conditions affecting the healthcare, information technology, Internet and plastic industries being less favorable than expected.

These factors and the risk factors described in Management s Discussion and Analysis of Financial Condition and Results of Operations Factors That May Affect Our Future Financial Condition or Results of Operations beginning on page 32 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)

	June 30, 2004	December 31, 2003
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 206,611	$ 63,298
Short-term investments	606	207,383
Accounts receivable, net	187,149	181,173
Inventory	12,022	12,158
Current portion of prepaid content and distribution services	16,114	18,116
Other current assets	24,934	25,973
Total current assets	447,436	508,101
Marketable debt securities	592,105	451,290
Marketable equity securities	3,206	4,744
Property and equipment, net	75,128	77,278
Prepaid content and distribution services	22,667	31,992
Goodwill	891,406	844,448
Intangible assets, net	185,175	184,130
Other assets	37,221	33,323
	$ 2,254,344	$ 2,135,306
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 9,767	$ 10,390
Accrued expenses	190,716	208,430
Deferred revenue	101,516	86,708
Total current liabilities	301,999	305,528
3 1/4% convertible subordinated notes due 2007	299,999	299,999
1.75% convertible subordinated notes due 2023	350,000	350,000
Other long-term liabilities	1,078	1,182
Commitments and contingencies		
Convertible redeemable exchangeable preferred stock, $0.0001 par value; 5,000,000 shares authorized; 10,000 shares issued and outstanding at June 30, 2004	98,181	

Stockholders equity:		
Common stock, $0.0001 par value; 900,000,000 shares authorized; 390,699,641 shares issued at June 30, 2004; 384,751,705 shares issued at December 31, 2003	39	38
Additional paid-in capital	11,761,696	11,726,734
Deferred stock compensation	(10,179)	(4,683)
Treasury stock, at cost; 77,123,115 shares at June 30, 2004; 76,576,865 shares at December 31, 2003	(352,735)	(347,858)
Accumulated deficit	(10,200,644)	(10,212,054)
Accumulated other comprehensive income	4,910	16,420
Total stockholders equity	1,203,087	1,178,597
	$ 2,254,344	$ 2,135,306

See accompanying notes.

WEBMD CORPORATION

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Revenue	$281,881	$233,418	$553,095	$454,949
Costs and expenses:				
Cost of operations	163,961	135,441	326,603	261,286
Development and engineering	12,991	10,403	24,087	21,320
Sales, marketing, general and administrative	83,298	69,359	160,292	137,467
Depreciation, amortization and other	13,148	14,944	25,733	41,864
Legal expense	2,215		4,252	
Interest income	4,511	4,985	9,994	10,033
Interest expense	4,838	2,926	9,586	5,741
Other income, net	447	1,118	484	1,301
Income (loss) from continuing operations before income tax provision	6,388	6,448	13,020	(1,395)
Income tax provision	613	1,001	1,544	1,988
Income (loss) from continuing operations	5,775	5,447	11,476	(3,383)
Loss from discontinued operations, net of income taxes		(31,717)		(30,245)
Net income (loss)	$ 5,775	$ (26,270)	$ 11,476	$ (33,628)
Basic income (loss) per common share:				
Income (loss) from continuing operations	$ 0.02	$ 0.02	$ 0.04	$ (0.01)
Loss from discontinued operations		(0.11)		(0.10)
Net income (loss)	$ 0.02	$ (0.09)	$ 0.04	$ (0.11)
Diluted income (loss) per common share:				
Income (loss) from continuing operations	$ 0.02	$ 0.02	$ 0.03	$ (0.01)
Loss from discontinued operations		(0.10)		(0.10)
Net income (loss)	$ 0.02	$ (0.08)	$ 0.03	$ (0.11)
Weighted-average shares outstanding used in computing income (loss) per common share:				
Basic	312,281	304,001	310,886	303,447
Diluted	337,763	325,796	332,582	303,447

See accompanying notes.

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WEBMD CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, unaudited)

	Six Months Ended June 30,	
	2004	**2003**
Cash flows from operating activities:		
Net income (loss)	$ 11,476	$ (33,628)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Loss from discontinued operations		30,245
Depreciation, amortization and other	25,733	41,864
Amortization of debt issuance costs	1,498	774
Non-cash content and distribution services	11,284	12,149
Non-cash stock-based compensation	4,441	7,558
Gain on investments	(363)	(183)
Gain on the sale of property and equipment	(121)	
Changes in operating assets and liabilities:		
Accounts receivable	(3,389)	(5,743)
Inventory	136	(896)
Prepaid content and distribution services	79	(445)
Accounts payable	(900)	1,930
Accrued expenses	(19,179)	(26,283)
Deferred revenue	10,899	478
Other, net	(946)	4,946
Net cash provided by continuing operations	40,648	32,766
Net cash provided by discontinued operations		4,553
Net cash provided by operating activities	40,648	37,319
Cash flows from investing activities:		
Proceeds from maturities and sales of available-for-sale securities	329,163	2,631
Proceeds from maturities and redemptions of held-to-maturity securities		102,919
Purchases of available-for-sale securities	(274,600)	(6,730)
Purchases of held-to-maturity securities		(124,931)
Proceeds received from the sale of property and equipment	417	
Purchases of property and equipment	(12,047)	(8,861)
Cash paid in business combinations, net of cash acquired	(58,060)	(14,701)
Other changes in equity of discontinued operations		(4,596)
Net cash used in continuing operations	(15,127)	(54,269)
Net cash provided by discontinued operations		3,886
Net cash used in investing activities	(15,127)	(50,383)
Cash flows from financing activities:		
Proceeds from issuance of common stock	25,011	28,578
Payments of notes payable and other	(257)	(25)
Net proceeds from issuance of convertible debt		290,500
Net proceeds from issuance of preferred stock	98,115	

Purchases of treasury stock	(4,877)	(18,125)
Net cash provided by continuing operations	117,992	300,928
Net cash used in discontinued operations		(6,538)
Net cash provided by financing activities	117,992	294,390
Effect of exchange rates on cash	(200)	663
Net increase in cash and cash equivalents	143,313	281,989
Changes in cash attributable to discontinued operations		(1,901)
Cash and cash equivalents at beginning of period	63,298	175,596
Cash and cash equivalents at end of period	$ 206,611	$ 455,684

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, 2004 are not necessarily indicative of the results to be expected for any subsequent period or for the entire year ending December 31, 2004. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted under the Securities and Exchange Commission s rules and regulations.

As described in Note 3, on August 1, 2003, the Company completed the sale of two operating units of its Plastic Technologies segment. Accordingly, the historical results of these two operating units have been presented as discontinued operations in the accompanying unaudited consolidated financial statements.

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, 2003, 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 accounting principles generally accepted in the United States 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 content 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 taxes and related deferred tax accounts, certain accrued expenses, revenue recognition, restructuring costs, 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

WEBMD CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

for raw materials and supplies and on net realizable value for work-in-process and finished goods. Inventory consisted of the following as of June 30, 2004 and December 31, 2003:

	June 30, 2004	December 31, 2003
Raw materials and supplies	$ 3,275	$ 3,142
Work-in-process	1,557	1,394
Finished goods and other	7,190	7,622
	$12,022	$12,158

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 (loss) 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 (loss) and net income (loss) per common share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net income (loss) as reported	$ 5,775	$(26,270)	$ 11,476	$(33,628)
Add: Stock-based employee compensation expense included in reported net income (loss)	2,736	3,801	4,441	7,558
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(19,889)	(19,421)	(36,941)	(37,379)
Pro forma net loss	$(11,378)	$(41,890)	$(21,024)	$(63,449)
Net income (loss) per common share:				
Basic as reported	$ 0.02	$ (0.09)	$ 0.04	$ (0.11)
Diluted as reported	$ 0.02	$ (0.08)	$ 0.03	$ (0.11)
Basic and diluted pro forma	$ (0.04)	$ (0.14)	$ (0.07)	$ (0.21)

The pro forma results above are not intended to be indicative of or a projection of future results. Pro forma information regarding net income (loss) 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 2004 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 2003 assumptions except with respect to the volatility assumption, which was 0.6 for options granted during the six months ended June 30, 2004. The 2003 assumptions were included in Note 15 to the consolidated financial statements contained in the Company s 2003 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

WEBMD CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company has elected to follow APB No. 25 and related interpretations in accounting for employee stock options because the alternative fair value accounting method provided for under SFAS No. 123 requires the use of option valuation models that were not developed for use in valuing employee stock options. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company s employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimates, in management s opinion, the existing models do not necessarily provide a reliable single measure of the fair value of the Company s employee stock options.

Net Income (Loss) Per Common Share

Basic income (loss) per common share and diluted income (loss) per common share are presented in conformity with SFAS No. 128, Earnings Per Share (SFAS No. 128). In accordance with SFAS No. 128, basic income (loss) per common share has been computed using the weighted-average number of shares of common stock outstanding during the period. Diluted income (loss) per common share has been computed using the weighted-average number of shares of common stock outstanding during the period, increased to consider the effect of potentially dilutive securities. The following table presents the calculation of basic and diluted income (loss) per common share (shares in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Basic and diluted income (loss):				
Income (loss) from continuing operations	$ 5,775	$ 5,447	$ 11,476	$ (3,383)
Loss from discontinued operations		(31,717)		(30,245)
Net income (loss)	$ 5,775	$ (26,270)	$ 11,476	$ (33,628)
Weighted-average shares Basic	312,281	304,001	310,886	303,447
Effect of dilutive securities:				
Employee stock options and warrants	14,844	21,795	15,617	
Convertible redeemable exchangeable preferred stock	10,638		6,079	
Adjusted weighted-average shares after assumed conversions Diluted	337,763	325,796	332,582	303,447
Basic income (loss) per common share:				
Income (loss) from continuing operations	$ 0.02	$ 0.02	$ 0.04	$ (0.01)
Loss from discontinued operations		(0.11)		(0.10)
Net income (loss)	$ 0.02	$ (0.09)	$ 0.04	$ (0.11)
Diluted income (loss) per common share:				
Income (loss) from continuing operations	$ 0.02	$ 0.02	$ 0.03	$ (0.01)
Loss from discontinued operations		(0.10)		(0.10)
Net income (loss)	$ 0.02	$ (0.08)	$ 0.03	$ (0.11)

The Company has excluded convertible subordinated notes and restricted stock, as well as certain outstanding warrants and stock options, from the calculation of diluted income (loss) per common share because such securities were either anti-dilutive or were not convertible into common stock in accordance with their terms during the periods presented. The following table presents the total number of shares that

WEBMD CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

could potentially dilute basic income (loss) per common share in the future that were not included in the computation of diluted income (loss) per common share during the periods presented (shares in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Options, warrants and restricted stock	72,403	81,208	72,398	129,370
Convertible notes	55,129	51,880	55,129	51,880
	127,532	133,088	127,527	181,250

Reclassifications

Certain reclassifications have been made to the prior period financial statements to conform with the current period presentation.

2. Business Combinations and Significant Transactions
2004 Acquisitions

On April 30, 2004, the Company acquired Dakota Imaging, Inc. (Dakota), a privately held company based in Baltimore, Maryland. Dakota is a provider of automated healthcare claims processing technology and Business Process Outsourcing services. Dakota s technology and services assist its customers in reducing costly manual processing of healthcare documents and increase auto-adjudication and auto-payment of medical claims through advanced data scrubbing. The Company paid approximately $39,717 in cash at closing and has agreed to pay up to an additional $25,000 in cash over a three-year period beginning in April 2005 if certain financial milestones are achieved. The acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price was allocated to the tangible and intangible assets acquired and the liabilities assumed on the basis of their respective fair values. In connection with the preliminary allocation of the purchase price, goodwill of $28,380 and intangible assets subject to amortization of $13,100 were recorded. The Company does not expect that the goodwill or intangible assets will be deductible for tax purposes. The intangible assets are comprised of $4,400 relating to customer relationships with estimated useful lives of ten years and $8,700 relating to acquired technology with an estimated life of five years. The financial information of Dakota has been included in the financial statements of the Company from April 30, 2004, the closing date of the acquisition, and is included in the Transaction Services segment.

During the six months ended June 30, 2004, the Company acquired one physician services company for an aggregate cost of $70, which was paid in cash, and agreed to pay up to $30 beginning in 2005 if the acquired company meets certain financial milestones. In connection with the preliminary allocation of the purchase price, intangible assets subject to amortization of $85 were recorded, principally related to customer relationships and non-compete agreements. The financial information of this company has been included in the financial statements of the Company from the acquisition closing date and is included in the Physician Services segment.

2003 Acquisitions

On December 22, 2003, the Company completed its acquisition of Medifax-EDI, Inc. (Medifax), a privately held company based in Nashville, Tennessee. Medifax provides 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

WEBMD CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

providers to verify insurance coverage for their patients on a real-time basis. The total purchase consideration was approximately $280,065, comprised of $276,065 in cash and $4,000 of estimated acquisition costs, for all of the outstanding capital stock of Medifax. Prior to closing, Medifax distributed its Pharmacy Services companies to its owner and these companies were not included in the transaction. The acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price was allocated to the tangible and intangible assets acquired and the liabilities assumed on the basis of their respective fair values. In connection with the preliminary allocation of the purchase price, goodwill of $179,090 and intangible assets subject to amortization of $92,700 were recorded. The Company does not expect that the goodwill or intangible assets will be deductible for tax purposes. The intangible assets are comprised of $72,600 relating to customer relationships with estimated useful lives of fifteen years, $8,600 relating to acquired technology with an estimated useful life of five years, $8,400 relating to payer connections with estimated useful lives of fifteen years and $3,100 relating to a tradename with an estimated useful life of one year. The financial information of Medifax has been included in the financial statements of the Company from December 22, 2003, the closing date of the acquisition, and is included in the Transaction Services segment.

On September 25, 2003, the Company completed its acquisition of a privately held dental clearinghouse based in Hartford, Connecticut. The Company paid $5,805 in cash for all of the outstanding capital stock of the acquired company and agreed to pay up to an additional $4,200 beginning in 2005 if certain revenue related milestones are achieved. The additional payment may be made over a three-year period by issuing shares of the Company s common stock or in cash. The additional payment may exceed $4,200 if all or a portion of the additional payment is made by issuing shares of the Company s stock and if the value of the Company s stock exceeds certain price levels. The acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price was allocated to the tangible and intangible assets acquired and the liabilities assumed on the basis of their respective fair values. In connection with the preliminary allocation of the purchase price, goodwill of $3,478 and an intangible asset subject to amortization of $2,392 were recorded. The Company does not expect that the goodwill or intangible assets will be deductible for tax purposes. The intangible asset is acquired technology with an estimated useful life of five years. The financial information of the acquired company has been included in the financial statements of the Company from September 25, 2003, the closing date of the acquisition, and is included in the Transaction Services segment.

On July 17, 2003, the Company completed its acquisition of Advanced Business Fulfillment, Inc. (ABF), a privately held company based in St. Louis, Missouri. ABF provides healthcare paid-claims communications services for third-party administrators and health insurers. ABF s services allow its customers to outsource print-and-mail activities for the distribution of checks, remittance advice and explanations of benefits. The total purchase consideration for ABF was approximately $112,891, comprised of $108,368 in cash and $4,523 of acquisition costs for all of the outstanding capital stock of ABF. Additionally, the Company agreed to pay up to an additional $150,000 beginning in April 2004 if certain financial milestones are achieved. The additional payment may be made over a three-year period by issuing shares of the Company s common stock or, at the Company s option in certain circumstances, in cash. The additional payment may exceed $150,000 if all or a portion of the additional payment is made by issuing shares of the Company s stock and if the value of the Company s stock exceeds certain price levels at the time of payment. During April 2004, the Company paid $17,455 in cash as a result of the achievement of certain financial milestones. This payment resulted in an increase to goodwill. The acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price was allocated to the tangible and intangible assets acquired and the liabilities assumed on the basis of their respective fair values. In connection with the allocation of the purchase price, goodwill of $61,453 and intangible assets subject to amortization of $47,000 were recorded. The Company expects that substantially all of the goodwill recorded will be deductible for tax purposes. The intangible assets are comprised of $41,000

WEBMD CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

relating to customer relationships with estimated useful lives of ten years, $4,900 relating to acquired unpatented technologies with estimated useful lives of nine months to six years and $1,100 relating to a trade name with an estimated useful life of three years. The financial information of the acquired company has been included in the financial statements of the Company from July 17, 2003, the closing date of the acquisition, and is included in the Transaction Services segment.

On May 29, 2003, the Company acquired The Little Blue Book (LBB), a company which maintains a database containing practice information for over 380,000 physicians, and publishes a pocket-sized reference book containing physician information. The total purchase consideration for LBB was approximately $10,535, comprised of $10,400 in cash and acquisition costs of $135. Additionally, the Company will pay up to $2,500 if LBB meets certain financial milestones during the years ending December 31, 2003 and 2004. During April 2004, the Company paid $1,500 in cash as a result of the achievement of certain financial milestones. This payment resulted in an increase to goodwill. The acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price was allocated to the tangible and intangible assets acquired and the liabilities assumed on the basis of their respective fair values. In connection with the allocation of the purchase price, goodwill of $8,661 and intangible assets subject to amortization of $2,815 were recorded. The Company expects that substantially all of the goodwill recorded will be deductible for tax purposes. The intangible assets are comprised of $1,787 relating to a trade name with an estimated useful life of seven years, $761 relating to customer relationships with estimated useful lives of five years and $267 relating to acquired technology with an estimated useful life of three years. The financial information of LBB has been included in the financial statements of the Company from May 29, 2003, the closing date of the acquisition, and is included in the Portal Services segment.

On April 30, 2003, the Company acquired the assets and assumed certain liabilities of a company which provides healthcare benefit decision support tools and solutions to its clients through online technology. The total purchase consideration for this acquisition was approximately $4,052, comprised of $4,000 in cash and acquisition costs of $52. The acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price was allocated to the tangible and intangible assets acquired and the liabilities assumed on the basis of their respective fair values. In connection with the allocation of the purchase price, goodwill of $4,070 and an intangible asset subject to amortization of $710 were recorded. The Company expects that substantially all of the goodwill recorded will be deductible for tax purposes. The intangible asset represents the fair value of customer relationships with estimated useful lives of five years. The financial information of the acquired business has been included in the financial statements of the Company from April 30, 2003, the closing date of the acquisition, and is included in the Portal Services segment.

In 2003, the Company acquired seven practice services companies for an aggregate cost of $2,182, which was paid in cash. Additionally, the Company will pay up to $675 beginning in 2005 if some of the acquired companies meet certain financial milestones. These acquisitions were accounted for using the purchase method of accounting and, accordingly, the purchase prices were allocated to assets acquired and liabilities assumed based on their respective fair values. In connection with the preliminary allocation of the purchase prices, goodwill of $1,469 and intangible assets subject to amortization of $1,054 were recorded. The Company expects that substantially all of the goodwill recorded will be deductible for tax purposes. The intangible assets are comprised of $351 related to non-compete agreements with estimated useful lives of three to five years and $703 related to customer relationships with estimated useful lives of nine years. The financial information of these companies has been included in the financial statements of the Company from the respective acquisition closing dates and is included in the Physician Services segment.

WEBMD CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited Pro Forma Information

The following unaudited pro forma financial information for the six months ended June 30, 2003 gives effect to the acquisitions of ABF and Medifax, including the amortization of intangible assets, as if they had occurred on January 1, 2003. The information is provided for illustrative purposes only and is not necessarily indicative of the operating results that would have occurred if the transactions had been consummated at the date indicated, nor is it necessarily indicative of future operating results of the consolidated companies, and should not be construed as representative of these results for any future period. The remaining acquisitions in 2004 and 2003 have been excluded as the pro forma impact of such acquisitions was not significant to the six months ended June 30, 2004 and June 30, 2003.

	Six Months Ended June 30, 2003
Revenue	$522,949
Income from continuing operations	$ 2,919
Net loss	$ (27,326)
Basic income (loss) per common share:	
Income from continuing operations	$ 0.01
Net loss	$ (0.09)
Diluted income (loss) per common share:	
Income from continuing operations	$ 0.01
Net loss	$ (0.08)

Significant Transactions

As more fully discussed in Note 3 to the consolidated financial statements contained in the Company s 2003 Annual Report on Form 10-K, the Company entered into an agreement for a strategic alliance with Time Warner, Inc. in May 2001. Under the agreement, the Company is the primary provider of healthcare content, tools and services for use on certain America Online properties. The original term of the agreement was for three years, ending in May 2004. The Company had a right to extend the agreement for an additional three-year term if the Company s revenue share did not exceed certain thresholds during the original three-year term. These thresholds were not met and the Company exercised its right to extend the contract term until May 2007. Under the terms of the extension, the Company s revenue share will be subject to a minimum annual guarantee.

As more fully discussed in Note 3 to the consolidated financial statements contained in the Company s 2003 Annual Report on Form 10-K, the Company entered into a strategic relationship with Microsoft in April 2001, including an agreement to program the MSN health channel. That agreement has been amended to change the expiration date from June 30, 2004 to December 31, 2004.

3. Discontinued Operations

On August 1, 2003, the Company completed the sale of two operating units of Porex, Porex Bio Products, Inc. (Porex Bio) and Porex Medical Products, Inc. (Porex Medical) to enable Porex to focus on its porous materials businesses. Accordingly, the historical financial information of these operating units has been reclassified as discontinued operations in the accompanying consolidated financial statements for the prior year period. The operating units were sold in two separate transactions for an aggregate sales price of $46,500. An impairment charge of $33,113 was recorded in the results for the quarter ended June 30, 2003 to reduce the long-lived assets of Porex Bio and Porex Medical to fair value. The write-down consisted of $27,564 of goodwill, $4,162 of trade name and patent intangibles and $1,387

WEBMD CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of other long-lived assets consisting primarily of manufacturing equipment. The impairment charge was based on the fair value of the divested businesses as determined by the expected proceeds from disposition. During the three months ended September 30, 2003, the Company recorded a loss on disposal of $3,491, primarily representing certain costs related to the disposition. Summarized operating results for the discontinued units for the three and six months ended June 30, 2003 were as follows:

	Three Months Ended June 30, 2003	Six Months Ended June 30, 2003
Revenue	$ 13,053	$ 26,265
Loss from discontinued operations	$(31,717)	$(30,245)

4. Convertible Redeemable Exchangeable Preferred Stock

On March 19, 2004, the Company issued $100,000 of Convertible Redeemable Exchangeable Preferred Stock (Preferred Stock) in a private transaction to CalPERS/PCG Corporate Partners, LLC (CalPERS/PCG Corporate Partners). CalPERS/PCG Corporate Partners is a private equity fund managed by the Pacific Corporate Group and principally backed by California Public Employees Retirement System, or CalPERS.

The Preferred Stock has a liquidation preference of $100,000 in the aggregate and is convertible into 10,638,297 shares of the Company s common stock in the aggregate, representing a conversion price of $9.40 per share of common stock. The Company may not redeem the Preferred Stock prior to March 2007. Thereafter, the Company may redeem any portion of the Preferred Stock at 105% of its liquidation preference; provided that any redemption by the Company prior to March 2008 shall be subject to the condition that the average closing sale prices of the Company s common stock is at least $13.16 per share, subject to adjustment. The Company is required to redeem all shares of the Preferred Stock then outstanding in March 2012, at a redemption price equal to the liquidation preference of the Preferred Stock, payable in cash or, at the Company s option, in shares of the Company s common stock.

If the average closing sales price of the Company s common stock during the three-month period ended on the fourth anniversary of the issuance date is less than $7.50 per share, holders of the Preferred Stock will have a right to exchange the Preferred Stock into the Company s 10% Subordinated Notes (10% Notes) due March 2010. The 10% Notes may be redeemed, in whole or in part, at any time thereafter at the Company s option at a price equal to 105% of the principal amount of the 10% Notes being redeemed.

Holders of the Preferred Stock will not receive any dividends unless the holders of common stock do, in which case holders of the Preferred Stock will be entitled to receive ordinary dividends in an amount equal to the ordinary dividends the holders of the Preferred Stock would have received had they converted such Preferred Stock into common stock immediately prior to the record date for such dividend distribution. So long as the Preferred Stock remains outstanding, the Company is required to pay to CalPERS/PCG Corporate Partners, on a quarterly basis, an aggregate annual fee of 0.35% of the face amount of the then outstanding Preferred Stock.

5. Convertible Subordinated Notes

1.75% Convertible Subordinated Notes Due 2023

On June 25, 2003, the Company issued $300,000 aggregate principal amount of 1.75% Convertible Subordinated Notes due 2023 (the 1.75% Notes) in a private offering. On July 7, 2003, the Company issued an additional $50,000 aggregate principal amount of the 1.75% Notes. Unless previously redeemed or converted, the 1.75% Notes will mature on June 15, 2023. Interest on the 1.75% Notes accrues at the

WEBMD CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

rate of 1.75% per annum and is payable semiannually on June 15 and December 15, commencing December 15, 2003. The Company will also pay contingent interest of 0.25% per annum of the average trading price of the 1.75% Notes during specified six-month periods, commencing on June 20, 2010, if the average trading price of the 1.75% Notes for specified periods equals 120% or more of the principal amount of the 1.75% Notes.

The 1.75% Notes are convertible into an aggregate of 22,742,040 shares of the Company s common stock (representing a conversion price of $15.39 per share) if the sale price of the Company s common stock exceeds 120% of the conversion price for specified periods and in certain other circumstances. The 1.75% Notes are redeemable by the Company after June 15, 2008 and prior to June 20, 2010, subject to certain conditions, including the sale price of the Company s common stock exceeding certain levels for specified periods. If the 1.75% Notes are redeemed by the Company during this period, the Company will be required to make additional interest payments. After June 20, 2010, the 1.75% Notes are redeemable at any time for cash at 100% of their principal amount. Holders of the 1.75% Notes may require the Company to repurchase their 1.75% Notes on June 15, 2010, June 15, 2013 and June 15, 2018, for cash at 100% of the principal amount of the 1.75% Notes, plus accrued interest. Upon a change in control, holders may require the Company to repurchase their 1.75% Notes for, at the Company s option, cash or shares of the Company s common stock, or a combination thereof, at a price equal to 100% of the principal amount of the 1.75% Notes being repurchased.

The Company incurred issuance costs related to the 1.75% Notes of approximately $10,875, which are included in other assets in the accompanying consolidated balance sheets. The issuance costs are being amortized to interest expense in the accompanying consolidated statements of operations, using the effective interest method over the period from issuance through June 15, 2010, the earliest date on which holders can demand redemption.

3 1/4% Convertible Subordinated Notes Due 2007

On April 1, 2002, the Company issued $300,000 aggregate principal amount of 3 1/4% Convertible Subordinated Notes due 2007 (the 3 1/4% Notes) in a private offering. Interest on the 3 1/4% Notes accrues at the rate of 3 1/4% per annum and is payable semiannually on April 1 and October 1. Unless previously redeemed or converted, the 3 1/4% Notes will mature on April 1, 2007. At the time of issuance, the 3 1/4% Notes were convertible into an aggregate of approximately 32,386,916 shares of the Company s common stock (representing a conversion price of $9.26 per share), subject to adjustment in certain circumstances. During the three months ended June 30, 2003, $1 principal amount of the 3 1/4% Notes was converted into 107 shares of the Company s common stock in accordance with the provisions of the 3 1/4% Notes. As of June 30, 2004, the 3 1/4% Notes were convertible into an aggregate of approximately 32,386,808 shares of the Company s common stock. The 3 1/4% Notes are redeemable at the Company s option, at any time on or after April 5, 2005. The redemption price, as a percentage of principal amount, is 101.3% beginning April 5, 2005 and 100.65% beginning April 1, 2006.

The Company incurred issuance costs related to the 3 1/4% Notes of $8,000, which are included in other assets in the accompanying consolidated balance sheets. The issuance costs are being amortized using the effective interest method over the term of the 3 1/4% Notes. The amortization of the issuance costs is included in interest expense in the accompanying consolidated statements of operations.

6. Stock Repurchase Program

On March 29, 2001, the Company announced a stock repurchase program (the Program). Under the Program, the Company was originally authorized to use up to $50,000 to purchase shares of its common stock from time to time beginning on April 2, 2001, subject to market conditions. On November 2, 2001, the maximum aggregate amount of purchases under the Program was increased to

WEBMD CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

$100,000 and on November 7, 2002 it was increased to $150,000. As of June 30, 2004, the Company had repurchased a total of 22,859,606 shares at a cost of approximately $111,235 under the Program, of which 546,250 shares were repurchased during the three months ended March 31, 2004 for an aggregate purchase price of $4,877. The Company did not repurchase any of its common stock during the three months ended June 30, 2004. As of June 30, 2003, the Company had repurchased a total of 22,060,656 shares at a cost of approximately $104,167 under the Program, of which 2,058,496 shares and 2,069,496 shares were repurchased during the three and six months ended June 30, 2003 for an aggregate purchase price of $18,032 and $18,125, respectively. These repurchased shares are reflected as treasury stock in the accompanying consolidated balance sheets. As of June 30, 2004, the Company had $38,765 available to repurchase shares of its common stock under the Program.

7. Segment Information

Segment information has been prepared in accordance with the Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS No. 131). The accounting policies of the segments are consistent with those described in the summary of significant accounting policies in Note 1 to the consolidated financial statements contained in the Company s 2003 Annual Report on Form 10-K. Inter-segment revenues represent sales of Transaction Services products into the Physician Services customer base and are reflected at rates comparable to those charged to third parties for comparable products. The performance of the Company s business is monitored based on income or loss before taxes, non-cash and other items. Non-cash and other items include depreciation, amortization, gain on investments, other income, costs and expenses related to the investigation by the United States Attorney for the District of South Carolina and the SEC (legal expense), non-cash expenses related to content, advertising and distribution services acquired in exchange for the Company s equity securities in acquisitions and strategic alliances, and stock compensation expense primarily related to stock options issued and assumed in connection with acquisitions and restricted stock issued to employees.

The Company has aligned its business into four operating segments as follows:

Transaction Services or WebMD Envoy provides healthcare reimbursement cycle management services, including transmission of transactions between healthcare payers and physicians, pharmacies, dentists, hospitals, laboratory companies and other healthcare providers using dial-up, Internet and dedicated communication methods. WebMD Envoy also provides automated patient billing services to providers, including statement printing and mailing services. In addition, WebMD Envoy provides third party administrators and health insurers with automated healthcare claims processing technology and outsourcing services for document processing, scanning, data scrubbing and online secure document management, as well as paid-claims communication services, including print-and-mail services for the distribution of checks, remittance advice and explanation of benefits.

Physician Services or WebMD Practice Services develops and markets integrated physician practice management systems, including administrative, financial and clinical applications and services, under The Medical Manager, Intergy, ULTIA and Medical Manager Network Services brands. 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.

Portal Services or WebMD Health provides online healthcare information, educational services and related resources for consumers and healthcare professionals, both directly and through its relationships with leading general consumer Internet portals. WebMD Health also provides online content for use by media and healthcare partners on their Web sites. WebMD Health develops and sells online and offline channels of communication and sponsorship programs to pharmaceutical, biotech, medical device and

WEBMD CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

consumer products companies, particularly those who are interested in influencing healthcare decisions. In addition, WebMD Health provides a suite of online tools and related services to employers and health plans for use by their employees and plan members.

Plastic Technologies or Porex develops, manufactures and distributes proprietary porous plastic products and components used in healthcare, industrial and consumer applications, as well as in finished products used in the medical device and surgical markets.

Summarized financial information for each of the Company s operating segments and a reconciliation to net income (loss) is presented below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Revenues				
Transaction services	$166,037	$118,021	$329,816	$233,514
Physician services	71,773	76,797	142,779	148,808
Portal services	31,852	26,538	58,161	48,718
Plastic technologies	20,737	18,596	39,158	35,922
Inter-segment eliminations	(8,518)	(6,534)	(16,819)	(12,013)
	$281,881	$233,418	$553,095	$454,949
Income (loss) before taxes, non-cash and other items				
Transaction services	$ 28,914	$ 22,342	$ 58,764	$ 46,393
Physician services	1,771	6,359	3,122	12,656
Portal services	7,626	6,192	12,168	10,210
Plastic technologies	6,275	5,507	11,317	10,167
Corporate	(14,228)	(12,381)	(27,533)	(24,843)
Interest income	4,511	4,985	9,994	10,033
Interest expense	(4,838)	(2,926)	(9,586)	(5,741)
	30,031	30,078	58,246	58,875
Taxes, non-cash and other items				
Depreciation, amortization and other	(13,148)	(14,944)	(25,733)	(41,864)
Non-cash content and distribution services and stock compensation	(8,727)	(9,804)	(15,725)	(19,707)
Legal expense	(2,215)		(4,252)	
Other income, net	447	1,118	484	1,301
Income tax provision	(613)	(1,001)	(1,544)	(1,988)
Income (loss) from continuing operations	5,775	5,447	11,476	(3,383)
Loss from discontinued operations		(31,717)		(30,245)
Net income (loss)	$ 5,775	$ (26,270)	$ 11,476	$ (33,628)

8. Investments

As of June 30, 2004 and December 31, 2003, the Company s short-term investments and marketable debt securities consisted of certificates of deposit, municipal bonds, asset backed securities, Federal Agency Notes and U.S. Treasury Notes and marketable equity securities consisted of equity investments in publicly traded companies. As of June 30, 2004 and December 31, 2003, all of the Company s marketable

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

securities were classified as available-for-sale. The following table summarizes the amortized cost basis and estimated fair value of the Company s investments:

	June 30, 2004		December 31, 2003	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Short-term investments	$ 606	$ 606	$205,962	$207,383
Marketable debt securities long-term	595,073	592,105	445,810	451,290
Marketable equity securities long-term	1,527	3,206	1,773	4,744

The amortized cost and estimated fair value by maturity of securities are shown in the following table. Securities are classified according to their contractual maturities without consideration of principal amortization, potential prepayments or call options. Accordingly, actual maturities may differ from contractual maturities.

	Cost or Amortized Cost	Fair Value
Due in one year or less	$ 606	$ 606
Due after one year through five years	595,073	592,105
Total	$595,679	$592,711

9. Comprehensive Loss

Comprehensive loss is comprised of net income (loss) and other comprehensive loss. Other comprehensive loss includes certain changes in equity that are excluded from net income (loss), such as changes in unrealized holding losses on available-for-sale marketable securities and foreign currency translation adjustments. The following table presents the components of other comprehensive loss for the three and six months ended June 30, 2004 and 2003:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Foreign currency translation gains (losses)	$ (40)	$ 1,178	$ (349)	$ 1,512
Unrealized losses on securities:				
Unrealized holding losses	(9,225)	(2,695)	(10,798)	(1,628)
Less: reclassification adjustment for net gains realized in net income (loss)	447		363	183
Net unrealized losses on securities	(9,672)	(2,695)	(11,161)	(1,811)
Other comprehensive loss	(9,712)	(1,517)	(11,510)	(299)
Net income (loss)	5,775	(26,270)	11,476	(33,628)
Comprehensive loss	$(3,937)	$(27,787)	$ (34)	$(33,927)

The foreign currency translation gains (losses) are not currently adjusted for income taxes as they relate to permanent investments in non-U.S. subsidiaries.

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WEBMD CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the year ended December 31, 2003 and the six months ended June 30, 2004 are as follows:

	Transaction Services	Physician Services	Portal Services	Plastic Technologies	Total
Balance as of January 1, 2003	$341,967	$182,085	$23,705	$38,286	$586,043
Goodwill recorded during the period	244,021	1,469	12,731		258,221
Adjustments to finalize purchase price allocations		(745)	407		(338)
Effects of exchange rates				522	522
Balance as of December 31, 2003	585,988	182,809	36,843	38,808	844,448
Goodwill recorded during the period	45,835		1,500		47,335
Adjustments to finalize purchase price allocations	(325)		(116)		(441)
Effects of exchange rates				64	64
Balance as of June 30, 2004	$631,498	$182,809	$38,227	$38,872	$891,406

Intangible assets subject to amortization consist of the following:

	June 30, 2004			December 31, 2003		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Customer lists	$329,604	$(211,485)	$118,119	$325,160	$(206,163)	$118,997
Trade names	30,316	(23,175)	7,141	30,316	(19,756)	10,560
Technology and patents	200,018	(149,715)	50,303	191,318	(146,905)	44,413
Non-compete agreements	11,060	(1,448)	9,612	11,019	(859)	10,160
Total	$570,998	$(385,823)	$185,175	$557,813	$(373,683)	$184,130

Amortization expense was $6,125 and $12,140 for the three and six months ended June 30, 2004, respectively, and $8,573 and $29,259 for the three and six months ended June 30, 2003, respectively. Aggregate amortization expense for intangible assets is estimated to be:

Year ending December 31, 2004 (July 1st to December 31st)	12,537
2005	20,742
2006	17,760
2007	16,949
2008	16,462

Thereafter	100,725

11. Commitments and Contingencies

The United States Attorney for the District of South Carolina is conducting an investigation of the Company. Based on the information available to the Company as of the date of this Quarterly Report, the Company believes that the investigation relates principally to issues of financial reporting for Medical Manager Corporation, a predecessor of the Company (by its merger into the Company in September 2000), and the Company s Medical Manager Health Systems subsidiary; however, the Company cannot be sure of the investigation s exact scope or how long it may continue. The Company intends to continue to

WEBMD CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

fully cooperate with the authorities in this matter. While the Company is not able to estimate, at this time, the amount of the expenses that it will incur in connection with the investigation, it expects that they may continue to be significant. For the three and six months ended June 30, 2004, those expenses are reflected as Legal Expenses in the accompanying consolidated statements of operations.

In the normal course of business, the Company and its subsidiaries are involved in various other claims and legal proceedings. While the ultimate resolution of these matters, including those discussed in Part II, Item 1 of this Quarterly Report and in the Company s 2003 Annual Report on Form 10-K under the heading Legal Proceedings, has yet to be determined, the Company does not believe that their outcome will have a material adverse effect on the Company s consolidated financial position or results of operations.

12. Subsequent Event

On July 12, 2004, the Company entered into a definitive agreement to acquire VIPS, Inc. (ViPS), a privately held provider of information technology, decision support solutions and consulting services to government, Blue Cross Blue Shield and commercial healthcare payers. ViPS develops and provides a full range of solutions for systems support, claims processing, provider performance measurement, quality improvement, fraud prevention, disease management and predictive modeling. The Company will pay approximately $160,000 in cash at closing. The purchase price is subject to customary post-closing adjustments.

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ITEM 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

This Item 2 contains forward-looking statements with respect to possible events, outcomes or results that are, and are expected to continue to be, subject to risks, uncertainties and contingencies, including those identified in this Item. See Cautionary Statement Regarding Forward-Looking Statements on page 3.

Overview

Management s discussion and analysis of financial condition and results of operations, or MD&A, is provided as a supplement to the consolidated financial statements and notes thereto included elsewhere in this Quarterly Report and to provide an understanding of our results of operations, financial condition, and changes in financial condition. Our MD&A is organized as follows:

Introduction. This section provides a general description of WebMD, a brief discussion of our operating segments and background information on certain trends, strategies and other matters discussed in this MD&A.

Critical Accounting Policies and Estimates. This section discusses those accounting policies that both are considered important to our financial condition and results of operations, and require us to exercise subjective or complex judgments in their application. In addition, all of our significant accounting policies, including our critical accounting policies, are summarized in Note 1 to the Consolidated Financial Statements contained in our 2003 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Results of Operations and Results of Operations by Operating Segment. These sections provide our analysis and outlook for the significant line items on our consolidated statements of operations, on both a company-wide and a segment-by-segment basis.

Liquidity and Capital Resources. This section provides an analysis of our liquidity and cash flows, as well as a discussion of our outstanding debt and commitments, that existed as of June 30, 2004.

Factors That May Affect Our Future Financial Condition or Results of Operations. This section describes circumstances or events that could have a negative effect on our financial condition or results of operations, or that could change, for the worse, existing trends in some or all of our businesses. The factors discussed in this section are in addition to factors that may be described elsewhere in this Quarterly Report.

Introduction

WebMD Corporation is a Delaware corporation that was incorporated in December 1995 and commenced operations in January 1996 as Healtheon Corporation. We changed our name to Healtheon/WebMD Corporation in November 1999 and to WebMD Corporation in September 2000. Our common stock has traded on the Nasdaq National Market under the symbol HLTH since February 11, 1999.

On August 1, 2003, we completed the sale of two operating units of our Plastic Technologies segment. Accordingly, the historical results of these two operating units, including the loss related to the divestitures, have been reclassified as discontinued operations in our financial statements.

Operating Segments

We have aligned our business into four operating segments as follows:

Transaction Services or WebMD Envoy. We provide healthcare reimbursement cycle management services, including transmission of transactions between healthcare payers and physicians, pharmacies, dentists, hospitals, laboratory companies and other healthcare providers using dial-up, Internet and dedicated communication methods. We provide automated patient billing services to providers, including statement printing and mailing services. In addition, we provide third party

administrators and health insurers with automated healthcare claims processing technology and outsourcing services for document processing, scanning, data scrubbing and online secure document management, as well as paid-claims communication services, including print-and-mail services for the distribution of checks, remittance advice and explanation of benefits.

Physician Services or WebMD Practice Services. We develop and market integrated physician practice management systems, including administrative, financial and clinical applications and services, under The Medical Manager, Intergy, ULTIA and Medical Manager Network Services brands. 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.

Portal Services or WebMD Health. We provide online healthcare information, educational services and related resources for consumers and healthcare professionals, both directly and through our relationships with leading general consumer Internet portals. We also provide online content for use by media and healthcare partners in their Web sites. We develop and sell online and offline channels of communication and sponsorship programs to pharmaceutical, biotech, medical device and consumer products companies, particularly those who are interested in influencing healthcare decisions. In addition, we provide a suite of online tools and related services to employers and health plans for use by their employees and plan members.

Plastic Technologies or Porex. We develop, manufacture and distribute proprietary porous plastic products and components used in healthcare, industrial and consumer applications, as well as in finished products used in the medical device and surgical markets.

Background Information on Certain Trends and Strategies

Implementation of the HIPAA Transaction Standards. Under the Healthcare Insurance Portability and Accountability Act of 1996, or HIPAA, Congress mandated a package of interlocking administrative simplification rules, including rules to establish standards and requirements for the electronic transmission of certain healthcare transactions, which we refer to as the Transaction Standards. The compliance date for the Transaction Standards was October 16, 2003. The Transaction Standards are applicable to the portions of our business involving the processing of healthcare transactions among physicians, payers, patients and other healthcare industry participants, including WebMD Envoy and Medical Manager Network Services. In order to implement the Transaction Standards, WebMD Envoy has made and continues to make significant changes to its systems and the software it uses internally. Similarly, the implementation has required payers and providers to simultaneously implement changes to their systems and/or internal procedures. As a result, this implementation process and related testing has been an immense challenge for the healthcare industry, including WebMD. As a leading clearinghouse for healthcare transactions and a leading vendor of physician office management information systems, WebMD has been the focus of a great deal of scrutiny in the implementation process and has received some criticism for difficulties encountered by our customers and for delays in correcting some of those problems. Given the nature and scope of the changes being implemented, the large number of healthcare industry participants involved and our position in the industry, we expected that there would be some processing problems and delays. We continue to work diligently to identify and resolve these problems as they occur, while at the same time committing significant resources to keeping the implementation process moving forward. We expect that the majority of work related to the HIPAA Transaction Standards will be completed by December 31, 2004.

Outsourcing by Healthcare Payers. We are continuing our efforts to transform WebMD Envoy from a commercial clearinghouse to a business process outsourcer. In order to be more efficient, many healthcare payers are focusing upon core activities building cost-effective provider networks, marketing their services to employers, and adjudicating claims payment and are outsourcing pre- and post-adjudication administrative activities, such as printing and mailing checks and explanation of benefits and other document management activities, including conversion of paper claims to electronic form. By

outsourcing these services to us, payers can reduce operating costs and capital expenditures. Our acquisitions of Advanced Business Fulfillment and Medifax-EDI in 2003 and Dakota Imaging in April 2004 support our ability to provide more comprehensive business process outsourcing services.

Critical Accounting Policies and Estimates

Our discussion and analysis of WebMD s financial condition and results of operations are based upon our Consolidated Financial Statements and Notes to Consolidated Financial Statements, which were prepared in conformity with accounting principles generally accepted in the United States. The preparation of the consolidated financial statements requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience, current business factors, and various other assumptions that we believe are necessary to form a basis for making judgments about the carrying values of assets and liabilities and disclosure of contingent assets and liabilities. We are subject to uncertainties such as the impact of future events, economic, environmental and political factors, and changes in our business environment; therefore, actual results could differ from these estimates. Accordingly, the accounting estimates used in preparation of our financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as our 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 our consolidated financial statements.

We evaluate our estimates on an ongoing basis, including those related to revenue recognition, short-term and long-term investments, deferred tax assets, income taxes, collectibility of customer receivables, prepaid content and distribution services, long-lived assets including goodwill and other intangible assets, software development costs, inventory valuation, certain accrued expenses, accruals related to our restructuring program, contingencies, litigation and the value attributed to warrants issued for services.

We believe the following reflects our critical accounting policies and our more significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue. Our revenue recognition policies for each reportable segment are as follows:

Transaction Services or WebMD Envoy. Healthcare payers and providers pay us fees for our services, generally on a per transaction basis or monthly basis. We recognize revenue as we perform the service. Healthcare payers and providers also pay us one-time implementation and annual maintenance fees. We recognize revenue from these fees ratably over the term of the respective agreements.

Physician Services or WebMD Practice Services. Healthcare providers pay us one-time fees for the purchase of our practice management systems. We recognize revenue from these one-time fees when we enter into noncancelable agreements with our customers, the products have been delivered and there are no uncertainties regarding product acceptance and delivery, no significant future performance obligations exist, fees are fixed and determinable and collectability is probable. Amounts received in advance of meeting these criteria are deferred until we meet these criteria. Revenue from multiple-element software arrangements is recognized using the residual method as vendor specific objective evidence (VSOE) of fair value exists for the undelivered elements, but not for all of the delivered elements. The residual method requires revenue to be allocated to the undelivered elements based on the fair value of such elements, as indicated by VSOE. VSOE is based on the price charged when an element is sold separately. Healthcare providers also pay us fees for maintenance and support of their practice management system, including the hardware and software. We recognize revenue from these fees ratably over the contract period, typically in one year or less. Healthcare providers also pay us fees for transmitting transactions to payers and patients. We recognize revenue from these fees, which are generally paid on a monthly or per transaction basis, as we provide the service.

Portal Services or WebMD Health. Customers pay us for advertising, sponsorship, healthcare management tools, continuing medical education (CME), content syndication and distribution, and e-commerce transactions related to our online distribution channels and the online and offline distribution channels of our strategic partners. Revenue from advertising is recognized as advertisements are delivered. Revenues from sponsorship arrangements and healthcare management tools are recognized ratably over the term of the applicable agreement. Revenue from CME arrangements is recognized over the period we satisfy the minimum credit hour requirements of the applicable agreements. Revenue from fixed fee content license or carriage fees is recognized ratably over the term of the applicable agreement. E-commerce revenue is recognized when a subscriber or consumer utilizes our Internet-based services or purchases goods or services through our Web site or a Web site co-branded with one of our strategic partners. Subscription revenue, including subscription revenue from sponsorship arrangements, is recognized over the subscription period. When contractual arrangements contain multiple elements, revenue is allocated to the elements based on their relative fair values, determined using prices charged when elements are sold separately.

Plastic Technologies or Porex. We develop, manufacture and distribute porous plastic products and components. For standard products, we recognize revenue upon shipment of product, net of sales returns and allowances. For sales of certain custom products, we recognize revenue upon completion and customer acceptance. Recognition of amounts received in advance of meeting these criteria is deferred until we meet these criteria.

Long-Lived Assets. Our long-lived assets consist of property and equipment, goodwill and other intangible assets. Goodwill and other intangible assets arise from the acquisitions we have made. The amount assigned to intangible assets is subjective and based on our estimates of the future benefit of the intangible asset using accepted valuation techniques, such as discounted cash flow and replacement cost models. Our long-lived assets, excluding goodwill, are amortized over their estimated useful lives, which we determined based on the consideration of several factors including the period of time the asset is expected to remain in service. We evaluate the carrying value and remaining useful lives of long-lived assets, excluding goodwill, whenever indicators of impairment are present. We evaluate the carrying value of goodwill annually. We use a discounted cash flow approach to determine the fair value of goodwill. There was no impairment of goodwill noted as a result of our impairment testing in 2003.

Investments. Our investments, at June 30, 2004, consist principally of certificates of deposit, municipal bonds, asset-backed securities, Federal Agency Notes, U.S. Treasury Notes and equity investments in publicly traded companies. Each reporting period we evaluate the carrying value of our investments and record a loss on investments when we believe an investment has experienced a decline in value that is other than temporary. We do not recognize gains on an investment until sold. Future changes in market or economic conditions or operating results of our investments could result in gains or losses or an inability to recover the carrying value of the investments that may not be reflected in an investment s carrying value.

Deferred Tax Assets. Our deferred tax assets are comprised primarily of net operating loss carryforwards. At June 30, 2004, we had net operating loss carryforwards of approximately $1.9 billion. These loss carryforwards may be used to offset taxable income in future periods, reducing the amount of taxes we might otherwise be required to pay. Due to a lack of a history of generating taxable income, we record a valuation allowance equal to 100% of our net deferred tax assets. In the event that we are able to generate taxable earnings in the future and determine it is more likely than not that we can realize our deferred tax assets, an adjustment to the valuation allowance would be made which may increase income in the period that such determination was made.

Restructuring and Integration. In connection with our restructuring and integration efforts, modifications to our strategic relationship with News Corporation resulted in a change in the

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carrying value of advertising services we have the rights to, classified as prepaid content and distribution services. We estimated the fair value of our rights under the new agreement using a discounted cash flow approach. This estimate also affects the amortization of this asset in future periods over the contractual term. Also, in connection with our restructuring and integration efforts, we recorded charges for estimated future lease obligations and lease cancellation penalties related to exited facilities based on many different variables, such as the term to expiration, contractual rights under the lease agreement and current real estate market conditions. Future changes in any of these variables, such as a change in real estate market conditions, could have an impact on these estimates.

Results of Operations

The following table sets forth our consolidated statements of operations data and expresses that data as a percentage of revenue for the periods presented (amounts in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2004		2003		2004		2003	
	$	%	$	%	$	%	$	%
Revenue	281,881	100.0	233,418	100.0	553,095	100.0	454,949	100.0
Cost and expenses:								
Cost of operations	163,961	58.2	135,441	58.0	326,603	59.0	261,286	57.4
Development and engineering	12,991	4.6	10,403	4.5	24,087	4.4	21,320	4.7
Sales, marketing, general and administrative	83,298	29.5	69,359	29.7	160,292	29.0	137,467	30.2
Depreciation, amortization and other	13,148	4.7	14,944	6.4	25,733	4.6	41,864	9.2
Legal expense	2,215	0.8			4,252	0.8		
Interest income	4,511	1.6	4,985	2.1	9,994	1.8	10,033	2.2
Interest expense	4,838	1.7	2,926	1.2	9,586	1.7	5,741	1.3
Other income, net	447	0.2	1,118	0.5	484	0.1	1,301	0.3
Income (loss) from continuing operations before income tax provision	6,388	2.3	6,448	2.8	13,020	2.4	(1,395)	(0.3)
Income tax provision	613	0.3	1,001	0.5	1,544	0.3	1,988	0.4
Income (loss) from continuing operations	5,775	2.0	5,447	2.3	11,476	2.1	(3,383)	(0.7)
Loss from discontinued operations			(31,717)	(13.6)			(30,245)	(6.7)
Net income (loss)	5,775	2.0	(26,270)	(11.3)	11,476	2.1	(33,628)	(7.4)

Revenue is derived from our four business segments: Transaction Services, Physician Services, Portal Services and Plastic Technologies. Our Transaction Services include administrative services, such as transaction processing for medical, dental and pharmacy claims, automated healthcare claims processing and document management technology and outsourcing services, automated print-and-mail services, paid-claims communication services and clinical lab and reporting services, such as lab test orders and results. A significant portion of Transaction Services revenue is generated from the country s largest national and regional healthcare payers. Our Physician Services include sales of practice management systems, including administrative, financial and clinical applications and services, under The Medical Manager, Intergy, ULTIA and Medical Manager Network Services brands. We also sell support and maintenance services related to the hardware and software associated with our practice management systems. Portal Services include advertising, sponsorship, continuing medical education, content syndication and distribution, and e-commerce transactions through our online distribution channels and the online and offline distribution channels of our strategic partners. A significant portion of Portal Services revenue is derived from a small number of customers. Our customers include pharmaceutical companies, biotech companies, medical device companies and media companies. Portal Services also provides a suite of online tools and related services to employers and health plans for use by their employees and plan members. Our Plastic Technologies revenue includes the sale of porous plastic components used to control the flow of fluids and gases for use in healthcare, industrial and consumer

applications, as well as in finished products used in the medical device and surgical markets.

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

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

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

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

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

Revenues

Revenues for the three months ended June 30, 2004 were $281,881, compared to $233,418 for the three months ended June 30, 2003. The Transaction Services, Portal Services and Plastic Technologies segments were responsible for $48,016, $5,314 and $2,141, respectively, of the revenue increase for the quarter, which was partially offset by a decrease in revenue of $5,024 in Physician Services and an increase of $1,984 in inter-segment eliminations.

Revenues for the six months ended June 30, 2004 were $553,095, compared to $454,949 for the six months ended June 30, 2003. Transaction Services, Portal Services and Plastic Technologies segments were responsible for $96,302, $9,443 and $3,236, respectively, of the revenue increase for the six-month period, which was partially offset by a decrease in revenue of $6,029 in Physician Services and an increase of $4,806 in inter-segment eliminations.

Revenue from customers acquired through the 2004 Acquisitions and 2003 Acquisitions contributed $38,938 to the overall increase in revenue of $48,463 for the three months ended June 30, 2004, and $79,652 to the overall increase in revenue of $98,146 for the six months ended June 30, 2004. For purposes of this discussion, only revenue from existing customers of the acquired business on the date of the acquisition is considered to be revenue from acquired customers. We integrate acquisitions as quickly

as practicable, and only revenue recognized during the first twelve months following the quarter in which the acquisition closed is considered to be revenue from acquired customers.

Costs and Expenses

Cost of Operations. Cost of operations was $163,961 and $326,603 for the three and six months ended June 30, 2004, compared to $135,441 and $261,286 in the prior year periods. Our cost of operations represented 58.2% and 59.0% of revenues for the three and six months ended June 30, 2004, compared to 58.0% and 57.4% for the three and six months ended June 30, 2003. The inclusion of the Medifax operations had a favorable impact on cost of operations as a percentage of revenue for both the three and six month periods ended June 30, 2004 when compared to a year ago, as Medifax products have higher gross margins than the average gross margins of other products we offer. Partially offsetting the favorable impact of the inclusion of the Medifax operations for both the three and six months ended June 30, 2004 when compared to a year ago was the inclusion of the ABF operations which have products with lower gross margins, due to the high cost of postage associated with providing ABF s services. Excluding the effect of the ABF and Medifax acquisitions, cost of operations for both the three and six month periods ended June 30, 2004 when compared to a year ago was also impacted by higher sales commissions, as a percentage of revenue, paid to our channel partners and higher costs related to our implementation efforts with respect to the HIPAA Transaction Standards and our all-payer transaction services. Included in cost of operations were non-cash expenses related to content and distribution services of $346 and $601 during the three and six months ended June 30, 2004 and $827 during both the three and six months ended June 30, 2003, respectively.

Development and Engineering. Development and engineering expense was $12,991 and $24,087 for the three and six months ended June 30, 2004, compared to $10,403 and $21,320 in the prior year periods. The increase in development and engineering expense for the three and six month periods was primarily attributable to inclusion of the expenses of the Medifax and ABF operations in the 2004 periods.

Sales, Marketing, General and Administrative. Sales, marketing, general and administrative expense increased 20.1% and 16.6% to $83,298 and $160,292 for the three and six months ended June 30, 2004, compared to $69,359 and $137,467 in the prior year periods. Included in sales, marketing, general and administrative expense are non-cash expenses related to content and distribution services and stock compensation. Non-cash expenses related to content and distribution services were $5,645 and $10,683 for the three and six months ended June 30, 2004, compared to $5,176 and $11,322 for the prior year periods. Non-cash stock compensation was $2,736 and $4,441 for the three and six months ended June 30, 2004, compared to $3,801 and $7,558 for the prior year periods. The decrease in non-cash stock compensation is primarily related to the vesting schedules of options issued and assumed in connection with acquisitions we made in 2000, partially offset by additional compensation expense during the three months ended June 30, 2004 related to restricted stock issued to certain employees in March 2004.

Sales, marketing, general and administrative expense, excluding the non-cash expenses discussed above, increased to $74,917 and $145,168 or 26.6% and 26.2% of revenue, for the three and six months ended June 30, 2004, compared to $60,382 and $118,587, or 25.9% and 26.1% of revenue, for the prior year periods. The increase in sales, marketing, general and administrative expense for both the three and six months ended June 30, 2004 is due to higher personnel and professional services costs related to our implementation efforts with respect to the HIPAA Transaction Standards and our all-payer transaction services and our readiness efforts related to Section 404 of the Sarbanes-Oxley Act of 2002. Partially offsetting the increase in sales, marketing, general and administrative expense as a percentage of revenue for both the three and six months ended June 30, 2004 was the impact of the inclusion, in 2004, of the ABF operations which have lower administrative expenses as a percentage of revenue than our other operations.

Depreciation, Amortization and Other. Depreciation, amortization and other expense decreased to $13,148 and $25,733 for the three and six months ended June 30, 2004, compared to $14,944 and $41,864 in the prior year periods. The decrease was the result of intangible assets relating to certain acquisitions

made in 2000 becoming fully amortized since the beginning of the prior year periods. This decrease was partially offset by depreciation and amortization expense related to the tangible and intangible assets acquired through our 2004 and 2003 Acquisitions.

Legal Expense. Legal expense was $2,215 and $4,252 for the three and six months ended June 30, 2004 and represents the costs and expenses incurred related to the investigation by the United States Attorney for the District of South Carolina and the SEC. Over the course of the investigation, we expect that these costs and expenses may continue to be significant.

Interest Income. Interest income was $4,511 and $9,994 during the three and six months ended June 30, 2004, compared to $4,985 and $10,033 in the prior year periods. This decrease was primarily due to lower average rates of return, partially offset by higher average investment balances.

Interest Expense. Interest expense was $4,838 and $9,586 for the three and six months ended June 30, 2004, compared to $2,926 and $5,741 for the prior year periods. Interest expense increased for the three and six months ended June 30, 2004, compared to prior year periods as a result of interest expense and amortization of debt issuance costs related to the 1.75% Convertible Subordinated Notes issued in June and July of 2003.

Other Income, Net. Other income during the three and six months ended June 30, 2004 includes a gain on the sale of marketable securities of $447. Also included in other income during the six months ended June 30, 2004 was a gain of $121 from the sale of property offset by a loss on the sale of marketable securities of $84. Other income during the three and six months ended June 30, 2003 includes a benefit of $1,118, related to a state tax refund which applied to a pre-acquisition tax year of a company we acquired. Also included in other income during the six months ended June 30, 2003 is a gain of $183, primarily related to investments in two marketable securities that were called for early redemption during the quarter ended March 31, 2003.

Income Tax Provision. The income tax provision of $613 and $1,544 for the three and six months ended June 30, 2004, and $1,001 and $1,988 for the three and six months ended June 30, 2003, primarily related to tax expense for operations that are profitable in certain states and foreign countries in which we do not have net operating losses to offset that income.

Discontinued Operations. Loss from discontinued operations during the three and six months ended June 30, 2003 represents the operating results of the discontinued units of the Plastic Technologies segment. Included in the loss from discontinued operations during the three and six months ended June 30, 2003 is an impairment charge of $33,113 to reduce certain long-lived assets of the discontinued units to fair value.

Results of Operations by Operating Segment

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Revenues				
Transaction services	$166,037	$118,021	$329,816	$233,514
Physician services	71,773	76,797	142,779	148,808
Portal services	31,852	26,538	58,161	48,718
Plastic technologies	20,737	18,596	39,158	35,922
Inter-segment eliminations	(8,518)	(6,534)	(16,819)	(12,013)
	$281,881	$233,418	$553,095	$454,949
Income (loss) before taxes, non-cash and other items				
Transaction services	$ 28,914	$ 22,342	$ 58,764	$ 46,393
Physician services	1,771	6,359	3,122	12,656
Portal services	7,626	6,192	12,168	10,210
Plastic technologies	6,275	5,507	11,317	10,167
Corporate	(14,228)	(12,381)	(27,533)	(24,843)
Interest income	4,511	4,985	9,994	10,033
Interest expense	(4,838)	(2,926)	(9,586)	(5,741)
	30,031	30,078	58,246	58,875
Taxes, non-cash and other items				
Depreciation, amortization and other	(13,148)	(14,944)	(25,733)	(41,864)
Non-cash content and distribution services and stock compensation	(8,727)	(9,804)	(15,725)	(19,707)
Legal expense	(2,215)		(4,252)	
Other income, net	447	1,118	484	1,301
Income tax provision	(613)	(1,001)	(1,544)	(1,988)
Income (loss) from continuing operations	5,775	5,447	11,476	(3,383)
Loss from discontinued operations		(31,717)		(30,245)
Net income (loss)	$ 5,775	$ (26,270)	$ 11,476	$ (33,628)

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

Transaction Services. Revenues were $166,037 and $329,816 for the three and six months ended June 30, 2004, compared to $118,021 and $233,514 for the prior year periods. Revenues from customers acquired through the 2004 Acquisitions and 2003 Acquisitions contributed $38,361 and $78,194 of the increase for the three and six months ended June 30, 2004. The remaining increases of $9,655 and $18,108 for the three and six months ended June 30, 2004 were primarily the result of increased sales of our paid-claims communication services, EDI transaction services and automated print-and-mail services.

Income before taxes, non-cash and other items was $28,914 and $58,764 for the three and six months ended June 30, 2004, an increase of $6,572 or 29.4% and $12,371 or 26.7%, compared to the prior year periods. As a percentage of revenue, income before taxes, non-cash and

other items declined to 17.4% and 17.8% for the three and six months ended June 30, 2004, compared to 18.9% and 19.9% for the prior year periods. These decreases were primarily due to higher sales commissions paid to our channel partners, and increased costs related to our implementation efforts with respect to the HIPAA Transaction Standards and our all-payer transaction services. These higher costs were partially offset by the inclusion, in 2004, of the higher operating margins of ABF and Medifax.

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Physician Services. Revenues were $71,773 and $142,779 for the three and six months ended June 30, 2004, a decrease of $5,024 and $6,029 compared to the prior year periods. The decrease in revenues for both the three and six months ended June 30, 2004, compared to a year ago, related to lower systems sales resulting from longer and more complex sales cycles and from HIPAA implementation and other transition challenges related to our all-payer transaction services, partially offset by a continued increase in Network Services revenues. Revenue from customers acquired through the 2004 Acquisitions and 2003 Acquisitions was $577 and $958 for the three and six months ended June 30, 2004, respectively.

Income before taxes, non-cash and other items was $1,771 and $3,122 for the three and six months ended June 30, 2004, compared to $6,359 and $12,656 in the prior year periods. As a percentage of revenue, income before taxes, non-cash and other items was 2.5% and 2.2% for the three and six months ended June 30, 2004, compared to 8.3% and 8.5% for the prior year periods. These decreases as a percentage of revenue were primarily attributable to the lower systems sales discussed above combined with lower systems margins.

Portal Services. Revenues were $31,852 and $58,161 for the three and six months ended June 30, 2004, an increase of $5,314 or 20.0% and $9,443 or 19.4%, compared to the prior year periods. These increases were primarily attributable to growth in online revenues from pharmaceutical and medical device companies, as well as increases in revenues from large employers and commercial payers for our web-based health and benefits management solutions. Revenues from customers acquired through the 2003 Acquisitions contributed $500 to the increase in Portal Services revenue for the six months ended June 30, 2004.

Income before taxes, non-cash and other items was $7,626 and $12,168 for the three and six months ended June 30, 2004, an increase of $1,434 or 23.2% and $1,958 or 19.2%, compared to the prior year periods. As a percentage of revenue, income before taxes, non-cash and other items was 23.9% and 20.9% for the three and six months ended June 30, 2004, compared to 23.3% and 21.0% for the prior year periods. The increase as a percentage of revenue for the three months ended June 30, 2004, compared to a year ago, was primarily the result of reduced marketing expenses combined with variability in the timing of revenues.

Plastic Technologies. Revenues were $20,737 and $39,158 for the three and six months ended June 30, 2004, an increase of $2,141 and $3,236 compared to the prior year periods. The increase for the three months ended June 30, 2004, compared to a year ago, was primarily due to increased sales of writing instrument components and, to a lesser extent, sales of a new consumer filtration product. Also contributing to the increase in revenues during the six months ended June 30, 2004, compared to a year ago, was the favorable impact of foreign exchange rates.

Income before taxes, non-cash and other items was $6,275 and $11,317 for the three and six months ended June 30, 2004, an increase of $768 or 13.9% and $1,150 or 11.3%, compared to the prior year periods. As a percentage of revenue, income before taxes, non-cash and other items was 30.3% and 28.9% for the three and six months ended June 30, 2004, compared to 29.6% and 28.3% for the prior year periods. These increases as a percentage of revenue were primarily due to an increase in sales of higher margin products and the leveraging effect of certain fixed manufacturing costs.

Corporate includes expenses shared across all segments, such as executive personnel, corporate finance, legal, human resources and risk management. Corporate expenses increased to $14,228 and $27,533 during the three and six months ended June 30, 2004, compared to $12,381 and $24,843 in the prior year periods, primarily as a result of higher professional services costs related to our readiness efforts related to Section 404 of the Sarbanes-Oxley Act of 2002.

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

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Liquidity and Capital Resources

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

As of June 30, 2004, we had $207,217 in cash and cash equivalents and short-term investments and working capital of $145,437. Additionally, we had long-term investments of $592,105 in marketable debt securities and $3,206 in marketable equity securities. We invest our excess cash principally in U.S. Treasury obligations and Federal Agency Notes and expect to do so in the future.

Cash provided by operating activities was $40,648 for the six months ended June 30, 2004, compared to $37,319 for the six months ended June 30, 2003. The cash provided by operating activities for the six months ended June 30, 2004 was primarily attributable to the net income of $11,476 and non-cash charges of $42,956, partially offset by net changes in operating assets and liabilities of $13,300. The negative impact of changes in operating assets and liabilities may reverse in future periods, depending on the timing of each period end in relation to items such as payroll and billing cycles, payments from customers, payments to vendors, interest payments relating to our 1.75% and 3 1/4% Convertible Subordinated Notes and interest receipts relating to our investments in marketable securities. The cash provided by operating activities for the six months ended June 30, 2003 was primarily attributable to non-cash charges of $62,345 and the loss from discontinued operations of $30,245, partially offset by a net loss of $33,628 and net changes in operating assets and liabilities of $26,013. The non-cash charges consist of depreciation and amortization, non-cash expenses related to content and distribution services, stock compensation and amortization of debt issuance costs.

Cash used in investing activities was $15,127 for the six months ended June 30, 2004, compared to $50,383 for the six months ended June 30, 2003. Cash used in investing activities for the six months ended June 30, 2004 related to $274,600 of purchases of available-for-sale securities and cash paid in relation to business combinations of $58,060 offset by $329,163 of proceeds from maturities and sales of available-for-sale securities. Cash used in investing activities for the six months ended June 30, 2003 primarily related to purchases of held-to-maturity securities, partially offset by maturities and redemptions of held-to-maturity securities. Investments in property and equipment were $12,047 and $8,861 for the six months ended June 30, 2004 and 2003, respectively.

Cash provided by financing activities was $117,992 for the six months ended June 30, 2004, compared to $294,390 for the six months ended June 30, 2003. Cash provided by financing activities for the six months ended June 30, 2004 principally related to the net proceeds of $98,115 from the issuance of our convertible redeemable exchangeable preferred stock and proceeds of $25,011 primarily related to exercises of employee stock options. Cash provided by financing activities for the six months ended June 30, 2003 primarily related to $290,500 of net proceeds from the issuance of our 1.75% Convertible Subordinated Notes on June 25, 2003. During the six months ended June 30, 2004 and 2003, $4,877 and $18,125, respectively, was used for repurchases of our common stock.

As of June 30, 2004, we did not have any material commitments for capital expenditures. Our principal commitments at June 30, 2004 were our commitments related to the $350,000 of 1.75% Convertible Subordinated Notes due in June of 2023, the $299,999 of 3 1/4% Convertible Subordinated Notes due in April of 2007, our $100,000 of Convertible Redeemable Exchangeable Preferred Stock and obligations under operating leases. Additionally, we had commitments to make potential earnout payments of up to an aggregate of $163,450, as of June 30, 2004, related to completed acquisitions.

Our contractual obligations, contingencies and commitments for minimum lease payment obligations under non-cancelable operating leases have not changed materially from December 31, 2003.

We believe that, for the foreseeable future, we will have sufficient cash resources to meet the commitments described above and our current anticipated working capital and capital expenditure requirements, including the capital requirements related to the roll-out of new or updated products in 2004

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

We recently announced that, at the direction of our Board of Directors, our management has begun a process of exploring alternatives, with respect to our Portal Services business, relating to a possible public offering of equity in that business. No decision has been made regarding the form that any such transaction would take and our Board of Directors may determine not to pursue such a transaction. In addition, we cannot provide assurance that any such transaction, if pursued, will be successfully completed.

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

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

Risks Related to Our Relationships with Customers and Strategic Partners

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

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

adversely affect the terms and conditions we are able to negotiate in our agreements with them, which could also have a material adverse impact on WebMD Envoy s business and financial results.

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

Some of our existing payer and provider customers and some of our strategic partners may compete with us or plan to do so or belong to alliances that compete with us or plan to do so. For example, some payers currently offer, through affiliated clearinghouses, Web portals and other means, electronic data transmission services to healthcare providers that allow the provider to bypass third party EDI service providers such as WebMD Envoy. We cannot provide assurance that we will be able to maintain our existing links to payers or develop new connections on satisfactory terms, if at all. In addition, some of our other services allow healthcare payers to outsource business processes that they have been or could be performing internally and, in order for us to be able to compete, use of our services must be more efficient for them than use of internal resources.

WebMD 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 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.

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

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

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

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

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

A substantial portion of WebMD Health s revenues come from a relatively small number of companies. Thus, the loss of a small number of these relationships or a reduction in the purchases by a portion of these sponsors could have a material adverse effect on 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. For more information, see Risks Related to Providing Products and Services to the Healthcare Industry Developments in the healthcare industry could adversely affect our business below and Business Government Regulation in our 2003 Annual Report on Form 10-K.

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

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

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

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

We must introduce new healthcare information services and technology solutions and improve the functionality of our existing products and services in a timely manner in order to retain existing customers and attract new ones. However, we may not be successful in responding to technological and regulatory developments and changing customer needs. The pace of change in the markets we serve is rapid, and there are frequent new product and service introductions by our competitors and by vendors whose products and services we use in providing our own products and services. If we do not respond successfully to technological and regulatory changes and evolving industry standards, our products and services may become obsolete. Technological changes may also result in the offering of competitive products and services at lower prices than we are charging for our products and services, which could result in our losing sales unless we lower the prices we charge. In addition, there can be no assurance that the products we develop or license will be able to compete with the alternatives available to our customers. For more information about the competition we face, see Business Healthcare Information Services and Technology Solutions Competition for Our Healthcare Information Services and Technology Solutions in our 2003 Annual Report on Form 10-K.

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

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

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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 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, see Business Government Regulation in our 2003 Annual Report on Form 10-K.

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

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

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

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

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

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

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

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

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

Our payer and provider customer satisfaction and our business could be harmed if WebMD 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 or use. Even if new products and services do not

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

For example, we have had and may continue to have transmission or processing problems relating to implementation of the HIPAA electronic transaction and code sets standards and our all-payer suite of services. See Developing and implementing new or updated products and services may take longer and 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 initiating services to large numbers of customers simultaneously; and various other transmission, processing, interfacing and service problems resulting from the implementation of new software and new business processes.

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

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

Performance problems with WebMD 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.

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Risks Related to Providing Products and Services to the Healthcare Industry

Developments in the healthcare industry could adversely affect our business

Almost all of the revenues of WebMD Health, WebMD 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 material adverse effect on our business. General reductions in expenditures by healthcare industry participants could result from, among other things:

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

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

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

In addition, expectations of our customers regarding pending or potential industry developments may also affect their budgeting processes and spending plans with respect to products and services of the types we provide.

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.

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

Application of the Transaction Standards to WebMD. October 16, 2003 was the deadline for covered entities to comply with HIPAA s electronic transaction and code sets standards (which we refer to as the Transaction Standards). Failure to comply with the Transaction Standards may subject WebMD Envoy to civil monetary penalties, and possibly to criminal penalties. On July 24, 2003, the Centers for Medicare & Medicaid Services, or CMS, released its Guidance on Compliance with HIPAA Transactions and Code

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Sets After the October 16, 2003 Implementation Deadline (which we refer to as the CMS Guidance). In addition, on July 24, 2003, CMS officials participated in an Open Door Forum teleconference during which they provided additional clarification on planned enforcement practices. CMS also urged the adoption of contingency plans to help prevent disruptions in the healthcare payment system. Under CMS s contingency plan for Medicare, it will continue to accept claims in both HIPAA standard and legacy formats, with the legacy formats to be accepted for a period to be determined by CMS based upon a regular reassessment of the readiness of its electronic trading partners. In response, WebMD Envoy announced a contingency plan, pursuant to which it continues to process HIPAA standard transactions and, for a limited period of time, will also process legacy transactions as appropriate based on applicable law and the needs of our business partners.

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

CMS has made clear that it expects each party to every transaction to be accountable for compliance with the new standards. However, the CMS Guidance provides for a flexible, complaint-driven enforcement strategy that will take into consideration good faith efforts to comply with the Transaction Standards. We believe that CMS s enforcement approach assisted in reducing disruptions in the flow of electronic transactions that otherwise could have occurred. 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 2004 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, we have experienced isolated disruptions and some delays and we expect that there will continue to be some problems for a period of time. We continue to work diligently to identify and resolve problems as they occur. The costs to us of dealing with those problems are inherently difficult to estimate and may be more than we expect and/or continue for longer than anticipated. In addition, most of our trading partners are currently operating under their own contingency plans and, accordingly, we would expect that there will be further disruptions during the adjustment period that occurs once CMS requires all applicable parties to perform in accordance with the Transaction Standards. We may not have enough technicians, programmers and customer service personnel to meet the demands placed on those functions by our customers and partners during that adjustment period, which could adversely affect our relationships with them.

Implementation Challenges. Implementation of the Transaction Standards has presented us with significant technical and operational challenges. For example, the Transaction Standards cover not only transaction formats, but also required content, including some content not previously collected by most providers. We are working with our trading partners on quality assurance and testing as we enhance our clearinghouse services for transmitting additional data content provided for in the Transaction Standards. We plan to place these services into production as both our systems and payers adjudication systems become fully capable of handling the additional data content. As with any highly complex transition involving significant modifications to trading partner systems, we are experiencing some problems during this process. Another aspect of the implementation challenges resulting from the Transaction Standards is the increase in computing capacity required. The Transaction Standards formats are much larger than the pre-existing ones. We are utilizing more computing capacity than we had anticipated. As a result, our

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systems have experienced inefficiencies that have resulted in processing delays. We seek to resolve all such problems when identified, but testing continues with numerous submitters and payers and no assurance can be given that we will identify all problems promptly or that we will not continue to experience problems that delay the full implementation of these enhanced data services. See also 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 Quarterly Report, a large majority of the claims we have received from submitters used legacy formats and very few contained the additional data content provided for in the Transaction Standards. A small number of our submitters currently send some additional HIPAA data content that does not yet pass through our clearinghouse. In order to facilitate transmission of claims with the standard HIPAA format, our clearinghouse software uses edits, including the use of default data, in the transmission of claims from our clearinghouse and some data received by us is not transmitted by us. To date, our software, editing procedures and production criteria for additional HIPAA content have not had a material effect on our ability to process and transmit transactions.

Implementation Costs. We have been incurring, and 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 customers for our products and services or existing or potential strategic partners.

Use of Dh="1%"> -24.7% -26.7%

Severance indemnity deposits (CTS)
1,013,010 1,069,267 987,247 2.6% -5.3%
Interest payable
50,307 54,572 76,892 -34.6% -7.8%
Total customer deposits
13,777,327 14,465,809 13,608,169 1.2% -4.8%
Mutual funds in Perú
2,182,873 2,042,159 1,307,943 66.9% 6.9%
Mutual funds in Bolivia
138,922 139,709 133,336 4.2% -0.6%
Total customer funds
16,099,122 16,647,677 15,049,448 7.0% -3.3%

The positive evolution of mutual funds is due to an overall improvement in market values and higher associated yields as well as our customers' decision (individuals) to migrate from time deposits to investment products such as mutual funds, which was an effect of aggressive affiliation campaigns.

The 4.8% QoQ decline in total deposits was mainly attributable to modifications in the structure of securitized bond issuances made in previous years, which reflected changes in reporting requirements. Under the new structure, the position must be registered in due to banks and correspondents as opposed to booking it within time deposits, as was the case until 4Q09. If we exclude this effect, real growth in deposits would be approximately 5.7% QoQ. This growth was associated primarily with higher levels reported in interest-free deposits (+13.7% QoQ as corporate accumulated cash for their yearly tax payments), savings (+ 8.9% QoQ) and demand deposits (+3.9 % QoQ).

This evolution of funding sources makes it very evident that BCP possesses a strong capacity to capture funds, which has allowed it to maintain market leadership and favorable funding costs.

Market Share in Deposits

During the first quarter of the year, BCP maintained its leadership in both foreign and local currency deposits in all its products. In this context, BCP's market share in total deposits was 33.4%. It is important to emphasize that the share in time deposits in foreign currency has fallen from

40.2% in 4Q09 to 28.6% in 1Q10 due to the aforementioned change in the structure of securitized bonds.

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	Market share by type of deposit and currency			
	Demand deposits	Saving deposits	Time deposits	Severance indemnity
LC	40.7.%	37.3%	23.4%	37.5%
FC	43.8%	41.6%	28.6%	55.9%

LC: Local Currency
FC: Foreign Currency

Dollarization

At the end of 1Q10, a strong level of de-dollarization was evident in foreign currency deposits due to the aforementioned change in the structure of securitized bonds as well as an increase in confidence in the local currency, which appreciated 1.7% against the dollar in the first quarter of the year. In this context, the market share of local currency deposits increased significantly, going from 37.9% in 4Q09 to 45.9% in 1Q10.

II.3 Net Interest Income

The NII grew 3.8% QoQ due to a 1.5% increase in interest income, which was strengthened by a 3.7% reduction in interest expenses. In this context, BCP obtained a NIM of 4.9%, which is similar to the 5.0% reported in 4Q09 and higher than the 4.5% registered in1Q09.

Net interest income		Quarter		Change %	
US$ 000	1Q10	4Q09	1Q09	1Q10/1Q09	1Q10/4Q09
Interest income	305,922	301,319	302,370	1.2%	1.5%
Interest on loans	280,165	274,340	258,751	8.3%	2.1%
Interest and dividends on investments	3,457	43	2,704	28%	7939.5%
Interest on deposits with banks	1,788	2,327	4,698	-61.9%	-23.2%
Interest on trading securities	19,838	22,008	29,472	-32.7%	-9.9%
Other interest income	674	2,601	6,745	-90.0%	-74.1%
Interest expense	86,747	90,086	116,209	-25.4%	-3.7%
Interest on deposits	21,555	49,258	83,182	-74.1%	-56.2%
Interest on borrowed funds	28,790	6,681	10,053	186.4%	330.9%
Interest on bonds and subordinated notes	25,628	20,916	14,452	77.3%	22.5%
Other interest expense	10,774	13,231	8,522	26.4%	-18.6%
Net interest income	219,175	211,233	186,161	17.7%	3.8%
Average interest earning assets	18,037,691	16,826,904	16,746,466	7.7%	7.2%
Net interest margin*	4.9%	5.0%	4.5%		

**Annualized*

The quarterly evolution of NII shows 1.5% growth, which is attributable to:

i) A 2.1% increase in interest on loans due to an expansion in the loan portfolio (+2.1% in quarterly closing balances and +6.7% in average daily balances), mainly because of the higher growth in the Wholesale Banking portfolio;

ii) Dividend income from investments that are usually obtained in the first quarter each year; and

iii) The 3.7% contraction in interest expenses due to lower interest expense on deposits caused by lower time deposit levels.

It is helpful to clarify that lower interest on securities reflects a mere accounting change since starting 2010, this item includes hedging costs (interest rate swaps), which were registered in other interest expenses in previous years. If we consider the net effect, both accounts have maintained levels similar to those seen in 4Q09. Additionally, the significant reduction in interest spending on deposits and considerable increase in interest on borrowed funds were due to a modification in the structure of securitized bonds issued by BCP in previous years, which translated into a reduction of time deposits and an increase in debts to banks and correspondents.

It is however important to point out that the NII evolution was very satisfactory if we consider the significant increase in interest paid on bonds and subordinated notes, which is primarily attributable to (i) the hybrid bonds issuance to strengthen our regulatory capital and (ii) senior debt issued to reduce the gap in tenor of our A&L positions.

Finally, the total net interest margin and NIM on loans recorded levels similar to those seen in 4Q09, as is evident in the following chart.

II.4 Past Due Portfolio and Provisions for Loan Losses

Net provisions reported a slight decline of 3.3% QoQ due to higher recoveries given that gross provisions maintained similar levels QoQ. Past due loans grew 17.0% QoQ due primarily to a seasonal effect on Retail Banking's SME segment, and an operational problem in the collections system, which impeded efforts to offset such seasonality.

Provision for loan losses	Quarter ended			Change %	
US$ 000	1Q10	4Q09	1Q09	1Q10 / 1Q09	1Q10 / 4Q09
Provisions	(50,507)	(50,554)	(32,026)	57.7%	-0.1%
Loan loss recoveries	7,062	5,620	4,846	45.7%	25.6%
Total provisions, net of recoveries	(43,445)	(44,933)	(27,180)	59.8%	-3.3%
Total loans	11,852,548	11,577,303	10,031,099	18.2%	2.4%
Reserve for loan losses (RLL)	380,248	353,348	240,091	58.4%	7.6%
Charge-Off amount	25,478	31,652	13,293	91.7%	-19.5%
Past due loans (PDL)	214,968	183,746	116,235	84.9%	17.0%
PDL/Total loans	1.81%	1.59%	1.16%		
Coverage	176.9%	192.3%	206.6%		

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Net provisions totaled US$ 43.4 million in 1Q10, which represented a 3.3% drop QoQ. This was primarily attributable to an increase in recoveries, which totaled US$7.1 million, a figure 25.6% higher than 4Q09's. Nevertheless, it is important to point out that although gross provisions were similar to the levels recorded in 4Q09, there was a change in the composition given that provision requirements for the Wholesale Banking and Edyficar portfolios fell in comparison to 4Q09's levels while Retail Banking's requirements increased as provisions were upped mainly for micro business loans.

The past due loans experienced a 17.0% increase QoQ, which is basically attributable to higher levels in SME products, as it is shown in the figure below. This increase was due to: (i) a seasonal effect as the strongly increased financing provided during the Christmas campaign matures in the first quarter of the year; and (ii) an operational problem in implementing a new collections system, which reduced the effectiveness of collections efforts. Growth in past due loans is also affected by the distinct feature of BCP's portfolio that a high percentage of loans is covered real guarantees creating a lag in write-offs.

PDL Ratio by Segment

The aforementioned explained in some extent the increase in the past due ratio, though also the way in which past due balances for further deteriorating loans are accounted for had a negative impact on the PDL ratio, which went from 1.59% to 1.81% (1Q10 vs 4Q09). Regardless, these levels are still low, and the good quality of our portfolio is reassured by an unchanged ratio (94.0%) of loans classified as "normal" since December 2009.

II.5 Non Financial Income

Non financial income fell 4.9% QoQ, primarily due to a contraction (-98.2% QoQ) in net gains on sales of securities in an scenario of higher markets stability, which in turn meant that there were fewer opportunities to generate trading income.

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Non financial income totaled US$ 137.8 million in 1Q10, which represents a contraction of 4.9% QoQ and 7.0% YoY. This was basically due to lower net gains on sales of securities. The quarterly evolution is attributable, in large part, to the gradual stabilization of international and local markets, which translates into fewer opportunities for trading. In relation to 1Q09's level, it is important to remember that net gains on sales of securities included extraordinary high earnings on sovereign and global bond sales.

Net gains on FX transactions, on the other hand, reported an important increase of 8.8% product also of a recovery in commercial activity.

Non financial income		Quarter		Change %	
US$ 000	1Q10	4Q09	1Q09	1Q10 / 1Q09	1Q10/ 4Q09
Fee income	107,223	109,546	77,553	38.3%	-2.1%
Net gain on foreign exchange transactions	25,503	23,430	20,328	25.5%	8.8%
Net gain on sales of securities	161	9,185	46,291	-99.7%	-98.2%
Other income	4,954	2,816	4,074	21.6%	75.9%
Total non financial income	137,841	144,977	148,246	-7.0%	-4.9%

Furthermore, banking service commissions remained at the same favorable level seen last quarter, when historic highs for commissions were recorded in certain segments like those obtained from structuring corporate financing operations, which did not reach the record levels of commissions reported in 4Q09 that represented more than twice the quarterly average in 2009 for Corporate Finance. This explains the slight decline in total commission income with regard to 4Q09 (-2.1%). If we analyze the YoY evolution, a significant increase of 38.3% is evident. This is primarily due to 37.9% growth in Miscellaneous Accounts (basically Savings accounts +46.3% YoY and Credit Cards +68.0% YoY) and expansion in the Others segment, which includes a notable increase in commissions on Corporate Finances (+US$ 3.1 million) and a significant contribution (+US$ 5.6 millions) from our subsidiaries (Credifondo +US$ 4.3 million and Banco de Crédito de Bolivia +US$1.3 million).

Banking Fee Income		Quarter		Change %	
US$ 000	1Q10	4Q09	1Q09	1Q10 / 1Q09	1Q10 / 4Q09
Miscellaneous accounts*	27,800	26,591	20,164	37.9%	4.5%
Contingents	6,395	5,611	4,559	40.3%	14.0%
Payments and collections	13,859	14,025	11,522	20.3%	-1.2%
Drafts and transfers	6,500	6,883	5,560	16.9%	-5.6%
Credit cards	13,851	14,155	10,141	36.6%	-2.1%
Others	38,818	42,282	25,607	51.6%	-8.2%
Total Fee Income	107,223	109,546	77,553	38.3%	-2.1%

** Saving Accounts, Current Accounts and Debit Card.*

The number of transactions contracted 5.5% with regard to 4Q09. Nevertheless, YoY comparison indicates a 15.3% increase. The quarterly evolution is partially attributable to the high activity during 4Q09 due to end-of-year campaigns. Growth YoY corresponds, to a large extent, to the 77.2% YoY increase in transactions through BCP Agents BCP (+2 million transactions) as well as more extensive use of the ATM network (18.9% increase YoY in the number of transactions). These results reflect BCP's efforts to promote the use of cost-efficient channels.

N° of Transactions per channel	Quarter Average 1Q10	Average 4Q09	Average 1Q09	Change % 1Q10 / 1Q09	1Q10 / 4Q09
Teller	10,107,334	10,733,475	9,792,291	3.2%	-5.8%
Internet Banking Via BCP	9,632,114	10,466,538	8,937,239	7.8%	-8.0%
ATMs Via BCP	7,643,857	8,193,738	6,430,467	18.9%	-6.7%
Agente BCP	4,676,832	4,614,103	2,639,140	77.2%	1.4%
Telecrédito	4,166,085	4,424,750	3,686,367	13.0%	-5.8%
Points of Sale P.O.S.	3,819,986	3,911,271	2,901,872	31.6%	-2.3%
Balance Inquiries	2,500,069	2,593,456	2,468,762	1.3%	-3.6%
Telephone Banking	1,421,835	1,641,981	1,354,645	5.0%	-13.4%
Direct Debit	366,097	401,154	400,771	-8.7%	-8.7%
Other ATMs network	292,788	314,287	210,673	39.0%	-6.8%
Mobile banking	227,526	152,191	85,060	167.5%	49.5%
Total transactions	44,854,522	47,446,943	38,907,287	15.3%	-5.5%

The network of service channels increased from 4,131 points of contact to 4,320. This is attributable to an increase in BCP Agents and ATMs, which is in line with the aforementioned strategy. A YoY comparison indicates that 30.8% of this growth corresponds to an increase in BCP Agents and ATMs (936 new BCP Agents and 95 additional ATMs). In both cases, there was a slight decline in the number of agencies. This is result of efforts to improve efficiency, which focus on closing certain points of contact that have not met profitability expectations to prioritize the expansion of more efficient channels. This evolution is a clear sign of BCP's solid commitment to extend banking penetration.

	Balance as of 1Q10	4Q09	1Q09	Change % 1Q10 / 1Q09	1Q10 / 4Q09
Branches	326	334	339	-3.8%	-2.4%
ATMs	1,021	996	926	10.3%	2.5%
Agentes BCP	2,973	2,801	2,037	45.9%	6.1%
Total	4,320	4,131	3,302	30.8%	4.6%

II.6 Operating Costs and Efficiency

Operating expenses recorded a 6.4% decline QoQ due to lower administrative expenses (-17.4% QoQ); nevertheless, the efforts that have been made to reduce spending are not reflected in the annual comparison since expenses increased 7.1% mainly as a result of higher personnel spending to cover redundancy packages during 1Q10.

Operating expenses US$ 000	Quarter 1Q10	4Q09	1Q09	Change % 1Q10 / 1Q09	1Q10 / 4Q09
Salaries and employee benefits	98,445	89,486	79,349	24.1%	10.0%
Administrative, general and tax expenses	65,785	79,622	63,553	3.5%	-17.4%
Depreciation and amortization	16,423	16,153	13,756	19.4%	1.7%
Other expenses	4,680	12,695	16,437	-71.5%	-63.1%
Total operating expenses	185,333	197,956	173,095	7.1%	-6.4%
Efficiency Ratio	51.3%	53.8%	55.2%		

The reduction in operating expenses with regard to 4Q09 demonstrates the initial results of a special effort to increase efficiency and curb expenses across Credicorp. This reduction was achieved primarily thanks to a 17.4% contraction in administrative expenses and a 63.1% decrease in Other expenses. In terms of administrative expenses, the decline was due to the lower spending for almost every component, particularly maintenance expenses (US$ -3.7 millions), marketing (US$ -3.0 millions) and consulting fees (US$ -3.0 million). The Others segment contracted due to lower provisions for the Stock Options program, which went from US$ 5.3 million in 4Q09 to US$ 2.7 million in 1Q10. This same contraction led to significant a drop in provisions for litigation, claims and other contingences, which went from US$ 3.9 million in 4Q09 to US$ 0.7 million. Finally, it is important to emphasize that the 10.0% increase QoQ in employee salaries and benefits expenses was due to extraordinary expenses associated with personnel reductions. These cuts, which were in line with efficiency targets, generated an expense of approximately US$10.5 million in 1Q10, higher than the level registered in 4Q09 (US$ 1.4 million).

The chart below provides details on administrative expenses and their quarterly variations:

Administrative Expenses			Quarter				Change %	
US$ (000)	1Q10	%	4Q09	%	1Q09	%	1Q10 / 1Q09	1Q10 / 4Q09
Marketing	5,308	8.1%	8,351	10.5%	4,725	7.4%	12.3%	-36.4%
Systems	9,351	14.2%	11,152	14.0%	10,896	17.1%	-14.2%	-16.1%
Transport	5,945	9.0%	7,344	9.2%	4,537	7.1%	31.0%	-19.0%
Maintenance	2,675	4.1%	6,342	8.0%	2,205	3.5%	21.3%	-57.8%
Communications	3,612	5.5%	3,575	4.5%	2,873	4.5%	25.7%	1.0%
Consulting	2,264	3.4%	5,272	6.6%	4,000	6.3%	-43.4%	-57.1%
Others	19,969	30.4%	21,458	26.9%	18,710	29.4%	6.7%	-6.9%
Taxes and contributions	6,694	10.2%	5,813	7.3%	6,631	10.4%	0.9%	15.1%
Other subsidiaries and eliminations, net	9,967	15.2%	10,315	13.0%	8,975	14.1%	11.1%	-3.4%
Total Administrative Expenses	65,785	100.0%	79,622	100.0%	63,553	100.0%	3.5%	-17.4%

II.7 Shareholders' Equity and Regulatory Capital

At the end of 1Q10, BCP maintained a high level of regulatory capital. This was reflected in the BIS ratio of 14.48%, which was similar to the level recorded at the end of 4Q09 and higher than the legal minimum of 9.5%.

Shareholders' equity		Quarter		Change %	
US$ 000	1Q10	4Q09	1Q09	1Q10 / 1Q09	1Q10 / 4Q09
Capital stock	783,213	667,250	667,646	17.3%	17.4%
Reserves	388,309	388,275	388,365	0.0%	0.0%
Unrealized gains and losses	117,908	106,708	40,652	190.0%	10.5%
Retained earnings	187,145	115,922	115,445	62.1%	61.4%
Income for the year	101,909	397,378	99,982	1.9%	-74.4%
Net shareholders' equity	1,578,484	1,675,533	1,312,090	20.3%	-5.8%
Return on average equity (ROAE)	25.1%	26.6%	29.5%		

Net shareholders' equity declined 5.8% QoQ. This was due primarily to the announcement of dividends that lowered accumulated earnings (typical in the early quarters of each year), which was offset by a capitalization of earnings for 2009 that was taken in 1Q10. Nevertheless, a 20.3% YoY increase is evident. This was the result of a 17.3% increase in capital shares relative to the aforementioned capitalization of earnings for 2009 as well as a recovery in the market values of investment securities available for sale, which generated a 190.0% increase YoY in unrealized earnings.

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Regulatory Capital and Capital Adequacy Ratios		Balance as of		Change %	
US$ (000)	Mar 10	Dec 09	Mar 09	Mar 10 / Mar 09	Mar 10 / Dec 09
Capital Stock	900,295	771,034	704,931	27.7%	16.8%
Legal and Other capital reserves	467,848	459,881	420,454	11.3%	1.7%
Accumulated earnings with capitalization agreement	-	113,997	-	-	-
Loan loss reserves (1)	155,317	148,355	104,450	48.7%	4.7%
Perpetual subordinated debt	250,000	250,000	-	-	0.0%
Subordinated Debt	447,115	426,264	342,634	30.5%	4.9%
Unrealized profit (loss)	-	-	22,447	-	-
Investment in subsidiaries and others, net of unrealized profit	(210,861)	(226,319)	(173,921)	21.2%	-6.8%
Goodwill	(42,972)	(54,933)	(8,290)	418.4%	-21.8%
Total Regulatory Capital	1,966,742	1,888,278	1,412,706	39.2%	4.2%
Tier 1 (2)	1,511,418	1,449,953	1,052,583	43.6%	4.2%
Tier 2 (3) + Tier 3 (4)	455,323	438,325	360,124	26.4%	3.9%
Total risk-weighted assets	13,578,861	13,007,788	11,348,225	19.7%	4.4%
Market risk capital requirement (5)	64,860	64,759	89,393	-27.4%	0.2%
Operational risk capital requirement (6)	44,721	43,486	-	-	2.8%
Capital ratios					
BIS ratio (7) (legal minimum = 9.5% since July 2009)	14.5%	14.5%	12.5%		
Risk-weighted assets / Regulatory Capital	6.9	6.9	8.0		

(1) Until June 2009, loan loss reserves up to 1% of gross loans. Since July 2009, up to 1.25% of total risk-weighted assets.

(2) Tier 1 = Capital + Reserves + Accumulated earnings with capitalization agreement + Unrealized profit in subsidiaries - Goodwill - (0.5 x Inverstment in Subsidiaries)

+ Perpetual subordinated debt (maximum amount that can be included is 17.65% of Capital + Reserves + Accumulated earnings with capitalization agreement

+ Unrealized gains - Goodwill.

(3) Tier 2 = Subordinated debt + Loan loss reserves - (0.5 x Investment in subsidiaries)

(4) Tier 3 = Subordinated debt covering market risk only. Tier 3 exists since 1Q10.

(5) Since July 2009, it includes capital requirement to cover price and rate risk.

(6) Effective as of July 2009.

*(7) Until June 2009, Risk-weighted assets = Credit risk-weighted assets + Capital requirement to cover market risk * 11. Since July 2009, Risk-weighted assets = Credit risk-weighted assets * 0.96 + Capital requirement to cover market risk * 10.5 + Capital requirement to cover operational risk * 10.5*

BCP's regulatory capital totaled US$ 1,967 million at the end of 1Q10. This represents a slight increase of 4.2% QoQ and is primarily due to an increase in subordinated debt that can be considered for regulatory capital calculation; an increase in unrealized earnings in subsidiaries; and a reduction of goodwill in subsidiaries. The YoY evolution is not applicable given that the calculation of regulatory capital in 1Q09 was based on the Basel I parameters, which were replaced by new Basel II guidelines as of July 2009. Nevertheless, it is important to emphasize that the differential is largely attributable to subordinated debt issuances conducted over the last twelve months.

Total risk-weighted assets reached US$ 13,579 million at the end of 1Q10. This figure was 4.4% higher than 4Q09's result and is basically attributable to an increase in credit risk-weighted assets, which is in turn due to a 2.4% QoQ increase in gross loans. In this context, BCP obtained a BIS ratio of 14.48% in 1Q10, which mirrors 4Q09's result and exceeds regulatory requirements.

III. Banco de Crédito de Bolivia

Results

In 1Q10, BCP Bolivia obtained net income of US$ 5.6 million, which represents a contraction of 40.9% QoQ and 35.0% YoY. The QoQ decrease is due primarily to a decline in net earnings on securities sales (-49.9% QoQ) and lower interest income (-18.6% QoQ) while the YoY decline is basically attributable to a contraction in other income (-63.5% YoY), interest income (-37.6 % YoY) and net earnings on FX transactions (-22.1% YoY). Interest income decline follows the significant drop in interest rates and reduction in investments in once profitable Central Bank CDs.

The bank's conservative credit risk management strategy allowed it to obtain a past due ratio of 2.0% in 1Q10 (1.8% in 4Q09 and 2.3% 1Q09) and a coverage ratio of 234.6% (257.9% in 4Q10 and 210.8% in 1Q09). These indicators show that BCP Bolivia is one of the best performers in the Bolivian banking system, which reported ratios of 3.8% and 163.7% respectively at the end of 1Q10. BCP Bolivia's ROAE was 25.0%, which is below the 30.4% obtained in December 2009 and the 31.7% reported at the end of March 2009.

Assets and Liabilities

Total loans at the end of March 2010 amounted to US$ 489.7 million, which is 1.7% higher than the US$ 481.3 million reported in December 2009 and 4.6% above the level reported in March 2009. Loan growth in the first quarter of the year is attributable to the fact that the bank adopted a more aggressive loan strategy due to good macroeconomic indicators. This approach differs from the prudent lending policy applied by the bank in the first half of last year.

Particularly noteworthy this quarter was the evolution of Retail Banking, which reported growth of 1.5% QoQ and 7.2% YoY. This increase has had a significant impact on the bank's results, given that Retail Banking represents 53.7% of BCP Bolivia's portfolio (Wholesale banking represents 42.2% while Special Accounts represents 4.1%) and generates the largest margins.

In Retail Banking, the product that demonstrated the highest QoQ growth was the commercial sector (7.4%), which represents 6.8% of the retail banking portfolio. The Home Mortgage segment, which accounts for 47.7% of the portfolio, reported growth of 4.6% QoQ and 5.3% YoY.

Investments, on the other hand, which were in the past concentrated in very profitable Central Bank CD, dropped as these were no longer available and interest rates dropped dramatically. This hurt the income generation and profitability of the Bolivian operation.

In terms of liabilities, BCP Bolivia's deposits experienced a 1.8% decline QoQ and a 6.0% increase YoY. This QoQ drop is primarily attributable to a 10.3% decline in term deposits while YoY growth was due to a 17.3% increase in demand liability with regard to March 2009.

Shareholders' equity declined 20.9% QoQ and 35.0% YoY due to dividend payments and lower earnings during this period.

Finally BCP Bolivia has a market share of 11.6% in loans and 12.5% in deposits, which situates the bank in fourth place in the Bolivian banking system with regard to these indicators. BCP Bolivia is positioning itself as an innovative and agile bank that is close to its customers, offering high quality service. It continues to focus on improving sales processes (quick, agile and good post-sale service) and strengthening and promoting the use of its on-line services.

Banco de Crédito de Bolivia		Quarter		Change %	
US$ millions	1Q10	4Q09	1Q09	1Q10 / 1Q09	1Q10 / 4Q09
Net financial income	9.0	11.5	14.0	-36.0%	-22.1%
Total provision, net of recoveries	-0.3	0.9	-2.1	-86.8%	-129.9%
Non financial income	9.9	10.8	11.4	-12.9%	-8.3%
Operating expenses	-11.9	-12.7	-13.4	-11.2%	-6.4%
Translation result	0.0	0.0	-0.4	-97.1%	-125.0%
Income taxes	-1.1	-1.0	-0.9	18.3%	13.1%
Net income	5.6	9.5	8.6	-35.0%	-40.9%
Total loans	489.7	481.3	468.2	4.6%	1.7%
Past due loans	9.6	8.7	10.8	-10.7%	11.4%
Total provisions	-21.7	-21.05	-22.1	-1.6%	3.3%
Total Investments	249.6	305.42	400.0	-37.6%	-18.3%
Total assets	1,062.2	1,097.8	1007.3	5.5%	-3.2%
Deposits	926.6	943.6	874.5	6.0%	-1.8%
Net shareholders' equity	85.7	108.3	84.8	1.1%	-20.9%
PDL / Total loans	1.98%	1.81%	2.33%		
Coverage ratio of PDLs	234.6%	257.9%	210.8%		
ROAE*	25.0%	30.4%	31.7%		
Branches	65	65	65		
ATMs	163	172	186		
Employees	1,416	1,518	1,536		

** ROAE: (Acumulated net income / average monthly equity (from dec. to date))/(number of months)*12*

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IV. Atlantic Security Holding Corporation

Quarterly Results

ASHC		Quarter		Change %	
(US$ million)	1Q10	4Q09	1Q09	1Q10 / 1Q09	1Q10 / 4Q09
Net interest income	9.2	9.4	6.0	51.9	-3.0
Dividend income	0.2	0.2	0.0	426.1	100.0
Fees and commissions from services	2.2	2.5	1.3	67.9	-8.7
Net gains on foreign exchange transactions	-0.2	-0.1	-0.8	74.9	-172.5
Core Revenues	11.4	12.0	6.6	72.6	-5.2
Impairment provisions, net of recoveries	0.0	-2.3	-4.4	100.0	100.0
Net gains from sale of securities	3.6	4.1	1.3	167.1	-12.1
Other income	0.3	5.5	1.5	-82.1	-95.2
Operating expenses	-1.8	-2.2	-1.8	2.7	-18.8
Net income	13.4	17.1	3.2	316.0	-21.4
Net income / share	0.1	0.2	0.0	223.6	-21.4
Contribution to Credicorp	13.4	14.9	3.0	345%	-10%
Total loans	507.7	132.3	181.4	179.9	283.9
Total investments available for sale	752.9	779.3	617.2	22.0	-3.4
Total asset	1,427.3	1,483.6	1,479.8	-3.5	-3.8
Total deposits	1,122.9	1,220.6	1,289.2	-12.9	-8.0
Shareholder's equity	207.1	239.8	119.0	74.1	-13.6
Net interest margin	2.66%	2.75%	1.90%		
Efficiency ratio	11.9%	10.3%	18.7%		
Return on average equity	24.0%	29.8%	11.0%		
PDL / Total loans	0.0	0.0	0.0		
Cover ratio	0.2%	0.8%	0.1%		
BIS ratio	22.0%	19.6%	13.8%		

After an extraordinarily high income generation in the last Q of 2009, helped by significant provision reversals and gains in the sale of securities which had recovered their market value, this 1Q10 Atlantic Security Holding Corporation (ASHC) reported lower earnings though maintaining a very good performance. ASHC reported net earnings of US$13.4 million in 1Q10, which represented a 21.4% decrease QoQ but also a significant improvement YoY.

Total income in 1Q09 reached $11.4 million, which reflects a 5.2% decline QoQ and a 72.6% increase YoY. The QoQ drop is due to lower interest income attributable to a lower volume of interest earning assets, lower fees for trading services and small losses on FX transactions.

Fee income reached US$2.2 million in 1Q10, which represents an 8.7% decline QoQ and a 67.9% increase YoY. As previously indicated, the QoQ decline is primarily attributable to lower fees for trading services. This is due to the fact that a tax reform was implemented in 2010 that changed a number of aspects and incorporated a capital gains tax on instruments sold by Peruvian issuers regardless of the investor's country of residence. As such, the tax is applicable to both local and foreign investors. Subsequently, clients have considerably reduced their demand for this type of transaction, which has eaten away at the fees that Atlantic Security Bank normally charges for this service. Nevertheless, an increase in new business loans and the favorable valuation of funds under management has allowed the bank to maintain steady levels for placement and management fees.

The process to set up provisions for the investment portfolio- which began in 2008 and continued at a somewhat slower pace in 2009- concluded in 1Q10. In this context, provision levels fell significantly due to considerable improvement in the international markets. This helped reverse unrealized losses and led to unrealized earnings of US$ 27.1 million in 1Q10. A significant portion of the investment portfolio remains concentrated in investment grade instruments (68%), which is evidence of the portfolio's good risk profile.

Earnings on securities sales totaled US3.6 million, which represents a 12.1% decline QoQ and a 167% increase YoY.

The efficiency ratio went from 10.3% in 4Q09 to 11.9% in 1Q10. This was due to the fact that net profit in 4Q09 included the approximately US$5.5 million for reversals of excess provisions, which were reported as other income.

The total assets level reported decreases of 3.8% QoQ and 3.5% YoY, due partially to customers' decisions to migrate from deposits to managed funds. This reflects clients' renewed confidence in the markets and resurging interest in more profitable products.

Shareholders' equity fell 13.6% QoQ and increased 74.1% YoY. The quarterly variation is primarily attributable to declared dividends for US$49.8 million, which will be paid in May to CREDICORP Ltd. The YoY increase was related to the valuation of investment securities available for sale that reported an unrealized loss of US$ 46 million in 1Q09, which was reversed in 1Q10 and represented an unrealized gain of US$ 27 million.

Interest Earning Assets

The following table shows that interest earning assets totaled US$ 1.327 million, which represents a 3.7% decrease QoQ and 1.6% YoY. A significant portion of this decline in assets volume is attributable to our customers' decision to migrate from deposits to ASCH structured products and the investment funds it offers and manages.

The most significant variation in interest earning assets is in the segment of Cash and Banks and Loans. This is due to the fact that the bank had US$ 400 million in deposits guaranteeing local loans at BCP until 4Q09, which were reclassified due to some uncertain tax treatment of such deposits and are now replaced by a loan booked at ASHC in favor of BCP.

Investments fell 2.7% QoQ as investments were liquidated to take advantage of market opportunities to generate high gains. On a YoY comparison, Investments increased 28.1%, reflecting the fact that prices began to recover in mid 2009.

Interest Earning Assets*		Quarter		Change %	
(US$ million)	1Q10	4Q09	1Q09	1Q10 / 1Q09	1Q10 / 4Q09
Due from banks	77	483	588	-86.9%	-84.1%
Loans	508	132	181	179.9%	283.9%
Investments	742	763	579	28.1%	-2.7%
Total interest-earning assets	1,327	1,377	1,348	-1.6%	-3.7%

(*) Excludes investments in equities and mutual funds.

A significant portion (68%) of the portfolio is comprised of investment grade instruments, which is in line with a prudent policy to concentrate investments in instruments with a good risk profile. It is however worth explaining that the growth of the non-investment grade portfolio results from the reclassification of about US$ 30 million of CMO's previously registered as investment grade, and the investment of additional US$ 40 million in high yield instruments.

Asset Administration

The total of deposits and AuM include investments such as proprietary mutual funds and financial instruments in custody increased 5% QoQ and 28% YoY

AuM grew 12% QoQ, continuing the upward trend that began two quarters ago due to overall market improvements and the fact that clients are regaining confidence in the markets. On the other hand, the YoY increase is attributable to a rebound in asset prices that began in 2Q09.

In 1Q10, funds continued to migrate from deposits to investment products as clients sought higher returns.

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V. Prima AFP

PRIMA'S commercial activity continued to focus on new captures and limiting the number of transfers. In this context, the number of new affiliations during the first quarter of the year was higher than that achieved in the fourth quarter of 2009 while transfers remained stable.

In terms of collections, PRIMA continued to lead the system in 2010 with a 31.8% share. PRIMA also led the competition in terms of voluntary fund management and currently accounts for 42.4% of the system's funds under management.

Quarterly main indicators and market share

	PRIMA 1Q10	System 1Q10	Share 1Q10 %	PRIMA 4Q09	System 4Q09	Share 4Q09 %
Affiliates	1,088,878	4,500,531	24.2%	1,078,317	4,458,045	24.2%
New affiliations (1)	12,093	48,522	24.9%	10,612	47,002	22.6%
Funds under management US$ mm	7,722	25,086	30.8%	7,324	23,967	30.6%
Collections US$ mm (1)	136	428	31.8%	132	412	32.2%
Voluntary Contributions US$ mm (2)	85	200	42.4%	86	199	43.1%
RAM US$ mm (3)	395	1,231	32.1%	374	1,174	31.8%

Source: Superintendencia de Banca, Seguros y AFP
(1) Accumulated to the Quarter.
(2) Available data as of February 2010.
(3) PRIMA AFP Estimates: average of aggregated income during the last 4 months excluding special collections and voluntary contributions fees.

Commercial Results

During the first quarter of the year, the number of affiliations and transfers was around 15,200. This figure reflects a QoQ increase and translates into 12,093 affiliations and approximately 3,100 transfers. In keeping with PRIMA's commercial policy, the number of transfers was flat while the number of affiliations grew 14%. In terms of RAM, the net result of transfers and affiliations during the quarter produced a positive net balance for the company. It is also important to emphasize that thus far this year, the company's RAM has been higher than current market averages. This has resulted in an increase in the company's market share, which rose to 32.1% and enabled PRIMA to maintain a firm lead.

At the end of March 2010, PRIMA's funds under management totaled US$ 7,722 million, representing 30.8% of the total managed by the private pension system. With this figure, PRIMA ranks second in terms of market share. It is important to note that the gap between first and second place continues to close and the differential in market share was a mere 0.3% at the end of March.

Investments

During the first months of 2010, the financial markets experienced a slight setback that was subsequently reflected in managed funds. Nevertheless, this trend reverted in March and 12-month profitability levels (March 2010/March 2009) were 12.42%, 31.13% and 51.19% for funds 1, 2 and 3 respectively.

Pension fund investments are long-term by nature. With this in mind, if we look at the 3-year period from March 2010 to March 2007, PRIMA's accumulated profitability was 16.40%, 19.90% y 12.85% for funds 1, 2, and 3 respectively. Compared with the rest of the system, the company is ranked first in fund 2, second in fund 1 and third in fund 3. If we extend the period of analysis by stretching back to when operations began in March 2010, the private pension system has recorded a nominal annualized yield of 13.50% on average.

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The following table shows the structure of Prima's funds under management:

Funds under management as of March 2010

	Mar 10	Share %	Dec 09	Share %
Fund 1	631	8.2%	580	7.9%
Fund 2	5,154	66.7%	4,933	67.4%
Fund 3	1,938	25.1%	1,810	24.7%
Total US$ mm	7,722	100%	7,324	100%

Source: Superintendencia de Banca, Seguros y AFP

Financial Results

Income

In the first quarter of 2010, PRIMA's income was US$ 20.5 million, representing 2.9% growth QoQ. This is attributable to an increase in the RAM level due to reactivation in the local economy and, to a lesser degree, to the fact that the local currency appreciated during the period (1.7%).

If we compare 1Q10's income with that of 1Q09 (US$ 21.2 million), a 3.2% decline is evident. Nevertheless, this result is a combined effect of (i) lower income in January 2010 due to the government's decision to exonerate additional salaries (paid in July and December) from pension fund contributions until December 2010, (ii) which was mitigated by an exchange rate appreciation in 1Q10 that offset the impact of lower income.

As previously mentioned, the company continued to lead the system in terms of RAM, which reflects the aggregate salaries of system affiliates and represents the basis for each company's income.

Estimate of base to calculate earnings - US$ mm

	PRIMA - Mar 2010	System - Mar 2010	Share %
Income (1)	6.9	23.3	29.6%
Administrative Fees	1.75%	n.a.	
RAM base (2)	395	1,231	32.1%

PRIMA AFP estimates. In accordance to local public infomation, (CONASEV)
(1) Average income from the last four months, excluding special collections and voluntary contribution fees
(2) RAM: average of aggregated income during the last 4 months excluding special collections and voluntary contributions fees.

Expenditures

During the first quarter of 2010, PRIMA's operating expenses fell in comparison to the previous quarter due to lower expenses for advertising and marketing as well as lower provisions for administrative personnel.

At the operating level, a 25% QoQ increase in operating income is evident, which is attributable to higher income and lower expenses. The calculation of operating income includes charges for amortization of intangible assets (due to the merger with Unión Vida) as well as depreciation and amortization of real estate, equipment and systems. The total expense for depreciation and amortization this quarter was US$ 2.4 million.

Local currency strengthened throughout the quarter, which generated an exchange rate effect and a deferred liability adjustment of -US$ 220 thousand. PRIMA's net income, after discounting provisions and employee profit sharing, was US$ 5.9 million. This represents a 40.8% increase QoQ.

At the end of March 2010, PRIMA reported US$ 245.9 million in assets, US$ 151.4 million in shareholder's equity and US$ 94.5 million in liabilities.

The following table contains a summary of the main financial indicators:

Main financial indicators (US$ thousand) (1)	1Q10	4Q09	1Q09	Change % 1Q10/1Q09	Change % 1Q10/4Q09
Income from commissions	20,494	19,904	21,187	-3%	3.0%
Administrative and sale expenses	(8,826)	(10,181)	(8,549)	3%	-13.3%
Depreciation and amortization	(2,467)	(2,363)	(2,276)	8%	4.4%
Net operating income	9,201	7,360	10,363	-11%	25.0%
Other income and expenses, net	(629)	(906)	(479)	31%	-30.5%
Employee profit sharing and Income tax	(2,405)	(2,150)	(3,544)	-32%	11.9%
Net income before translation results	6,166	4,304	6,339	-3%	43.3%
Translations results and deferred liabilities	(220)	(82)	(93)	137%	167.8%
Net income	5,946	4,222	6,246	-5%	40.8%
Total assets	245,996	249,771	224,720	9%	-1.5%
Total liabilities	94,573	84,543	90,900	4%	11.9%
Equity	151,423	165,228	133,820	13%	-8.4%

(1) IFRS

VI. El Pacífico Peruano Suiza and Subsidiaries

Grupo Pacifico

Pacifico Insurance Group, which is comprised of general insurance (PPS), life insurance (PV) and health insurance (EPS), obtained net income of US$ 12.1 million in 1Q10. This figure reveals a drop from the US$16.3 million obtained in 4Q09, which is attributable to: i) a decrease in the technical result, which went from US$28.9 million to US$17.2 million and ii) higher provisions for income tax due to the exchange rate differential in the life insurance business (PV) in 4Q09, which reduced taxes by approximately US$3.9 million. The aforementioned was offset by: i) higher net financial income, which increased from US$ 18.9 million to US$ 21.6 million and ii) lower general expenses, which went from US$ 31.4 million to US$ 22.9 million. In comparison to 1Q09, net income increased 75.7% due to improved technical results (US$ 17.2 million in comparison with US$ 13.4 million in 1Q09) and higher net financial income (US$ 21.6 million in comparison to US$ 16.0 million in 1Q09).

After a year of an unusually low casualty-rate, the technical result obtained in 1Q10 totaled US$ 17.1 million, which is 40.7% lower than the US$28.9 million obtained in 4Q09. This is due primarily to: i) comparatively higher claims in 1Q10 in general insurance (PPS), which reported 54.4% claims ratio versus an unusually low 35.6% in 4Q09, due to a release of provisions on claims from previous quarters in the Technical Lines and Transportation and ii) an increase in life insurance claims (PV), which registered 75.4% versus 69.6% in 4Q09; and iii) a reduction in the net earned premiums in general insurance (PPS) due to a drop in the number of accounts. This is attributable to an increase in prices to align them to the associated risk and a more selective risk management approach to improve portfolio quality.

Higher financial income was also a plus in comparison to 4Q09, and was due to higher interest and dividends as well as higher earnings on securities sales.

General expenses fell with regard to 4Q09, primarily due to lower provisions for uncollectible premiums and reinsurance. It is important to point out that the YoY increase is due to a large extent to the 10.1% appreciation in the Nuevo Sol against the US Dollar, given that almost all general expenses are denominated in soles.

In this context, the contribution in Credicorp totaled US$ 8.5 million in 1Q10, which represents a 31% decrease QoQ.

US$ thousands	Net Earnings *				Adjustment for	Total Contribution
Period	PPS	PV	EPS	PGA	Consolidation	to BAP
1Q09	1,852	4,281	805	6,884	(1,654)	5,230
2Q09	5,730	5,347	1,684	12,748	(3,063)	9,685
3Q09	9,530	4,263	(540)	13,277	(3,189)	10,088
4Q09	9,093	6,495	783	16,283	(3,911)	12,372
1Q10	5,774	4,810	1,673	12,095	(3,603)	8,492
Var % 1Q10 / 4Q09	-36%	-26%	114%	-26%	n.a.	-31%
Var % 1Q10 / 1Q09	212%	12%	108%	76%	n.a.	62%

* Including minority interest

Pacífico General Insurance (PPS)

PPS's Net income in 1Q10 reached US$ 5.8 million, which represents a drop compared to earnings of US$ 9.1 million in 4Q09, though a recovery compared to the US$1.9 million reported in 1Q09. This QoQ drop is due primarily to a lower technical result, which is in turn attributable to a release of provisions from previous periods in 4Q09 which improves the technical results for such Q and makes the comparison of real performance not very meaningful.

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The recovery in PPS's business is more evident comparing technical results with those a year ago, where the strong increase responds to : i) lower claims, which fell from 65.3% to 54.4% and ii) higher financial income due primarily to the sale of properties and securities.

Technical Results by Business Unit

	1Q10				4Q09				1Q09			
US$ millon	Vehicles & SOAT	Medical assistance	P&C	TOTAL PPS	Vehicles & SOAT	Medical assistance	P&C	TOTAL PPS	Vehicles & SOAT	Medical assistance	P&C	TOTAL PPS
Net Premiums Earned	19.8	14.7	10.6	45.1	20.4	15.0	17.0	52.4	18.6	11.7	13.7	44.1
Technical Results	7.5	3.4	2.1	13.0	9.3	4.4	11.7	25.4	1.6	1.2	5.8	8.7
Net claims / Earned Net Premiums	39.6%	68.4%	62.6%	54.4%	31.3%	62.2%	17.4%	35.6%	72.1%	79.9%	43.7%	65.3%
Technical Results / Earned net Premiums	38.0%	23.2%	19.4%	28.8%	45.7%	29.3%	68.7%	48.5%	8.4%	10.6%	42.6%	19.6%

- *The technical result in Vehicle Insurance was US$ 7.5 million in 1Q10, which indicates a decrease with regard to the US$9.3 million obtained in 4Q09 due to a decrease in the direct premium and an increase in this line's claims, which went from 31.3% in 4Q09 to 39.6% in 1Q10. It is important to point out that this line's claims rate is significantly lower than the market's, which is approximately 47%1.*

- *In terms of Medical Assistance, in 1Q10, the technical result was US$ 3.4 million, which represents a decline with regard to the US$ 4.4 million reported in 4Q09, when the line's claims rate, which was 62.2%, fell considerably due to a release of IBNR reserves stemming from a drop in claims. With regard to 1Q09, net premiums earned increased 26% while the technical result over premiums earned went from 10.6% in 1Q09 to 23.2% in 1Q10, thanks to more efficient claims management and adjustments in premiums and conditions for certain products.*

- *Property and Casualty lines reported a technical result of US$2.1 million, which represents a significant decrease with regard to the US$ 11.7 million registered in 4Q09 and the US$ 5.8 million obtained in 1Q09. This is due to a decrease in net premiums earned and a higher claims level. The reduction in net premiums earned was primarily attributable to the US$2.8 million in reinstatement premiums paid on reinsurance contracts after railway lines in Cuzco were damaged by rains and mudslides in 1Q10. Net claims incurred increased to 62.6% in comparison with the 17.4% reported in 4Q09 and the 43.7% registered in 1Q09. This was due primarily to an increase in net claims in the Fire line due to a severe claim as well as lower net premiums earned stemming from the premium reinstatement previously mentioned. These effects were mitigated by an improvement in the Transportation line after stolen property was recovered and a reversal of provisions for claims from previous periods. It is also necessary to point out that the 17.4% claims rate reported in 4Q09 is atypical and is attributable to release of provisions for claims in prior quarters, primarily in the technical and transportation lines. In this context, the technical result in 1Q10 reached US$3.7 million in 1Q10.*

In summary, with regard to 1Q10's result in general insurance (PPS), it is important to mention the following: (i) income for net insurance premiums totaled US$ 45.1 million while (ii) the operation's total costs reached US$ 44.3 million. These results lead to a (iii) combined ratio this quarter of 93.8%, of which 54.4 points correspond to costs or expenses for net claims, 16.8 points to business acquisition costs and the remaining 27.0 points to general or administrative expenses.

Pacífico Vida (PV)

Pacifico Vida obtained income, excluding minority interest, of US$ 7.8 million in 4Q09. This represents a decline with regard to the US$10.5 million obtained in 4Q09, which reflected an increase attributable to an income tax refund.

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1 Average claims rate in the market in the Automobiles line (January – February 2010)

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The technical result of US$ -0.8 million in 1Q10 is lower than the US$ 0.7 million in earnings obtained in 4Q09. This is due primarily to higher claims in the first quarter of the year, which increased from 69.9% in 4Q09 to 75.4% in 1Q10.

Pacífico Vida
(US$ MM)

Products		Total Premiums		Change %	
(US$ millions)	1Q10	4Q09	1Q09	1Q09	4Q09
Individual life	13.7	13.2	11.6	13.7%	3.3%
Individual annuity	14.2	9.9	10.6	-6.9%	43.6%
Disability & survivor (Pension)	10.7	8.8	7.3	20.1%	21.5%
Credit Life	6.6	6.5	5.3	24.2%	0.8%
Personal accidents	2.9	2.8	2.6	7.6%	2.1%
Group life (Law)	2.8	2.1	2.4	-12.2%	32.6%
Group life	4.1	3.1	3.4	-7.3%	29.2%
Limited workers compensation	2.7	2.8	2.7	4.5%	-4.7%
TOTAL	57.6	49.3	45.9	7.4%	16.7%

On the other hand, higher net financial income this quarter of US$ 14.8 million, compared with the US$12.6 million obtained in 4Q09, followed an increase in interest and dividend income.

In line with Credicorp's generalized efforts to improve efficiencies and curb unnecessary costs, general expenses in 1Q10 fell 1.4% with regard to 4Q09 and totaled US$8.1 million.

After deducting minority interest for US$2.9 million corresponding to Alico, net earnings in the life segment totaled US$ 4.8 million in 1Q10.

Pacífico Salud (EPS)

During 1T10, Pacífico Salud reported a technical result of US$ 5.0 million, which is far higher than the US$ 3.0 million obtained in 4Q09 and the US$3.2 million reported in 1Q09. In 1Q10, the figure for net premiums earned topped 1Q09's result by US$ 4.9 million, which represents a 17% increase. Consequently, net income in 1Q10 reached US$ 1.7 million, which is US$ 0.9 million higher than last quarter's result and also tops the US$ 0.8 million recorded in 1Q09.

As was the case with PPS's Medical Assistance business, the reduction in net claims incurred was fundamental. This indicator went from 82.5% in 1Q09 to 78.8% in 1Q10. These results show that the business continues to experience an upward trend that is grounded in technical premium adjustments, on-going negotiation with healthcare providers and efficient claims management.

VII. Economic Outlook

Economic Activity

It is estimated that the economy grew at an annual rate of 4.9% in 1Q10, which is the highest rate recorded in the last five quarters. Nevertheless, seasonally adjusted results appear to indicate mixed performance by sectors. As such, production levels have remained erratic (1% QoQ in 1Q10 vs. 3.9% QoQ in 4Q09), registering a 10% increase over the floor registered during the crisis.

A sector-by-sector analysis shows that the economy's dynamism is not homogenous. For example, construction grew 13.8% in 1Q10 with regard to 1Q09 and commerce +7.3%, while fishing fell 13.6% and mining a mere -1.9%. It is important to point out that recovery in the manufacturing sector, which experienced a 7.7% decline in 2009, grew 4.9% YoY in 1Q09. This result was driven primarily by non-primary segments, which suggests that demand is recovering.

In terms of spending types, projections indicate that growth in 1Q10 was driven by both private investment and private consumption. This scenario is similar to that seen over the last few years with the exception of 2009. All other GDP components by spending type have also evolved positively.

The outlook for year-end indicates that private spending components will continue to recover their dynamism, in particular investment, which appears to be going through a good spell. The public sector will continue to play an important role in driving growth, particularly considering that presidential elections are set for next year and regional and local elections are scheduled to take place soon.

Private investment will grow, particularly in the mining and hydrocarbon sector and construction will expand more rapidly due to activity in the interior as commercial chains continue to penetrate the provinces.

In terms of productive sectors, construction is expected to remain the most dynamic due to stimulation from public infrastructure projects and private efforts. The gradual recovery of the world economy is expected to help manufacturing revert the decline experienced in 2009. In this context, the economy should grow 4.9% during 2010. It is important to note that this forecast may be revised up to 6.0% depending on the dynamism of private investment.

Gross Domestic Product and Internal Demand
(Annualized percentage variation)

Source: INEI, BCR

External Sector

Paradoxically, while international trade dropped drastically in 2009, Peru's trade balance maintained a surplus throughout the majority of 2009. This is due to the fact that the most significant impact was felt in imports, which were affected by a contraction in domestic demand. In this context, imports grew 19.3% YoY in 1Q10 due to strong growth in input imports (+49.8%), attributable to an increase in international prices. Nevertheless, imports of capital goods contracted 9.2% YoY in 1Q10.

Estimates indicate that exports in 1Q10 grew 47.7% YoY. This growth was led by traditional products as non-traditional products, which are generally sent to markets that have suffered considerably from the international recession, have felt the brunt of the decline.

In a still uncertain international context, emerging countries have demonstrated solid fundamentals. In this scenario, Peru's international reserves at the end of 1Q10 totaled US$ 35,269 million, which represents a US$ 2,134 million increase over the figure at year-end 2009. In 2010, if the global economy consolidates its recovery, Peru will continue to receive positive net currency flows because it is seen as possessing some of the best macroeconomic fundamentals in the region. This process will be particularly evident in the first half of the year.

Exports and Imports
(3 month moving average annual % var.)

Source: BCR

Prices and Exchange Rate

At the end of 1Q10, annual inflation was 0.76%, which although higher than the figure at end of 2009 (0.25%), is in line with expectations. Core inflation has continued a downward trend that began in the early months of last year and was 1.77% in annualized terms. The evolution of inflation is consistent with an outlook in which wholesale prices, particularly for imported products, have continued to recover from the significant declines recorded last year. Nevertheless, upward pressures are moderate due to the fact that domestic demand remains slow and the existence of the fund to stabilize fuel prices.

Accumulated inflation in the first three months of the year, which recorded an annualized rate of 3.7%, is thought to be seasonally high (due to lower agricultural production) and will more than likely be moderate the rest of the year. Due to these developments, and in light of the fact that inflationary expectations have remained stable, it is highly likely that this year's inflation will be very close to the Central Bank's target goal (2.0% +/- 1%).

Although the dollar has strengthened internationally due to the fiscal crisis in Europe, it is important to point out the downward pressures on the exchange rate continue to be felt not only in Peru but also across emerging markets. In this context, the exchange rate at the end of 1Q10 was S/. 2.84, appreciating 1.7% with regard to figures at the end of 2009 (S/. 2.89). Downward pressures on the exchange rate have accentuated but the Central Bank has intervened to control appreciation and has mitigated corresponding effects. Thus far this year, the monetary authority has acquired more than US$ 2,650 million, which is more than twice the amount purchased in all of 2009 (US$ 1,256 million).

Consumer Price Index Exchange Rate
(Annual percentage variation) (Nuevos Soles for US$)

Source: INEI, BCR

Fiscal Sector

In the month of February, the central government's tax income increased at an annual rate of 15.6%, which consolidates the upward trend that began three months ago and in line with economic recovery. Nevertheless, the average rate over the last twelve months is still negative with regard to Income Tax and Value Added Tax.

Income may have recovered but it is unlikely that the fiscal deficit will remain moderate in 2010 (although financing the deficit poses no fiscal problems). In fact, the government recently exchanged debt instruments whose maturity is between 2012 and 2017 for a bond that matures in 2033. Keeping in mind that we are in a pre-electoral year and the fact that regional and local elections will also be held, the aforementioned indicates that the country's fiscal accounts are solid. This year, the deficit should be equivalent to 1.6% of GDP, which is even lower than the figure recorded in 2009. This should occur despite continuous increases in public spending, particularly in capital spending, which, as a percentage of GDP, has recovered levels that haven't been seen since the mid 1990s.

Tax Income of the Central Government
(Annualized in Nuevos Soles billions)

Source: Sunat

Banking System

According to information from the Central Bank, as of March 15th, loans in depository entities denominated in dollars grew 16.3% in annual terms (13.5% YoY at the end of 2009), which is in line with economic recovery and the corresponding lag in credit. In terms of the banking system as of February, SME loans were the most dynamic (growing 29.1% YoY) followed by mortgage loans (+21.6%). The average loan has grown 14.8% YoY and commercial loans were the least dynamic (+12.0%).

To the end of February, deposits grew at an annual rate of 17.2% (expressed in dollars), led by demand deposits (+27.8%) and followed by saving deposits (+25.6%). It is important to point out that time deposits are recovering and have demonstrated 8.6% YoY growth.

Loan dollarization in the banking system has shown a downward trend and reached 51.8% at the end of 1T10 (52.4% at the end of 2009 and 57.5% at the end of 2008) while deposits dollarization closed the quarter at 50.8% (56.1% at the end of 2009, 58.2% at the end of 2008). At the end of 1Q10, total savings in Peruvian financial system (banking deposits, Mutual Funds, collections of AFPs) demonstrated a dollarization level of 29.0% (32.3% at the end of 2009).

Finally, interest rates have remained low in a context in which monetary policy rates have remained stable in both the USA and Peru. Despite this, monetary stimulus is expected to be reverted anytime now. In this scenario, the TAMN at the end of 1Q10 was 19.5% (19.9% at the end of 2009 and 23.0% at the end of 2008) while the TAMEX was 8.3% (10.5% at the end of 2008 and 8.6% at the end of 2009). The TIPMEX fell from 0.9% at the end of 2009 to 0.8% at the end of 1Q10 (1.9% at the end of 2008) while the TIPMN went from 1.6% at the end of 2009 to 1.4% at the end of 1Q10 (3.8% at the end of 2008).

Main Financial Indicators

	2007	2008					2009				
	Year	IQ	IIQ	IIIQ	IVQ	Year	IQ	IIQ	IIIQ	IVQ	Year
GDP (US$ MM)	107,504	30,273	34,744	32,531	30,096	127,643	27,914	31,927	32,010	35,302	127,153
Real GDP (var. %)	8.9	10.3	11.7	10.9	6.5	9.8	1.9	-1.2	-0.6	3.4	0.9
GDP per-capita (US$)	3,873	4,331	4,956	4,612	4,229	4,532	3,888	4,407	4,379	4,786	4,365
Domestic demand (var. %)	11.8	11.7	14.3	13.4	9.1	12.1	-0.8	-5.8	-5.0	0.4	-2.9
Consumption (var. %)	8.3	8.4	9.3	9.2	8.0	8.7	4.1	1.6	1.0	2.8	2.4
Private investment (var. %)	22.6	24.1	37.2	31.9	21.4	28.3	4.3	-16.0	-14.6	-5.9	-8.6
CPI (annual change, %)	3.9	5.5	5.7	6.2	6.7	6.7	4.8	3.1	1.2	0.3	0.3
Exchange rate, eop (S/. per US$)	3.00	2.74	2.97	2.98	3.14	3.14	3.16	3.01	2.88	2.89	2.89
Devaluation (annual change, %)	-6.1	-13.8	-6.4	-3.6	4.7	4.7	15.2	1.5	-3.1	-8.0	-8.0
Exchange rate, average (S/. per US$)	3.12	2.89	2.81	2.90	3.09	2.92	3.18	3.02	2.96	2.89	3.01
Non-financial Public Sector (% of GDP)	3.1	4.3	5.4	1.4	-2.7	2.1	2.6	1.8	-3.2	-8.2	-1.9
Central Gonvernment current revenues (% of GPD)	18.1	18.0	19.5	18.4	16.9	18.2	16.5	16.7	15.3	15.2	15.9
Tax Income (% of GDP)	15.6	15.5	16.5	15.7	14.8	15.6	14.6	14.1	13.0	13.4	13.8
Non Tax Income (% of GDP)	2.5	2.5	3.1	2.7	2.1	2.6	1.9	2.6	2.2	1.8	2.1
Current expenditures (% of GDP)	12.6	10.4	10.6	16.1	12.3	12.4	11.8	10.7	14.8	13.5	12.7

Capital expenditures (% of GDPI)	2.1	1.1	1.7	2.5	4.2	2.4	1.9	3.8	3.6	5.9	3.9
Trade Balance (US$ MM)	8,287	1,505	920	838	-173	3,090	513	1,335	1,838	2,188	5,873
Exports (US$ MM)	27,882	7,771	8,470	8,814	6,474	31,529	5,396	6,161	7,169	8,159	26,885
Imports (US$ MM)	19,595	6,265	7,550	7,976	6,648	28,439	4,883	4,827	5,330	5,971	21,011
Current Account Balance (US$ MM)	1,220	-969	-1,720	-1,105	-929	-4,723	-391	106	264	267	247
Current Account Balance (% of GDP)	1.1	-3.2	-5.0	-3.4	-3.1	-3.7	-1.4	0.3	0.8	0.8	0.2

Source: BCR, INEI, Estimated by BCP

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Company Description:

Credicorp Ltd. (NYSE: BAP) is the leading financial services holding company in Peru. It primarily operates via its four principal Subsidiaries: Banco de Credito del Peru (BCP), Atlantic Security Holding Corporation (ASHC), El Pacífico-Peruano Suiza Compañía de Seguros y Reaseguros (PPS) and Grupo Credito. Credicorp is engaged principally in commercial banking (including trade finance, corporate finance and leasing services), insurance (including commercial property, transportation and marine hull, automobile, life, health and pension fund underwriting insurance) and investment banking (including brokerage services, asset management, trust, custody and securitization services, trading and investment). BCP is the Company's primary subsidiary.

Safe Harbor for Forward-Looking Statements

This material includes "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical information provided herein are forward-looking and may contain information about financial results, economic conditions, trends and known uncertainties.

The Company cautions readers that actual results could differ materially from those expected by the Company, depending on the outcome of certain factors, including, without limitation: (1) adverse changes in the Peruvian economy with respect to the rates of inflation, economic growth, currency devaluation, and other factors, (2) adverse changes in the Peruvian political situation, including, without limitation, the reversal of market-oriented reforms and economic recovery measures, or the failure of such measures and reforms to achieve their goals, and (3) adverse changes in the markets in which the Company operates, including increased competition, decreased demand for financial services, and other factors. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

The Company undertakes no obligation to release publicly the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof, including, without limitation, changes in the Company's business strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

CREDICORP LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In US$ thousands, IFRS)

		As of		Change %	
	Mar 10	Dec 09	Mar 09	Mar 10 / Mar 09	Mar 10 / Dec 09
Assets					
Cash and due from banks					
Non-interest bearing	959,387	938,486	920,392	4.2%	2.2%
Interest bearing	2,508,872	2,898,172	3,029,996	-17.2%	-13.4%
Total cash and due from banks	3,468,259	3,836,658	3,950,387	-12.2%	-9.6%
Marketable securities, net	109,326	70,774	29,973	264.7%	54.5%
Loans	11,922,859	11,585,635	10,119,759	17.8%	2.9%
Current	11,707,108	11,401,113	10,002,756	17.0%	2.7%
Past Due	215,750	184,523	117,003	84.4%	16.9%
Less - Reserve for possible loan losses	(381,206)	(354,355)	(240,267)	58.7%	7.6%
Loans, net	11,541,653	11,231,281	9,879,492	16.8%	2.8%
Investments securities available for sale	6,121,314	5,079,606	5,266,532	16.2%	20.5%
Reinsurance assets	147,719	137,098	184,579	-20.0%	7.7%
Premiums and other policyholder receivables	98,527	121,338	98,693	-0.2%	-18.8%
Property, plant and equipment, net	347,185	338,535	326,019	6.5%	2.6%
Due from customers on acceptances	78,795	96,423	202,563	-61.1%	-18.3%
Other assets	1,568,695	1,116,395	1,133,882	38.3%	40.5%
Total Assets	23,481,472	22,028,107	21,072,120	11.4%	6.6%
Liabilities and shareholders' equity					
Deposits and Obligations					
Non-interest bearing	3,820,384	3,297,995	4,213,305	-9.3%	15.8%
Interest bearing	10,986,276	10,793,833	9,114,489	20.5%	1.8%
Total deposits and Obligations	14,806,660	14,091,828	13,327,794	11.1%	5.1%
Due to banks and correspondents	2,557,479	2,256,659	2,768,068	-7.6%	13.3%
Acceptances outstanding	78,795	96,423	202,563	-61.1%	-18.3%
Reserves for property and casualty claims	916,970	878,767	875,335	4.8%	4.3%
Reserve for unearned premiums	138,553	140,024	137,985	0.4%	-1.1%
Reinsurance payable	33,999	48,009	39,722	-14.4%	-29.2%
Bonds and subordinated debt	1,279,789	1,287,022	866,978	47.6%	-0.6%
Other liabilities	1,203,198	726,023	1,076,530	11.8%	65.7%
Minority interest	181,477	186,496	108,990	66.5%	-2.7%
Total Liabilities	21,196,920	19,711,251	19,403,966	9.2%	7.5%
Capital stock	471,912	471,912	471,912	0.0%	0.0%
Treasury stock	(75,090)	(74,242)	(73,107)	2.7%	1.1%
Capital surplus	116,186	130,341	140,693	-17.4%	-10.9%
Reserves	1,385,098	1,059,344	1,053,494	31.5%	30.8%
Unrealized gains	262,680	237,446	(35,415)	-841.7%	10.6%
Retained earnings	123,765	492,055	110,578	11.9%	-74.8%
Net Shareholder's equity	2,284,552	2,316,856	1,668,154	37.0%	-1.4%
Total liabilities and net shareholder's equity	23,481,472	22,028,107	21,072,120	11%	6.6%
Contingent Credits	2,662,856	2,528,135	1,766,059	50.8%	5.3%

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CREDICORP LTD. AND SUBSIDIARIES
QUARTERLY INCOME STATEMENT
(In US$ thousands, IFRS)

	Quarter			Change %	
	1Q10	4Q09	1Q09	1Q10 / 1Q09	1Q10 / 4Q09
Interest income and expense					
Interest and dividend income	332,739	329,796	325,909	2.1%	0.9%
Interest expense	(87,153)	(91,834)	(120,043)	-27.4%	-5.1%
Net interest income	245,585	237,963	205,866	19.3%	3.2%
Provision for loan losses	(43,181)	(44,044)	(26,425)	63.4%	-2.0%
Non financial income					
Fee income	125,430	126,163	98,295	27.6%	-0.6%
Net gain on foreign exchange transactions	25,439	23,256	19,516	30.4%	9.4%
Net gain on sales of securities	7,022	10,956	45,878	-84.7%	-35.9%
Other	9,917	13,749	9,980	-0.6%	-27.9%
Total non financial income, net	167,808	174,124	173,668	-3.4%	-3.6%
Insurance premiums and claims					
Net premiums earned	111,029	115,107	99,069	12.1%	-3.5%
Net claims incurred	(13,624)	(7,967)	(18,650)	-27.0%	71.0%
Increase in cost for life and health policies	(64,919)	(62,111)	(51,912)	25.1%	4.5%
Total other operating income, net	32,487	45,029	28,507	14.0%	-27.9%
Operating expenses					
Salaries and employees benefits	(115,196)	(108,303)	(94,100)	22.4%	6.4%
Administrative, general and tax expenses	(78,001)	(93,152)	(74,773)	4.3%	-16.3%
Depreciation and amortization	(20,507)	(19,890)	(17,288)	18.6%	3.1%
Merger expenses	-	-	-	100.0%	100.0%
Other	(23,995)	(38,719)	(35,051)	-31.5%	-38.0%
Total operating expenses	(237,698)	(260,064)	(221,212)	7.5%	-8.6%
Income before translation results, employees' profit sharing and income taxes	165,002	153,008	160,405	2.9%	7.8%
Translation result	12,059	1,075	(4,708)	-356.1%	1022.1%
Workers' profit sharing	(5,474)	(1,734)	(4,579)	19.5%	215.7%
Income taxes	(39,429)	(19,378)	(33,630)	17.2%	103.5%
Net income	132,158	132,971	117,488	12.5%	-0.6%
Minority interest	8,288	10,675	6,910	19.9%	-22.4%
Net income attributed to Credicorp	123,870	122,296	110,578	12.0%	1.3%

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CREDICORP LTD. AND SUBSIDIARIES
SELECTED FINANCIAL INDICATORS

	Quarter		
	1Q10	4Q09	1Q09
Profitability			
Net income per common share (US$ per share)(1)	1.55	1.53	1.39
Net interest margin on interest earning assets (2)	4.9%	5.1%	4.5%
Return on average total assets (2)(3)	2.2%	2.3%	2.1%
Return on average shareholders' equity (2)(3)	21.5%	22.0%	26.3%
No. of outstanding shares (millions)(4)	79.8	79.8	79.8
Quality of loan portfolio			
Past due loans as a percentage of total loans	1.81%	1.59%	1.16%
Reserves for loan losses as a percentage of total past due loans	176.7%	192.0%	205.4%
Reserves for loan losses as a percentage of total loans	3.2%	3.1%	2.4%
Operating efficiency			
Oper. expense as a percent. of total income (5)	42.1%	44.0%	44.0%
Oper. expense as a percent. of av. tot. assets(2)(3)(5)	3.8%	4.1%	3.6%
Average balances (millions of US$) (3)			
Interest earning assets	19,948.1	18,805.2	18,244.2
Total Assets	22,754.8	21,400.3	20,946.6
Net equity	2,300.7	2,223.5	1,678.7

(1) Based on Net Income attributed to BAP. Number of shares outstanding of 79.8 million in all periods.
(2) Ratios are annualized.
(3) Averages are determined as the average of period-beginning and period-ending balances.
(4) Net of treasury shares. The total number of shares was of 94.38 million.
(5) Total income includes net interest income, fee income, net gain on foreign exchange transactions and net premiums earned. Operating expense does not include Other expenses.

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BANCO DE CREDITO DEL PERU AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(In US$ thousands, IFRS)

	As of			Change %	
	1Q10	4Q09	1Q09	1Q10 / 1Q09	1Q10 / 4Q09
ASSETS					
Cash and due from banks	3,395,676	3,724,635	3,735,010	-9.1%	-8.8%
Cash and BCRP	2,761,952	2,964,509	2,959,967	-6.7%	-6.8%
Deposits in other Banks	534,928	683,527	747,836	-28.5%	-21.7%
Interbanks	97,499	75,000	25,134	287.9%	30.0%
Accrued interest on cash and due from banks	1,297	1,599	2,073	-37.4%	-18.9%
Marketable securities, net	109,326	70,318	29,973	264.7%	55.5%
Loans					
Current	11,637,580	11,393,557	9,914,864	17.4%	2.1%
Past Due	214,968	183,746	116,235	84.9%	17.0%
Less - Reserve for possible loan losses	(380,248)	(353,348)	(240,091)	58.4%	7.6%
Loans, net	11,472,300	11,223,955	9,791,008	17.2%	2.2%
Investment securities available for sale	4,053,210	3,026,542	3,672,154	10.4%	33.9%
Property, plant and equipment, net	281,627	278,202	259,043	8.7%	1.2%
Due from customers acceptances	78,795	96,423	202,563	-61.1%	-18.3%
Other assets	1,262,861	1,143,234	834,183	51.4%	10.5%
Total Assets	20,653,795	19,563,309	18,523,934	11.5%	5.6%
LIABILITIES AND SHAREHOLDER'S EQUITY					
Deposits and obligations	13,777,327	14,465,809	13,608,169	1.2%	-4.8%
Demand deposits	4,932,731	4,440,643	4,164,233	18.5%	11.1%
Saving deposits	3,853,739	3,539,917	3,162,172	21.9%	8.9%
Time deposits	3,927,540	5,361,410	5,217,625	-24.7%	-26.7%
Severance indemnity deposits (CTS)	1,013,010	1,069,267	987,247	2.6%	-5.3%
Interest payable	50,307	54,572	76,892	-34.6%	-7.8%
Due to banks and correspondents	3,007,252	1,278,245	1,629,959	84.5%	135.3%
Bonds and subordinated debt	1,225,968	1,228,901	876,708	39.8%	-0.2%
Acceptances outstanding	78,795	96,423	202,563	-61.1%	-18.3%
Other liabilities	982,393	813,959	890,984	10.3%	20.7%
Total Liabilities	19,071,735	17,883,337	17,208,383	10.8%	6.6%
NET SHAREHOLDER'S EQUITY	1,578,484	1,675,533	1,312,090	20.3%	-5.8%
Capital stock	783,213	667,250	667,646	17.3%	17.4%
Reserves	388,309	388,275	388,365	0.0%	0.0%
Unrealized gains and losses	117,908	106,708	40,652	190.0%	10.5%
Retained earnings	187,145	115,922	115,445	62.1%	61.4%
Income for the year	101,909	397,378	99,982	1.9%	-74.4%
Minority interest	3,576	4,439	3,461	3.3%	-19.4%
TOTAL LIABILITIES AND NET SHAREHOLDER'S EQUITY	20,653,795	19,563,309	18,523,934	11.5%	5.6%
CONTINGENT CREDITS	8,786,376	7,780,722	6,219,698	41.3%	12.9%

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BANCO DE CREDITO DEL PERU AND SUBSIDIARIES
QUARTERLY INCOME STATEMENT
(In US$ thousands, IFRS)

	Quarter			Change %	
	1Q10	4Q09	1Q09	1Q10 / 1Q09	1Q10 / 4Q09
Interest income and expense					
Interest and dividend income	305,922	301,319	302,370	1.2%	1.5%
Interest expense	(86,747)	(90,086)	(116,209)	-25.4%	-3.7%
Net interest and dividend income	219,175	211,233	186,161	17.7%	3.8%
Provision for loan losses	(43,445)	(44,933)	(27,180)	59.8%	-3.3%
Non financial income					
Banking services commissions	107,223	109,546	77,553	38.3%	-2.1%
Net gain on foreign exchange transactions	25,503	23,430	20,328	25.5%	8.8%
Net gain on sales of securities	161	9,185	46,291	-99.7%	-98.2%
Other	4,954	2,816	4,074	21.6%	75.9%
Total fees and income from services, net	137,841	144,977	148,246	-7.0%	-4.9%
Operating expenses					
Salaries and employees benefits	(98,445)	(89,486)	(79,349)	24.1%	10.0%
Administrative expenses	(65,785)	(79,622)	(63,553)	3.5%	-17.4%
Depreciation and amortization	(16,423)	(16,153)	(13,756)	19.4%	1.7%
Other	(4,680)	(12,695)	(16,437)	-71.5%	-63.1%
Total operating expenses	(185,333)	(197,956)	(173,095)	7.1%	-6.4%
Income before translation results, workers' profit sharing and income taxes	128,238	113,321	134,132	-4.4%	13.2%
Translation result	11,680	12,609	(4,260)	-374.2%	-7.4%
Employees' profit sharing	(4,840)	(2,041)	(3,815)	26.9%	137.1%
Income taxes	(32,906)	(16,166)	(25,792)	27.6%	103.6%
Minority Interest	(263)	(325)	(283)	-7.4%	-19.4%
Net income	101,909	107,398	99,982	1.9%	-5.1%

BANCO DE CREDITO DEL PERU AND SUBSIDIARIES
SELECTED FINANCIAL INDICATORS

	Quarter		
	1Q10	4Q09	1Q09
Profitability			
Net income per common share (US$ per share)(1)	0.046	0.048	0.045
Net interest margin on interest earning assets (2)	4.9%	5.0%	4.5%
Return on average total assets (2)(3)	2.0%	2.3%	2.2%
Return on average shareholders' equity (2)(3)	25.8%	26.6%	29.5%
No. of outstanding shares (millions)	2,228.3	2,228.3	2,228.3
Quality of loan portfolio			
Past due loans as a percentage of total loans	1.81%	1.59%	1.16%
Reserves for loan losses as a percentage of total past due loans	176.9%	192.3%	206.6%
Reserves for loan losses as a percentage of total loans	3.2%	3.1%	2.4%
Operating efficiency			
Oper. expense as a percent. of total income (4)	51.3%	53.8%	55.2%
Oper. expense as a percent. of av. tot. assets(2)(3)(4)	3.6%	4.0%	3.4%
Capital adequacy			
Total Regulatory Capital (US$ millions)	1,966.7	1,888.3	1,412.7
Tier I Capital (US$ millions)	1,511.4	1,450.0	1,052.6
Regulatory capital / risk-weighted assets (5)	14.5%	14.5%	12.4%
Average balances (millions of US$) (3)			
Interest earning assets	18,037.7	16,826.9	16,746.5
Total Assets	20,108.6	18,721.8	18,515.7
Net equity	1,578.5	1,615.9	1,356.2

(1) Shares outstanding of 2,228 million is used for all periods since shares have been issued only for capitalization of profits and inflation adjustment.
(2) Ratios are annualized.
(3) Averages are determined as the average of period-beginning and period-ending balances.
(4) Total income includes net interest income, fee income and net gain on foreign exchange transactions.
Operating expense includes personnel expenses, administrative expenses and depreciation and amortization
(5) Risk-weighted assets include market risk assets

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EL PACIFICO - PERUANO SUIZA and SUBSIDIARIES
(in thousand dollars)

	Balance to and for the period of Three month ending				
	31 Mar 09	31 Dec 09	31 Mar 10	Change %	
	1Q09	4Q09	1Q10	1Q09	4Q09
Results					
Total Premiums	138,237	172,697	155,626	12.6%	-9.9%
Ceded Premiums	23,104	34,968	25,268	9.4%	-27.7%
Adjusment of reserves	13,161	18,582	15,161	15.2%	-18.4%
Earned net premiums	101,972	119,146	115,197	13.0%	-3.3%
Direct claims	107,990	92,473	94,845	-12.2%	2.6%
Ceded claims	37,428	22,396	16,302	-56.4%	-27.2%
Net claims	70,562	70,078	78,543	11.3%	12.1%
Direct commissions	16,902	17,970	18,147	7.4%	1.0%
Commissions received	2,349	2,395	2,419	3.0%	1.0%
Net commissions	14,554	15,575	15,727	8.1%	1.0%
Technical expenses	5,709	7,267	6,666	16.8%	-8.3%
Technical resolves	2,267	2,749	2,905	28.1%	5.7%
Net technical expenses	3,443	4,518	3,761	9.3%	-16.7%
Technical results	13,414	28,976	17,166	28.0%	-40.8%
Financial income	14,164	16,043	17,798	25.7%	10.9%
Gains on sale of real state and secutirities	1,675	2,262	3,083	84.1%	36.3%
Renting (Net of expenses)	866	1,147	1,186	36.9%	3.4%
(-) Financial expenses	685	493	474	-30.7%	-3.8%
Financial income, net	16,020	18,960	21,593	34.8%	13.9%
Salaries and benefits	9,799	14,258	13,012	32.8%	-8.7%
Administrative expenses	8,333	17,128	9,919	19.0%	-42.1%
Third party services	3,936	5,039	4,819	22.4%	-4.4%
Sundry management expenses	1,756	2,192	2,203	25.5%	0.5%
Provisions	1,261	5,204	1,555	23.3%	-70.1%
Taxes	1,196	1,697	1,456	21.8%	-14.2%
Other expenses	185	2,997	(113)	-161.2%	-103.8%
General expenses	18,132	31,386	22,931	26.5%	-26.9%
Other income	916	945	211	-77.0%	-77.7%
Traslations results	(511)	382	1,005	-296.7%	163.2%
Employee participations and income tax	2,199	(2,388)	2,000	-9.1%	-183.7%
Income before minority interest	9,508	20,264	15,043	58.2%	-25.8%
Minority interest	2,624	3,981	2,948	12.4%	-25.9%
Net income	6,884	16,283	12,095	75.7%	-25.7%
Balance (end of period)					
Total Assets	1,323,292	1,498,255	1,520,168	14.9%	1.5%
Invesment on securities and real state (1)	828,689	1,057,162	1,086,084	31.1%	2.7%
Technical reserves	1,013,762	1,019,551	1,056,204	4.2%	3.6%
Net equity	156,333	265,219	270,626	73.1%	2.0%
Ratios					
Ceded	16.7%	20.2%	16.2%		
Net claims/ earned net premiums	69.2%	58.8%	68.2%		
Commissions+technical expenses, net / earned net premiums	17.6%	16.9%	16.9%		

Technical results / earned net premiums	13.2%	24.3%	14.9%
General expenses / earned net premiums	17.8%	26.3%	19.9%
Return on equity (2)(3)	19.5%	6.4%	19.3%
Return on total premiums	5.0%	9.4%	7.8%
Net equity / Total Assets	11.8%	17.7%	17.8%
Increase in technical reserves	11.4%	13.5%	11.6%
General expenses / Assets (2)(3)	5.6%	2.1%	6.2%
Combined ratio of PPS + PS (4)	99.1%	94.2%	96.4%
Net claims / earned net premiums	72.2%	54.7%	64.9%
General expenses and commissions / earned net premiums	26.9%	39.5%	31.4%

(1) Real state investment were excluded

(2) Annualized

(3) Average are determined as the average of period - begging and period ending

(4) Without consolidated adjusments

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