WebMD Announces First Quarter Financial Results

WebMD Total Revenue Increased 22%; Advertising Revenue Increased 28%
WebMD Adjusted EBITDA Increased 48%

NEW YORK, May 5, 2011 /PRNewswire/ -- WebMD Health Corp. (Nasdaq: WBMD), the leading source of health information, today announced financial results for its first quarter ended March 31, 2011.

For the quarter ended March 31, 2011:

- Revenue increased 22% to $131.6 million, compared to $108.0 million in the prior year period.

- Earnings before interest, taxes, non-cash and other items ("Adjusted EBITDA") increased 48% to $37.9 million, compared to $25.7 million in the prior year period.

- Net income was $19.5 million or $0.32 per share compared to a net loss of $(3.8) million or $(0.07) per share in the prior year period. Net income would have increased approximately 110% to $10.7 million for the current period, compared to $5.1 million a year ago, without the effect of the following non-operating items (expressed on an after-tax basis): a gain on investments of $8.8 million in the current period; and, in the prior year period, a loss on investments of $(6.7) million and a loss of $(2.2) million related to the retirement of WebMD's convertible notes.

"WebMD continued to extend its lead of the online health information market this quarter," said Wayne Gattinella, President and CEO, WebMD. "The market opportunity for WebMD is substantial as the restructuring of pharmaceutical companies will drive the need for more effective communications platforms such as we provide. With the preeminent health information brand, the most advanced information and technology platform and the largest, most experienced and focused team of professionals, WebMD is well positioned for continued long term growth."

Revenue Highlights

Public portal advertising and sponsorship revenue increased 28% to $110.4 million, compared to $86.3 million in the prior year period. Traffic to the WebMD Health Network continued to grow, reaching a record average of 97.7 million unique users per month and total traffic of 2.05 billion page views during the first quarter, increases of 19% and 14%, respectively, from a year ago.

Private portal services revenue decreased 2% to $21.2 million, compared to $21.8 million in the prior year period. The base of large employers and health plans using WebMD's private Health and Benefits portals during the first quarter was 121.

Balance Sheet Highlights

In January 2011, WebMD completed the private placement of $400 million aggregate principal amount of 2.5% Convertible Notes due 2018. The notes are convertible into shares of WebMD common stock at an initial conversion price of approximately $66.13 per share, which reflected a premium of approximately 27% over the closing price at the time of the issuance. In connection with the offering, WebMD repurchased 1.9 million shares of its common stock for $100 million.

In March 2011, WebMD completed the private placement of $400 million aggregate principal amount of 2.25% Convertible Notes due 2016. The notes are convertible into shares of WebMD common stock at an initial conversion price of approximately $73.69 per share, which reflected a premium of approximately 28% over the closing price at the time of the issuance. In connection with the offering, WebMD repurchased 868 thousand shares of its common stock for approximately $50 million.

As of March 31, 2011, WebMD had $1.065 billion in cash and cash equivalents.

Financial Guidance

WebMD reaffirmed its 2011 guidance for revenue and Adjusted EBITDA today and updated its guidance for net income to reflect actual first quarter results.

For 2011, WebMD expects:

- Revenue to be approximately $610 million to $640 million, an increase of 14% to 20% over 2010. These amounts represent expected growth of approximately 16% to 23% in public portal advertising and sponsorship revenue over 2010 while private portal services revenue is expected to be essentially flat compared to 2010.
- Adjusted EBITDA to be approximately $215 million to $230 million, an increase of 24% to 32% over 2010.
- Income from continuing operations and net income to be approximately $79.8 million to $91.8 million, or $1.28 to $1.45 per diluted share, an increase of 53% to 76% over income from continuing operations in 2010.

For the second quarter of 2011, WebMD expects:

- Revenue to be in excess of $140 million, an increase of at least 14% over the prior year period. Advertising revenue is expected to increase at least 19%, while private portal revenue is expected to be 5% less than the prior year period.
- Adjusted EBITDA to be approximately 31% of revenue.
- Income from continuing operations and net income to be in excess of 8% of revenue.

WebMD is providing a schedule (attached to this press release) with additional detail.

Analyst and Investor Conference Call

As previously announced, WebMD will hold a conference call with investors and analysts to discuss its first quarter results at 4:45 p.m. (Eastern) today. The call can be accessed at www.wbmd.com (in the Investor Relations section). A replay of the audio webcast will be available at the same web address.

About WebMD

WebMD Health Corp. (Nasdaq: WBMD) is the leading provider of health information services, serving consumers, physicians, healthcare professionals, employers, and health plans through our public and private online portals, mobile platforms and health-focused publications. More than 90 million unique visitors access the WebMD Health Network each month.

The WebMD Health Network includes WebMD Health, Medscape, MedicineNet, emedicineHealth, RxList, theheart.org, drugs.com and Medscape Education.

All statements contained in this press release and the related analyst and investor conference call, other than statements of historical fact, are forward-looking statements, including those regarding: guidance on our future financial results and other projections or measures of our future performance; market opportunities and our ability to capitalize on them; and the benefits expected from new or updated products or services and from other potential sources of additional revenue. These statements speak only as of the date of this press release, are based on our current plans and expectations, and involve risks and uncertainties that could cause actual future events or results to be different than those described in or implied by such forward-looking statements. These risks and uncertainties include those relating to: market acceptance of our products and services; our relationships with customers and strategic partners; and changes in economic, political or regulatory conditions or other trends affecting the healthcare, Internet and information technology industries. Further information about these matters can be found in our Securities and Exchange Commission filings. Except as required by applicable law or regulation, we do not undertake any obligation to update our forward-looking statements to reflect future events or circumstances.

This press release, and the accompanying tables, include both financial measures in accordance with accounting principles generally accepted in the United States of America, or GAAP, as well as certain non-GAAP financial measures. The tables attached to this press release include reconciliations of these non-GAAP financial measures to GAAP financial measures. In addition, an "Explanation of Non-GAAP Financial Measures" is attached to this press release as Annex A.

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WEBMD HEALTH CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data, unaudited)

	Three Months Ended March 31,	
	2011	2010
Revenue	$ 131,609	$ 108,030
Cost of operations	48,449	42,994
Sales and marketing	32,294	28,407
General and administrative	22,821	18,809
Depreciation and amortization	6,424	7,015
Interest income	16	3,409
Interest expense	3,141	5,139
Loss on convertible notes	-	3,727
Gain (loss) on investments	14,060	(28,848)
Other expense, net	53	298
Income (loss) before income tax provision (benefit)	32,503	(23,798)
Income tax provision (benefit)	12,958	(20,008)
Net income (loss)	$ 19,545	$ (3,790)
Net income (loss) per common share:		
Basic	$ 0.33	$ (0.07)
Diluted	$ 0.32	$ (0.07)
Weighted-average shares outstanding used in computing income (loss) per common share:		
Basic	58,184	52,191
Diluted	67,173	52,191

WEBMD HEALTH CORP.
CONSOLIDATED SUPPLEMENTAL FINANCIAL INFORMATION
(In thousands, unaudited)

	Three Months Ended March 31,	
	2011	2010
Revenue		
Public portal advertising and sponsorship	$ 110,363	$ 86,257
Private portal services	21,246	21,773
	$ 131,609	$ 108,030
Earnings before interest, taxes, non-cash and other items ("Adjusted EBITDA") (a)	$ 37,858	$ 25,657
Interest, taxes, non-cash and other items (b)		
Interest income	16	3,409
Interest expense	(3,141)	(5,139)
Income tax (provision) benefit	(12,958)	20,008
Depreciation and amortization	(6,424)	(7,015)
Non-cash stock-based compensation	(9,813)	(7,837)
Loss on convertible notes	-	(3,727)
Gain (loss) on investments	14,060	(28,848)
Other expense, net	(53)	(298)
Net income (loss)	$ 19,545	$ (3,790)

(a) See Annex A-Explanation of Non-GAAP Financial Measures.
(b) Reconciliation of Adjusted EBITDA to net income (loss).

WEBMD HEALTH CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, unaudited)

	March 31, 2011	December 31, 2010
Assets		
Cash and cash equivalents	$ 1,065,383	$ 400,501
Accounts receivable, net	128,760	134,448
Prepaid expenses and other current assets	13,389	12,161
Deferred tax assets	22,459	23,467
Total current assets	1,229,991	570,577
Property and equipment, net	59,220	61,516
Goodwill	202,104	202,104
Intangible assets, net	21,970	22,626
Deferred tax assets	67,335	71,125
Other assets	47,584	14,254
Total Assets	$ 1,628,204	$ 942,202
Liabilities and Stockholders' Equity		
Accrued expenses	$ 46,333	$ 53,181
Deferred revenue	96,824	97,043
Liabilities of discontinued operations	17,185	17,327
Total current liabilities	160,342	167,551
2.50% convertible notes due 2018	400,000	-
2.25% convertible notes due 2016	400,000	-
Other long-term liabilities	22,056	21,756
Stockholders' equity	645,806	752,895
Total Liabilities and Stockholders' Equity	$ 1,628,204	$ 942,202

WEBMD HEALTH CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, unaudited)

	Three Months Ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net income (loss)	$ 19,545	$ (3,790)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	6,424	7,015
Non-cash interest, net	516	2,090
Non-cash stock-based compensation	9,813	7,837
Deferred income taxes	4,798	(21,463)
Loss on convertible notes	-	3,727

(Gain) loss on investments	(14,060)	28,848
Changes in operating assets and liabilities:		
Accounts receivable	5,688	(2,429)
Prepaid expenses and other, net	622	(1,829)
Accrued expenses and other long-term liabilities	(7,642)	(14,224)
Deferred revenue	(219)	21,665
Net cash provided by continuing operations	25,485	27,447
Net cash used in discontinued operations	(142)	(8,233)
Net cash provided by operating activities	25,343	19,214
Cash flows from investing activities:		
Proceeds from sales of available-for-sale securities	-	4,500
Proceeds received from ARS option	5,240	-
Purchases of property and equipment	(4,849)	(3,114)
Finalization of sale price of discontinued operations	-	(1,430)
Net cash provided by (used in) investing activities	391	(44)
Cash flows from financing activities:		
Proceeds from exercise of stock options	10,220	28,224
Cash used for withholding taxes due on stock-based awards	(3,172)	(22,449)
Net proceeds from issuance of the 2.50% Notes and 2.25% Notes	774,745	-
Repurchases of 3 1/8% Notes	-	(22,565)
Purchases of treasury stock	(150,000)	(13,345)
Excess tax benefit on stock-based awards	7,355	1,413
Net cash provided by (used in) financing activities	639,148	(28,722)
Net increase (decrease) in cash and cash equivalents	664,882	(9,552)
Cash and cash equivalents at beginning of period	400,501	459,766
Cash and cash equivalents at end of period	$ 1,065,383	$ 450,214

WEBMD HEALTH CORP.
NET INCOME (LOSS) PER COMMON SHARE
(In thousands, except per share data, unaudited)

	Three Months Ended March 31,	
	2011	2010
Numerator:		
Net income (loss)	$ 19,545	$ (3,790)
Effect of participating non-vested restricted stock	(170)	-
Net income (loss) - Basic	19,375	(3,790)
Interest expense on 2.50% Notes, net of tax	1,503	-
Interest expense on 2.25% Notes, net of tax	315	-
Net income (loss) - Diluted	$ 21,193	$ (3,790)
Denominator:		
Weighted-average shares — Basic	58,184	52,191
Employee stock options and restricted stock	2,527	-
2.50% Notes	5,377	-
2.25% Notes	1,085	-
Adjusted weighted-average shares after assumed conversions — Diluted	67,173	52,191
Net income (loss) per common share - Basic	$ 0.33	$ (0.07)
Net income (loss) per common share - Diluted	$ 0.32	$ (0.07)

FINANCIAL GUIDANCE SUMMARY

WebMD Health Corp
2011 Financial Guidance
(in millions, except per share amounts)

	Year Ended December 31, 2011 Guidance Range	
Revenue	$ 610.0	$ 640.0
Earnings before interest, taxes, depreciation, amortization and other non-cash items ("Adjusted EBITDA") (a)	$ 215.0	$ 230.0
Interest, taxes, depreciation, amortization and other non-cash items (b)		
Interest income	0.5	0.5
Interest expense	(20.7)	(20.7)
Depreciation and amortization	(30.0)	(28.0)
Non-cash stock-based compensation	(41.0)	(38.0)
Gain on investments	14.1	14.1
Other expense, net	(0.1)	(0.1)
Pre-tax income from continuing operations	137.8	157.8
Income tax provision	(58.0)	(66.0)
Income from continuing operations	$ 79.8	$ 91.8
Income from continuing operations per share:		
Basic	$ 1.34	$ 1.55
Diluted	$ 1.28	$ 1.45
Weighted-average shares outstanding used in computing income from continuing operations per common share:		
Basic	59	59
Diluted	71	71

(a) See Annex A - Explanation of Non-GAAP Financial Measures

(b) Reconciliation of Adjusted EBITDA to consolidated income from continuing operations

Additional information regarding forecast for the quarter ending June 30, 2011:

- Revenue is forecasted to be in excess of $140 million in the quarter ending June 30, 2011
- Adjusted EBITDA as a percentage of revenue is forecasted to be approximately 31% in the quarter ending June 30, 2011
- Income from continuing operations as a percentage of revenue is forecasted to be in excess of 8% in the quarter ending June 30, 2011
- Basic and diluted share count is forecasted to be approximately 58 million and 61 million shares, respectively. The 2.50% and 2.25% Convertible Notes are not expected to be dilutive to income from continuing operations per share during the quarter ending June 30, 2011.

- Basic and diluted income from continuing operations per share is forecasted to be in excess of $0.19 and $0.18, respectively.

Additional information regarding full year forecast:

- Income tax rate for 2011 is forecasted to be approximately 42% of pretax income.

- The distribution of the annual revenue is expected to be approximately 86% public portals advertising and sponsorship and 14% private portal licensing. Quarterly revenue distributions may vary from this annual estimate.

- 2011 guidance excludes any gains or losses related to investments, other than actual activity related to the quarter ended March 2011.

Additional information regarding full year income per share calculation:

- Basic income per share: Reflects a reduction to net income of $0.6 million to consider the effect of restricted stock.

- Diluted income per share: Reflects an increase to income from continuing operations of $6.7 million and $5.2 million related to the interest expense (net of tax) on the 2.50% and 2.25% Convertible Notes, respectively, offset by a reduction to income from continuing operations of $0.6 million to consider the effect of restricted stock.
  The diluted share count reflects an additional 6 million and 4 million shares, related to the 2.50% and 2.25% Convertible Notes, respectively

ANNEX A

Explanation of Non-GAAP Financial Measures

The accompanying WebMD Health Corp. press release, financial tables and financial guidance summary include both financial measures in accordance with U.S. generally accepted accounting principles, or GAAP, as well as non-GAAP financial measures. The non-GAAP financial measures represent earnings before interest, taxes, non-cash and other items (which we refer to as "Adjusted EBITDA") and related per share amounts. Adjusted EBITDA should be viewed as supplemental to, and not as an alternative for, "net income (loss)" calculated in accordance with GAAP. The accompanying financial tables and financial guidance summary include reconciliations of non-GAAP financial measures to GAAP financial measures.

Adjusted EBITDA is used by our management as an additional measure of our company's performance for purposes of business decision-making, including developing budgets, managing expenditures, and evaluating potential acquisitions or divestitures. Period-to-period comparisons of Adjusted EBITDA help our management identify additional trends in our company's financial results that may not be shown solely by period-to-period comparisons of net income (loss). In addition, we use Adjusted EBITDA in the incentive compensation programs applicable to many of our employees in order to evaluate our company's performance. Our management recognizes that Adjusted EBITDA has inherent limitations because of the excluded items, particularly those items that are recurring in nature. In order to compensate for those limitations, management also reviews the specific items that are excluded from Adjusted EBITDA, but included in net income (loss), as well as trends in those items. The amounts of those items are set forth, for the applicable periods, in the reconciliations of Adjusted EBITDA to net income (loss) that accompany our press releases and disclosure documents containing non-GAAP financial measures, including the reconciliations contained in the accompanying financial tables and financial guidance summary.

We believe that the presentation of Adjusted EBITDA is useful to investors in their analysis of our results for reasons similar to the reasons why our management finds it useful and because it helps facilitate investor understanding of decisions made by management in light of the performance metrics used in making those decisions. In addition, as more fully described below, we believe that providing Adjusted EBITDA, together with a reconciliation of Adjusted EBITDA to net income (loss), helps investors make comparisons between our company and other companies that may have different capital structures, different effective income tax rates and tax attributes, different capitalized asset values and/or different forms of employee compensation. However, Adjusted EBITDA is intended to provide a supplemental way of comparing our company with other public companies and is not intended as a substitute for comparisons based on "net income (loss)" calculated in accordance with GAAP. In making any comparisons to other companies, investors need to be aware that companies use different non-GAAP measures to evaluate their financial performance. Investors should pay close attention to the specific definition being used and to the reconciliation between such measures and the corresponding GAAP measures provided by each company under applicable SEC rules.

The following is an explanation of the items excluded by us from Adjusted EBITDA but included in net income (loss):

- ***Depreciation and Amortization***. Depreciation and amortization expense is a non-cash expense relating to capital expenditures and intangible assets arising from acquisitions that are expensed on a straight-line basis over the estimated useful life of the related assets. We exclude depreciation and amortization expense from Adjusted EBITDA because we believe that (i) the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations and (ii) such expenses can vary significantly between periods as a result of new acquisitions and full amortization of previously acquired tangible and intangible assets. Accordingly, we believe that this exclusion assists management and investors in making period-to-period comparisons of operating performance. Investors should note that the use of tangible and intangible assets contributed to revenue in the periods presented and will contribute to future revenue generation and should also note that such expense will recur in future periods.

- ***Stock-Based Compensation Expense***. Stock-based compensation expense is a non-cash expense arising from the grant of stock-based awards to employees. We believe that excluding the effect of stock-based compensation from Adjusted EBITDA assists management and investors in making period-to-period comparisons in its operating performance because (i) the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations and (ii) such expenses can vary significantly between periods as a result of the timing of grants of new stock-based awards, including grants in connection with acquisitions. Additionally, we believe that excluding stock-based compensation from Adjusted EBITDA assists management and investors in making meaningful comparisons between our operating performance and the operating performance of other companies that may use different forms of employee compensation or different valuation methodologies for their stock-based compensation. Investors should note that stock-based compensation is a key incentive offered to employees whose efforts contributed to the operating results in the periods presented and are expected to contribute to operating results in future periods. Investors should also note that such expenses will recur in the future. Stock-based compensation expenses included in the Consolidated Statement of Operations are summarized as follows:

	Three Months Ended March 31,	
	2011	2010
Non-cash stock-based compensation included in:		
Cost of operations	$ 2,103	$ 1,789
Sales and marketing	$ 2,391	$ 2,193
General and administrative	$ 5,319	$ 3,855

- ***Interest Income and Expense.*** Interest income is associated with the level of marketable debt securities and other interest bearing accounts in which we invest, as well as with interest expense arising from our company's capital structure (including non-cash interest expense relating to our convertible notes). Interest income and expense varies over time due to a variety of financing transactions and due to acquisitions and divestitures that we have entered into or may enter into in the future. We have, in the past, issued convertible debentures, repurchased shares in cash tender offers and repurchased shares and convertible debentures through other repurchase transactions, and completed the divestiture of certain businesses. We exclude interest income and interest expense from Adjusted EBITDA (i) because these items are not directly attributable to the performance of our business operations and, accordingly, their exclusion assists management and investors in making period-to-period comparisons of operating performance and (ii) to assist management and investors in making comparisons to companies with different capital structures. Investors should note that interest income and expense will recur in future periods. The following provides detail of the components of interest expense of our convertible notes:

	Three Months Ended March 31,	
	2011	2010
Non-cash interest expense		
1.75% Convertible Notes	$ --	$ 305
3-1/8% Convertible Notes	$ --	$ 2,072
2.50% Convertible Notes	$ 397	$ --
2.25% Convertible Notes	$ 119	$ --

Cash interest expense		
1.75% Convertible Notes	$ --	$ 1,158
3-1/8% Convertible Notes	$ --	$ 1,604
2.50% Convertible Notes	$ 2,194	$ --
2.25% Convertible Notes	$ 425	$ --

- ***Income Tax Provision (Benefit).*** We maintain a valuation allowance on a portion of our net deferred tax assets (including our net operating loss carryforwards), the amount of which may change from quarter to quarter based on factors that are not directly related to our results for the quarter. The valuation allowance is either reversed through the statement of operations or additional paid-in capital. The timing of such reversals has not been consistent and as a result, our income tax expense can fluctuate significantly from period to period in a manner not directly related to our operating performance. We exclude the income tax provision (benefit) from Adjusted EBITDA (i) because we believe that the income tax provision (benefit) is not directly attributable to the underlying performance of our business operations and, accordingly, its exclusion assists management and investors in making period-to-period comparisons of operating performance and (ii) to assist management and investors in making comparisons to companies with different tax attributes. Investors should note that income tax provision (benefit) will recur in future periods.

- ***Other Items.*** We engage in other activities and transactions that can impact our consolidated net income (loss). In recent periods, these other items have included, but were not limited to: (i) legal expenses relating to the ongoing Department of Justice investigation; (ii) gain or loss on repurchases and conversions of our convertible notes; (iii) a reduction of certain sales and use tax contingencies resulting from the expiration of certain applicable statutes of limitations; and (iv) gain or loss on investments. We exclude these other items from Adjusted EBITDA because we believe these activities or transactions are not directly attributable to the performance of our business operations and, accordingly, their exclusion assists management and investors in making period-to-period comparisons of operating performance. Investors should note that some of these other items may recur in future periods.

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