

WEBMD HEALTH CORP.

FORM 10-Q (Quarterly Report)

Filed 05/10/11 for the Period Ending 03/31/11

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Industry	Computer Services
Sector	Technology
Fiscal Year	12/31

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

Form 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2011
- 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: 0-51547

WEBMD HEALTH CORP.

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)
111 Eighth Avenue
New York, New York
(Address of principal executive office)

20-2783228
(I.R.S. Employer Identification No.)
10011
(Zip code)

(212) 624-3700
(Registrant's telephone number including area code)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes No

As of May 4, 2011, the Registrant had 59,092,091 shares of Common Stock (including unvested shares of restricted Common Stock).

WEBMD HEALTH CORP.
QUARTERLY REPORT ON FORM 10-Q
For the period ended March 31, 2011

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FORWARD-LOOKING STATEMENTS

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

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

- failure to achieve sufficient levels of usage of our public and private portals and mobile platforms;
- the inability to successfully deploy new or updated applications or services;
- competition in attracting consumers and healthcare professionals to our public portals and mobile platforms;
- competition for advertisers and sponsors for our public portals and mobile platforms;
- events or conditions that have a negative effect on promotional or educational spending by pharmaceutical and biotechnology companies or on the portion of that spending used for Internet-based services like ours;
- the inability to attract and retain qualified personnel;
- adverse economic conditions and disruptions in the capital markets;
- adverse changes in general business or regulatory conditions affecting the healthcare, information technology and Internet industries; and
- the other risks and uncertainties described in Part II, Item 1A of this Quarterly Report on Form 10-Q.

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

The forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date of this Quarterly Report. Except as required by law or regulation, we do not undertake any obligation to update any forward-looking statements to reflect subsequent events or circumstances.

PART I
FINANCIAL INFORMATION

ITEM 1. Financial Statements

WEBMD HEALTH CORP.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	<u>March 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
	<u>(Unaudited)</u>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,065,383	\$ 400,501
Accounts receivable, net of allowance for doubtful accounts of \$1,710 at March 31, 2011 and \$1,493 at December 31, 2010	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		
Current liabilities:		
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
2.25% convertible notes due 2016	400,000	—
2.50% convertible notes due 2018	400,000	—
Other long-term liabilities	22,056	21,756
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, 50,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.01 par value per share, 650,000,000 shares authorized; 62,403,290 shares issued at March 31, 2011 and 62,401,272 shares issued at December 31, 2010	624	624
Additional paid-in capital	9,450,676	9,462,373
Treasury stock, at cost; 4,601,914 shares at March 31, 2011 and 2,485,391 shares at December 31, 2010	(244,526)	(129,589)
Accumulated deficit	(8,560,968)	(8,580,513)
Stockholders' equity	645,806	752,895
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,628,204	\$ 942,202

See accompanying notes.

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)	<u>\$ 19,545</u>	<u>\$ (3,790)</u>
Net income (loss) per common share:		
Basic	<u>\$ 0.33</u>	<u>\$ (0.07)</u>
Diluted	<u>\$ 0.32</u>	<u>\$ (0.07)</u>
Weighted-average shares outstanding used in computing per share amounts:		
Basic	<u>58,184</u>	<u>52,191</u>
Diluted	<u>67,173</u>	<u>52,191</u>

See accompanying notes.

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 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	<u>\$1,065,383</u>	<u>\$450,214</u>

See accompanying notes.

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

1. Summary of Significant Accounting Policies

Background

WebMD Health Corp. (the “Company” or “WebMD”) is a Delaware corporation that was incorporated on May 3, 2005. The Company completed an initial public offering on September 28, 2005. From the completion of the initial public offering through the completion of the Company’s merger with HLTH Corporation (“HLTH”) on October 23, 2009 (the “Merger”), the Company was more than 80% owned by HLTH. On October 23, 2009, the Merger was completed, with HLTH merging into WebMD and WebMD continuing as the surviving corporation. In the Merger, each share of HLTH Common Stock was converted into 0.4444 shares of WebMD Common Stock. In these Consolidated Financial Statements, the defined term “Company” refers not only to WebMD but also, where the context requires, to HLTH. The specific names of HLTH and WebMD are used only where there is a need to distinguish between the legal entities. In addition, all references in these Consolidated Financial Statements to amounts of shares of HLTH Common Stock and to market prices or purchase prices for HLTH Common Stock have been adjusted to reflect the 0.4444 exchange ratio in the Merger (the “Exchange Ratio”), and expressed as the number of shares of WebMD Common Stock into which the HLTH Common Stock would be converted in the Merger and the equivalent price per share of WebMD Common Stock. Similarly, the exercise price of options and warrants to purchase HLTH Common Stock and the number of shares subject to those options and warrants have been adjusted to reflect the Exchange Ratio.

The Company provides health information services to consumers, physicians and other healthcare professionals, employers and health plans through its public and private online portals, mobile platforms and health-focused publications. The Company’s public portals for consumers enable them to obtain health and wellness information (including information on specific diseases or conditions), check symptoms, locate physicians, store individual healthcare information, receive periodic e-newsletters on topics of individual interest and participate in online communities with peers and experts. The Company’s public portals for physicians and healthcare professionals make it easier for them to access clinical reference sources, stay abreast of the latest clinical information, learn about new treatment options, earn continuing medical education (“CME”) credit and communicate with peers. The Company also provides mobile health information applications for use by consumers and physicians. The Company’s public portals generate revenue primarily through the sale of advertising and sponsorship products, including CME services. The public portals’ sponsors and advertisers include pharmaceutical, biotechnology, medical device and consumer products companies. The Company also generates revenue from the sale of e-detailing promotion and physician recruitment services and from advertising sold in *WebMD the Magazine*, a consumer magazine distributed to physician office waiting rooms. In addition, the Company generates revenue from the sale of certain information products. The Company’s private portals enable employers and health plans to provide their employees and members with access to personalized health and benefit information and decision-support technology that helps them to make more informed benefit, treatment and provider decisions. In addition, the Company offers clients of its private portals telephonic health coaching services on a per participant basis across an employee or plan population. The Company generates revenue from its private portals through the licensing of these portals and related services to employers and health plans either directly or through distributors.

Interim Financial Statements

The unaudited consolidated financial statements of 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 months ended March 31, 2011 are not necessarily indicative of the operating results to be expected for any subsequent period or for the entire year ending December 31, 2011. Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

principles (“GAAP”) have been condensed or omitted under the Securities and Exchange Commission’s rules and regulations.

The unaudited consolidated financial statements and notes included herein should be read in conjunction with the Company’s audited consolidated financial statements and notes for the year ended December 31, 2010, which are included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Seasonality

The timing of the Company’s revenue is affected by seasonal factors. The Company’s public portal advertising and sponsorship revenue is seasonal, primarily due to the annual spending patterns of the advertising and sponsorship clients of the Company’s public portals. This portion of the Company’s revenue is usually the lowest in the first quarter of each calendar year, and increases during each consecutive quarter throughout the year. The timing of revenue in relation to the Company’s expenses, much of which do not vary directly with revenue, has an impact on cost of operations, sales and marketing and general and administrative expenses as a percentage of revenue in each calendar quarter.

Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. The Company bases its estimates on historical experience, current business factors, and various other assumptions that the Company believes are necessary to consider to form a basis for making judgments about the carrying values of assets and liabilities, the recorded amounts of revenue and expenses, and the disclosure of contingent assets and liabilities. The Company is subject to uncertainties such as the impact of future events, economic 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 long-lived assets (including goodwill and intangible assets), the amortization period of long-lived assets (excluding goodwill and indefinite lived intangible assets), the carrying value, capitalization and amortization of software and Website development costs, the carrying value of investments, the provision for income taxes and related deferred tax accounts, certain accrued liabilities, revenue recognition, contingencies, litigation and related legal accruals and the value attributed to employee stock options and other stock-based awards.

Net Income (Loss) Per Common Share

Basic income per common share has been computed using the weighted-average number of shares of Common Stock outstanding during the period, adjusted to give effect to participating non-vested restricted stock during the periods it was outstanding. Diluted income per common share has been computed using the weighted-average number of shares of Common Stock outstanding during the period, increased to give effect

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

to potentially dilutive securities and assumes that any dilutive convertible notes were converted, only in the periods in which such effect is dilutive (shares in thousands):

	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	<u>\$21,193</u>	<u>\$ (3,790)</u>
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	<u>67,173</u>	<u>52,191</u>
Net income (loss) per common share — Basic	<u>\$ 0.33</u>	<u>\$ (0.07)</u>
Net income (loss) per common share — Diluted	<u>\$ 0.32</u>	<u>\$ (0.07)</u>

The Company has excluded convertible subordinated notes and convertible notes, as well as certain outstanding stock options and restricted stock, from the calculation of diluted income per common share during the periods in which such securities were anti-dilutive. The following table presents the total weighted average number of potentially dilutive common shares that were excluded from the computation of diluted income (loss) per common share during the periods presented (shares in thousands):

	Three Months Ended March 31,	
	2011	2010
Options and restricted stock	1,968	16,928
Convertible notes	—	11,839
	<u>1,968</u>	<u>28,767</u>

Recent Accounting Pronouncement

Revenue from advertising is recognized as advertisements are delivered or as publications are distributed. Revenue from sponsorship arrangements, content syndication and distribution arrangements, information services and licenses of healthcare management tools and private portals as well as related health coaching services are recognized ratably over the term of the applicable agreement. Revenue from the sponsorship of CME is recognized over the period the Company substantially completes its contractual deliverables as determined by the applicable agreements.

For contracts that contain multiple deliverables that were entered into prior to January 1, 2011, revenue is allocated to each deliverable based on its relative fair value determined using vendor-specific objective evidence (“VSOE”). In certain instances where fair value does not exist for all the elements, the amount of revenue allocated to the delivered elements equals the total consideration less the fair value of the undelivered elements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

to the extent VSOE exists for the undelivered elements. In instances where fair value does not exist for the undelivered elements, the entire consideration is recognized over the period that the last element is delivered.

Contracts that contain multiple deliverables that were entered into subsequent to January 1, 2011 are subject to Accounting Standards Update No. 2009-13 Multiple-Deliverable Revenue Arrangements (“ASU 2009-13”). ASU 2009-13 requires the allocation of revenue to each deliverable of multiple-deliverable revenue arrangements, based on the relative selling price of each deliverable. It also changes the level of evidence of selling price required to separate deliverables by allowing a Company to make its best estimate of the standalone selling price of deliverables when more objective evidence of selling price is not available.

The Company adopted ASU 2009-13 on a prospective basis for arrangements entered into or materially modified on or subsequent to January 1, 2011. Beginning January 1, 2011, pursuant to the guidance of ASU when a sales arrangement contains multiple deliverables, the Company allocates revenue to each deliverable based on relative selling price. The selling price for a deliverable is based on VSOE if available, third-party evidence (“TPE”) if VSOE is not available, or best estimate of selling price if neither VSOE nor TPE is available. The Company then recognizes revenue on each deliverable in accordance with its revenue recognition policies over the period that delivery occurs. VSOE of selling price is based on the price charged when the deliverable is sold separately. In determining VSOE, the Company requires that a substantial majority of the selling prices fall within a reasonable range based on historical pricing trends for specific products and services. TPE is based on competitor prices of similar deliverables when sold separately. The Company is not able to determine TPE of selling price as it is unable to reliably determine what competitor’s selling prices are for comparable services, combined with the fact that its services often contain unique features and customizations such that comparable services do not exist. The determination of best estimate of selling price is a judgemental process that considers multiple factors including, but not limited to recent selling prices and related discounting practices for each service, market conditions, customer classes, sales channels and other factors.

As a result of the adoption of ASU 2009-13, revenue for the three months ended March 31, 2011 was approximately \$1,800 higher than the revenue that would have been recorded under the previous accounting standards. The impact on diluted income per share was \$0.02 during the three months ended March 31, 2011. This resulted from services that were provided or partially provided during the three months ended March 31, 2011, for certain deliverables of the Company’s multiple deliverable arrangements which the Company would have previously deferred the related revenue under the previous accounting standards. During the three months ended March 31, 2011, the Company assigned value to these deliverables using its best estimate of selling price, and recognized revenue as they were delivered. The multiple deliverable arrangements that were impacted by ASU 2009-13 related to the Company’s public portal revenues and the services underlying such arrangements are generally delivered over periods of twelve months or less. The Company is not able to reasonably estimate the effect of adopting ASU 2009-13 on future periods as the impact will vary based on many factors including, but not limited to, the quantity and size of new or materially modified multiple-deliverable arrangements entered into, as well as the nature of the various services contained within those arrangements and the time periods over which those services are delivered.

Reclassifications

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

2. Discontinued Operations**EPS**

On September 14, 2006, the Company completed the sale of Emdeon Practice Services, Inc. (together with its subsidiaries, “EPS”) to Sage Software, Inc. (“Sage Software”), an indirect wholly owned subsidiary of The Sage Group plc (the “EPS Sale”). The Company has certain indemnity obligations to advance amounts for reasonable defense costs for initially ten, and now four, former officers and directors of EPS, who were indicted in connection

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

with the previously disclosed investigation by the United States Attorney for the District of South Carolina (the “Investigation”), which is more fully described in Note 9. In connection with the EPS Sale, the Company agreed to indemnify Sage Software relating to these indemnity obligations. During the years ended December 31, 2007, 2008 and 2009, the Company recorded pre-tax charges of \$73,347, \$29,078 and \$14,367, respectively, which represented the Company’s estimate of its costs related to this matter. As described in more detail in Note 9, two of the former officers and directors of EPS were found guilty; however the Court set the verdict aside on May 27, 2010 and entered a judgment of acquittal. The government entered a notice of appeal with respect to the Court’s order and such appeal is pending. Two other former officers of EPS are awaiting trial in Tampa, Florida, which was scheduled to begin on October 4, 2010; however, on July 9, 2010 the Court in Tampa placed the case against those defendants on hold pending resolution of the appeal of the South Carolina ruling. As of March 31, 2011 and December 31, 2010, the remaining accrual with respect to the costs for these matters was \$7,385 and \$7,527, respectively, and is included within liabilities of discontinued operations on the accompanying consolidated balance sheets. The ultimate outcome of this matter is still uncertain and, accordingly, the amount of cost the Company may ultimately incur could be substantially more than the reserve the Company has currently provided. If the recorded reserves are insufficient to cover the ultimate cost of this matter, the Company will need to record additional charges to its consolidated statement of operations in future periods.

Also included within liabilities of discontinued operations related to this matter is \$5,000, as of March 31, 2011 and December 31, 2010, which represents certain reimbursements received from the Company’s insurance carriers between July 31, 2008 and March 31, 2011. The Company deferred recognizing these insurance reimbursements within the consolidated statement of operations given the pending Coverage Litigation, which is more fully described in Note 9.

3. Convertible Notes

Repurchase and Conversions of 3 1/8 % Notes

During the three months ended March 31, 2010, the Company repurchased \$19,307 principal amount of its 3 1/8 % Convertible Notes due 2025 (the “3 1/8 % Notes”) for \$22,565 in cash. In addition, the holders of the 3 1/8 % Notes converted \$83,927 principal amount into 2,396,129 shares of WebMD common stock. The Company recognized an aggregate pre-tax loss of \$3,727 related to the repurchase and conversions of the 3 1/8 % Notes, which is reflected as loss on convertible notes in the accompanying consolidated statement of operations during the three months ended March 31, 2010. The loss included the expensing of remaining deferred issuance costs outstanding related to the repurchased and converted notes. No 3 1/8 % Notes were outstanding at March 31, 2011 or December 31, 2010.

2.50% Convertible Notes due 2018

On January 11, 2011, the Company issued \$400,000 aggregate principal amount of 2.50% Convertible Notes due 2018 (the “2.50% Notes”) in a private offering. Unless previously converted, the 2.50% Notes will mature on January 31, 2018. Net proceeds from the sale of the 2.50% Notes were approximately \$387,345, after deducting the related offering expenses, of which approximately \$100,000 was used to repurchase 1,920,490 shares of the Company’s Common Stock at a price of \$52.07 per share, the last reported sale price of the Company’s Common Stock on January 5, 2011, which repurchase settled on January 11, 2011. Interest on the 2.50% Notes is payable semi-annually on January 31 and July 31 of each year, commencing July 31, 2011. Under the terms of the 2.50% Notes, holders may surrender their 2.50% Notes for conversion into the Company’s Common Stock at an initial conversion rate of 15.1220 shares of Common Stock per thousand dollars principal amount of the 2.50% Notes. This is equivalent to an initial conversion price of approximately \$66.13 per share of Common Stock. In the aggregate, the 2.50% Notes are convertible into 6,048,800 shares of the Company’s Common Stock. The conversion rate may be adjusted under certain circumstances. Under the terms of the 2.50% Notes, if the Company undergoes certain change of control transactions prior to the maturity date of the 2.50% Notes, holders of the 2.50% Notes will have the right, at their option, to require the Company to repurchase some or all of their 2.50% Notes at a repurchase price equal to 100% of the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

principal amount of the 2.50% Notes being repurchased, plus accrued and unpaid interest to, but excluding, the repurchase date. At the Company's option, and to the extent permitted by the applicable rules of the Nasdaq Global Select Market (or the applicable rules of such other exchange on which the Company's Common Stock may be listed), instead of paying the repurchase price in cash, the Company may pay the repurchase price in shares of its Common Stock or a combination of cash and shares of its Common Stock.

2.25% Convertible Notes due 2016

On March 14, 2011, the Company issued \$400,000 aggregate principal amount of 2.25% Convertible Notes due 2016 (the "2.25% Notes") in a private offering. Unless previously converted, the 2.25% Notes will mature on March 31, 2016. Net proceeds from the sale of the 2.25% Notes were approximately \$387,400, after deducting the related offering expenses, of which approximately \$50,000 was used to repurchase 868,507 shares of the Company's Common Stock at a price of \$57.57 per share, the last reported sale price of the Company's Common Stock on March 8, 2011, which repurchase settled on March 14, 2011. Interest on the 2.25% Notes is payable semi-annually on March 31 and September 30 of each year, commencing September 30, 2011. Under the terms of the 2.25% Notes, holders may surrender their 2.25% Notes for conversion into the Company's Common Stock at an initial conversion rate of 13.5704 shares of Common Stock per thousand dollars principal amount of the 2.25% Notes. This is equivalent to an initial conversion price of approximately \$73.69 per share of Common Stock. In the aggregate, the 2.25% Notes are convertible into 5,428,160 shares of the Company's Common Stock. The conversion rate may be adjusted under certain circumstances. Under the terms of the 2.25% Notes, if the Company undergoes certain change of control transactions prior to the maturity date of the 2.25% Notes, holders of the 2.25% Notes will have the right, at their option, to require the Company to repurchase some or all of their 2.25% Notes at a repurchase price equal to 100% of the principal amount of the 2.25% Notes being repurchased, plus accrued and unpaid interest to, but excluding, the repurchase date. At the Company's option, and to the extent permitted by the applicable rules of the Nasdaq Global Select Market (or the applicable rules of such other exchange on which the Company's Common Stock may be listed), instead of paying the repurchase price in cash, the Company may pay the repurchase price in shares of its Common Stock or a combination of cash and shares of its Common Stock.

4. Related Party Transaction**Fidelity Employer Services Company LLC**

Fidelity Employer Services Company LLC ("FESCO") is a distributor of the Company's private portals, integrating the private portals product into the human resources administration and benefit administration services that FESCO provides to its employer clients. The Company recorded revenue of \$1,433 and \$1,457 during the three months ended March 31, 2011 and 2010, respectively, and \$1,724 and \$1,587 was included in accounts receivable as of March 31, 2011 and December 31, 2010, respectively, related to the FESCO agreement. FESCO is an affiliate of FMR LLC, which reported beneficial ownership of shares that represent approximately 14.9% of the Company's Common Stock as of March 31, 2011. Affiliates of FMR LLC also provide administrative and recordkeeping services to the Company in connection with the Company's 401(k) plan, stock-based compensation plans and the health savings accounts of Company employees.

5. Fair Value of Financial Instruments and Non-Recourse Credit Facilities

The Company accounts for certain assets and liabilities at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, the Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

Level 1: Observable inputs such as quoted market prices in active markets for identical assets or liabilities.

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Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions.

The Company did not have any Level 2 assets as of March 31, 2011 and December 31, 2010. The following table sets forth the Company's Level 1 and Level 3 financial assets that were measured and recorded at fair value on a recurring basis as of March 31, 2011 and December 31, 2010:

	Fair Value Estimate Using:	March 31, 2011			December 31, 2010		
		Amortized Cost Basis	Fair Value	Gross Unrealized Gains	Amortized Cost Basis	Fair Value	Gross Unrealized Gains (Losses)
Cash and cash equivalents	Level 1	\$1,065,383	\$1,065,383	\$—	\$400,501	\$400,501	\$—
ARS Option	Level 3	\$ 13,065	\$ 13,065	\$—	\$ 4,245	\$ 4,245	\$—

The following table reconciles the beginning and ending balances of the Company's Level 3 assets, which consist of the ARS Option at March 31, 2011 and December 31, 2010:

	Three Months Ended March 31,		
	2011	2010	
	ARS Option	Auction Rate Securities	Senior Secured Notes
Fair value as of the beginning of the period	\$ 4,245	\$ 279,701	\$ 63,826
Redemptions	(5,240)	(4,500)	—
(Loss) gain included in earnings	14,060	(29,508)	—
Interest income accretion included in earnings	—	—	287
Changes in unrealized gains/losses included in other comprehensive income	—	40,806	1,362
Fair value as of the end of the period	<u>\$13,065</u>	<u>\$ 286,499</u>	<u>\$ 65,475</u>

Through April 20, 2010, the Company held investments in auction rate securities ("ARS") which had been classified as Level 3 assets as described above. The types of ARS holdings the Company owned were backed by student loans, 97% guaranteed under the Federal Family Education Loan Program (FFELP), and had credit ratings of AAA or Aaa when purchased. Historically, the fair value of the Company's ARS holdings approximated par value due to the frequent auction periods, generally every 7 to 28 days, which provided liquidity to these investments. However, since February 2008, substantially all auctions involving these securities have been unsuccessful. The result of an unsuccessful auction is that these ARS holdings will continue to pay interest in accordance with their terms at each respective auction date; however, liquidity of the securities will be limited until there is a successful auction, the issuer redeems the securities, the securities mature or until such time as other markets develop. Additionally, during 2009, approximately one-half of the auction rate securities the Company held were either downgraded below AAA or placed on "watch" status by one or more of the major credit rating agencies. As of March 31, 2008, the Company concluded that the estimated fair value of its ARS no longer approximated the face value. The Company concluded the fair value of its ARS holdings was \$302,842 compared to a face value of \$362,950. The impairment in value, of \$60,108, was considered to be other-than-temporary and, accordingly, was recorded as an impairment charge within the statement of operations during the three months ended March 31, 2008.

Effective April 1, 2009, the Company was required to adopt new authoritative guidance which amended the recognition guidance for other-than-temporary impairments of debt securities and changed the presentation of other-than-temporary impairments in the financial statements. In accordance with this new guidance, if an entity intends to sell or if it is more likely than not that it will be required to sell an impaired security prior to recovery

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of its cost basis, the security is to be considered other-than-temporarily impaired and the full amount of impairment must be charged to earnings. Otherwise, losses on securities which are other-than-temporarily impaired are separated into two categories, the portion of loss which is considered credit loss and the portion of loss which is due to other factors. The credit loss portion is charged to earnings while the loss due to other factors is charged to other comprehensive income. This new guidance requires a cumulative effect adjustment to be reported as of the beginning of the period of adoption to reclassify the non-credit component of previously recognized other-than-temporary impairments on debt securities held at that date, from retained earnings to accumulated other comprehensive income, if the entity does not intend to sell the debt security and it is not more likely than not that the entity will be required to sell the debt security before recovery of its amortized cost basis.

Since the Company had no current intent to sell the auction rate securities that it held as of April 1, 2009, and it was not more likely than not that the Company would be required to sell the securities prior to recovery of the amortized cost basis, the Company estimated the present value of the cash flows expected to be collected related to the auction rate securities it held. The difference between the present value of the estimated cash flows expected to be collected and the amortized cost basis as of April 1, 2009, the date this new guidance was adopted, was \$26,848, or \$24,697 net of the effect of noncontrolling interest. This represented the cumulative effect of initially adopting this new guidance and has been reflected as an increase to the cost basis of its investment and an increase to accumulated other comprehensive loss and an increase to retained earnings in the Company's balance sheet effective as of April 1, 2009.

Historically, the Company estimated the fair value of its ARS holdings using an income approach valuation technique. Using this approach, expected future cash flows are calculated over the expected life of each security and are discounted to a single present value using a market required rate of return. Some of the more significant assumptions made in the present value calculations were (i) the estimated weighted average lives for the loan portfolios underlying each individual ARS, which ranged from 4 to 14 years as of March 31, 2008 and (ii) the required rates of return used to discount the estimated future cash flows over the estimated life of each security, which consider both the credit quality for each individual ARS and the market liquidity for these investments. Additionally, as discussed above, during 2009, certain of the auction rate securities the Company holds were downgraded below AAA by one or more of the major credit rating agencies. These revised credit ratings were a significant consideration in determining the cash flows expected to be collected. Substantial judgment and estimation factors are necessary in connection with making fair value estimates of Level 3 securities, including estimates related to expected credit losses as these factors are not currently observable in the market due to the lack of trading in the securities.

Effective April 20, 2010, the Company entered into an agreement pursuant to which the Company sold all of its holdings of ARS for an aggregate of \$286,399. Under the terms of the agreement, the Company retained an option (the "ARS Option"), for a period of two years from the date of the agreement: (a) to repurchase from the purchaser the same principal amount of any or all of the various series of ARS sold, at the agreed upon purchase prices received on April 20, 2010; and (b) to receive additional proceeds from the purchaser upon certain redemptions of the various series of ARS sold.

As described above, while the Company originally recorded a loss of \$60,108 relating to its holdings of ARS in the March 2008 quarter, the Company was required to reclassify \$26,848 of that charge as an unrealized loss through stockholders' equity when WebMD was required to adopt new authoritative guidance related to impairments effective April 1, 2009, which had the effect of increasing the cost basis of the ARS by that amount. As a result, during 2010, the Company recorded an additional charge of \$29,508, representing the difference between the cost basis of its ARS holdings and the proceeds received on April 20, 2010. In connection with the sale of the ARS, the Company recorded a deferred income tax benefit of approximately \$22,000 primarily related to the reversal of income tax valuation allowance attributable to its ARS. Additionally the Company recognized gains of \$14,712 and \$14,060 related to the ARS Option described above during the period from April 20, 2010 through December 31, 2010 and during the three months ended

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March 31, 2011, respectively. Through the ARS Option, the Company received cash proceeds of \$10,467 and \$5,240 during the period from April 20, 2010 through December 31, 2010 and during the three months ended March 31, 2011, respectively. The value of the ARS Option as of March 31, 2011 is estimated to be \$13,065 and is reflected in other assets within the accompanying balance sheet. The ARS Option has been classified as a Level 3 asset as its valuation requires substantial judgment. The historical redemption activity of the specific ARS underlying the ARS Option was the most significant assumption used to determine an estimated value of the ARS Option. The Company is required to reassess the value of the ARS Option at each reporting period, and any changes in value will be recorded within the statement of operations in future periods.

The Company also holds an investment in a privately held company which is carried at cost, and not subject to fair value measurements. However, if events or circumstances indicate that its carrying amount may not be recoverable, it would be reviewed for impairment. The total amount of this investment is \$6,471 and it is included in other assets on the accompanying consolidated balance sheets.

For disclosure purposes, the Company is required to measure the outstanding value of its debt on a recurring basis. The following table presents the carrying value and estimated fair value of the Company's convertible notes that were carried at historical cost as of March 31, 2011:

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
2.50% Notes	\$400,000	\$402,252	\$—	\$—
2.25% Notes	400,000	386,416	—	—

6. Comprehensive Income

Comprehensive income is comprised of net income (loss) and other comprehensive income. Other comprehensive income includes certain changes in equity that are excluded from net income (loss), such as changes in unrealized losses on securities. The following table presents the components of comprehensive income:

	Three Months Ended March 31,	
	2011	2010
Unrealized holding gains	\$ —	\$13,837
Unrealized losses recognized in earnings	—	28,848
Other comprehensive income	—	42,685
Net income (loss)	19,545	(3,790)
Comprehensive income	<u>\$19,545</u>	<u>\$38,895</u>

7. Stock Repurchase Program, 2010 Tender Offers and Other Repurchases

On December 4, 2008, the Company announced the authorization of a stock repurchase program (the "Program"), at which time the Company was authorized to use up to \$30,000 to purchase shares of WebMD common stock, from time to time, in the open market, through block trades or in private transactions, depending on market conditions and other factors. During the three months ended March 31, 2010, the Company repurchased 166,438 shares at an aggregate cost of \$6,527 under the Program. No shares were repurchased under the Program during the three months ended March 31, 2011. As of March 31, 2011, a total of \$15,086 remained available for repurchases under the Program. Repurchased shares are recorded under the cost method and are reflected as treasury stock in the accompanying consolidated balance sheets.

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On September 8, 2010, the Company completed a tender offer through which it repurchased 3,000,000 shares of its Common Stock at a price of \$52.00 per share for total consideration of \$156,421 which includes \$421 of costs directly attributable to the purchase. On April 8, 2010, the Company completed a tender offer through which it repurchased 5,172,204 shares of its Common Stock at a price of \$46.80 per share for total consideration of \$242,795 which includes \$736 of costs directly attributable to the purchase.

On January 5, 2011, the Company used \$100,000 of the proceeds of the 2.50% Notes to repurchase 1,920,490 shares of the Company's Common Stock at a price of \$52.07 per share. Additionally, on March 8, 2011, the Company used \$50,000 of the proceeds of the 2.25% Notes to repurchase 868,507 shares of the Company's Common Stock at a price of \$57.57 per share. See Note 3 for further discussion of the Company's 2.50% Notes and 2.25% Notes. Neither of these share repurchases were made under the Program.

8. Intangible Assets

Intangible assets subject to amortization consist of the following:

	March 31, 2011			Weighted Average Remaining Useful Life ^(a)	December 31, 2010			Weighted Average Remaining Useful Life ^(a)
	Gross Carrying Amount	Accumulated Amortization	Net		Gross Carrying Amount	Accumulated Amortization	Net	
Content	\$ 15,954	\$ (15,954)	\$ —	—	\$ 15,954	\$ (15,954)	\$ —	—
Customer relationships	34,057	\$ (19,283)	14,774	7.2	34,057	\$ (18,760)	15,297	7.5
Technology and patents	14,700	(14,700)	—	—	14,700	(14,700)	—	—
Trade names-definite lives	6,030	(3,298)	2,732	5.2	6,030	(3,165)	2,865	5.4
Trade names-indefinite lives	4,464	—	4,464	n/a	4,464	—	4,464	n/a
Total	<u>\$ 75,205</u>	<u>\$ (53,235)</u>	<u>\$21,970</u>		<u>\$ 75,205</u>	<u>\$ (52,579)</u>	<u>\$22,626</u>	

(a) The calculation of the weighted average remaining useful life is based on the net book value and the remaining amortization period of each respective intangible asset.

Amortization expense was \$656 and \$1,077 during the three months ended March 31, 2011 and 2010, respectively. Aggregate amortization expense for intangible assets is estimated to be:

Year Ending December 31:	
2011 (April 1 st to December 31 st)	\$1,970
2012	\$2,627
2013	\$2,627
2014	\$2,627
2015	\$2,617
Thereafter	\$5,038

9. Commitments and Contingencies

Legal Proceedings

Investigations by United States Attorney for the District of South Carolina and the SEC

As previously disclosed, the United States Attorney for the District of South Carolina has been conducting an investigation of HLTH, which HLTH first learned about on September 3, 2003. Based on the information available to the Company, it believes that the investigation relates principally to issues of financial accounting improprieties relating to Medical Manager Corporation, a predecessor of HLTH (by its merger into HLTH in September 2000), and, more specifically, HLTH's former Medical Manager Health Systems, Inc. subsidiary. Medical Manager Health Systems was a predecessor to Emdeon Practice Services, Inc. ("EPS"), a subsidiary

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that HLTH sold to Sage Software in September 2006 (the “EPS Sale”). HLTH and the Company have been fully cooperating and the Company intends to continue to cooperate fully with the U.S. Attorney’s Office. As previously reported, the Board of Directors of HLTH formed a special committee consisting solely of independent directors to oversee this matter with the sole authority to direct HLTH’s response to the allegations that have been raised and that special committee has been continued as a committee of the Board of Directors of the Company following the Merger. As previously disclosed, the Company understands that the SEC is also conducting a formal investigation into this matter. In connection with the EPS Sale, HLTH agreed to indemnify Sage Software with respect to this matter and the Company assumed that obligation in the Merger.

The United States Attorney for the District of South Carolina announced on January 10, 2005 that three former employees of Medical Manager Health Systems each had agreed to plead guilty to one count of mail fraud and that one such employee had agreed to plead guilty to one count of tax evasion for acts committed while they were employed by Medical Manager Health Systems. According to the Informations, Plea Agreements and Factual Summaries filed by the United States Attorney in, and available from, the District Court of the United States for the District of South Carolina — Beaufort Division, on January 7, 2005, the three former employees and other then unnamed co-schemers were engaged in schemes between 1997 and 2002 that included causing companies acquired by Medical Manager Health Systems to pay the former vice president in charge of acquisitions and co-schemers kickbacks which were funded through increases in the purchase price paid by Medical Manager Health Systems to the acquired companies and that included fraudulent accounting practices to artificially inflate the quarterly revenues and earnings of Medical Manager Health Systems when it was an independent public company called Medical Manager Corporation from 1997 through 1999, when and after it was acquired by Syntec, Inc. in July 1999, and when and after it became a subsidiary of HLTH in September 2000. A fourth former officer of Medical Manager Health Systems pled guilty to similar activities later in 2005.

On December 15, 2005, the United States Attorney announced indictments of ten former officers and employees of Medical Manager Health Systems including Michael A. Singer, a former Chief Executive Officer of Medical Manager Health Systems and a former director of HLTH, who was last employed by HLTH as its Executive Vice President, Physician Software Strategies until February 2005, John H. Kang, a former President of Medical Manager Health Systems, who was employed until May 2001, and John P. Sessions, a former President and Chief Operating Officer of Medical Manager Health Systems, who was employed until September 2003. The indictment initially charged the defendants with conspiracy to commit mail, wire and securities fraud, a violation of Title 18, United States Code, Section 371 and conspiracy to commit money laundering, a violation of Title 18, United States Code, Section 1956(h) but the second count was dismissed in 2009. The allegations set forth in the indictment describe activities that are substantially similar to those described above with respect to the January 2005 plea agreements. One of the defendants passed away in 2008 and was dismissed from the indictment. Four of the defendants have been dismissed from the case and two defendants were severed from the case and their cases were transferred to Tampa, Florida. In addition, Mr. Singer has entered into a Deferred Prosecution Agreement with the United States pursuant to which all charges were dismissed against Mr. Singer on July 26, 2010. The trial of John Kang and John Sessions, former officers of Medical Manager Health Systems, began on January 19, 2010 and on March 1, 2010 both men were found guilty by the jury; however, the Court set the verdict aside on May 27, 2010 and entered a judgment of acquittal. On January 19, 2011, the Court granted the motion of the Messrs. Kang and Sessions for a new trial in the event that the government’s appeal of the Court’s ruling to set aside the verdict is successful. The government is in the process of deciding whether it will appeal both of these rulings. The trial of the remaining two defendants was scheduled to begin on October 4, 2010; however, on July 9, 2010, the Court in Tampa placed the case against those defendants on hold pending resolution of the appeal of the South Carolina ruling.

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Based on the information it has obtained to date, including that contained in the court documents filed by the United States Attorney in South Carolina, the Company does not believe that any member of HLTH's senior management whose duties were not primarily related to the operations of Medical Manager Health Systems during the relevant time periods engaged in any of the violations or improprieties described in those court documents. The Company understands, however, that in light of the nature of the allegations involved, the U.S. Attorney's office has been investigating all levels of HLTH's management. The Company has not uncovered information that it believes would require a restatement for any of the years covered by HLTH's financial statements. In addition, the Company believes that the amounts of the kickback payments referred to in the court documents have already been reflected in the financial statements of HLTH to the extent required.

HLTH had (and the Company has assumed in the Merger) certain indemnity obligations to advance amounts for reasonable defense costs for the former officers and directors of EPS. Through March 31, 2011 the Company recorded pre-tax charges aggregating \$116,792 related to its estimated liability with respect to these indemnity obligations. See Note 2 for a more detailed discussion regarding these charges.

Directors & Officers Liability Insurance Coverage Litigation

On July 23, 2007, HLTH commenced litigation (the "Coverage Litigation") in the Court of Chancery of the State of Delaware in and for New Castle County against ten insurance companies in which HLTH was seeking to compel the defendant companies (collectively, the "Defendants") to honor their obligations under certain directors and officers liability insurance policies (the "Policies"). WebMD succeeded to HLTH as plaintiff in this action as a result of the Merger. HLTH was seeking an order requiring the Defendants to advance and/or reimburse expenses that HLTH had incurred and expected to continue to incur for the advancement of the reasonable defense costs of initially ten, and now four, former officers and directors of HLTH's former EPS subsidiary who were indicted in connection with the Investigation described above in this Note 9 (the "Investigation").

Pursuant to a stipulation among the parties, the Coverage Litigation was transferred on September 13, 2007 to the Superior Court of the State of Delaware in and for New Castle County. The Policies were issued to HLTH and to EPS, which is a co-plaintiff with the Company in the Coverage Litigation (collectively, the "Plaintiffs"). EPS was sold in September 2006 to Sage Software and has changed its name to Sage Software Healthcare, Inc. ("SSHI"). In connection with HLTH's sale of EPS to Sage Software, HLTH retained certain obligations relating to the Investigation and agreed to indemnify Sage Software and SSHI with respect to certain expenses in connection with the Investigation and the Company assumed those obligations as a result of the Merger. HLTH retained (and the Company succeeded to as a result of the Merger) the right to assert claims and recover proceeds under the Policies on behalf of SSHI.

Prior to the filing of the Second Amended Complaint which is discussed below, the Policies at issue in the Coverage Litigation consisted of two separate groups of insurance policies. Each group of policies consists of several layers of coverage, with different insurers having agreed to provide specified amounts of coverage at various levels. The first group of policies was issued to EPS in the amount of \$20,000 (the "EPS Policies") and the second group of policies was issued to Synetic, Inc. (the former parent of EPS, which merged into HLTH) in the amount of \$100,000, of which approximately \$3,600 was paid by the primary carrier with respect to another unrelated matter (the "Synetic Policies").

The carrier with the third level of coverage in the Synetic Policies filed a motion for summary judgment in the Coverage Litigation, which most of the carriers who have issued the Synetic Policies joined, which sought summary judgment that any liability to pay defense costs should be allocated among the three sets of policies available to the Company (including the policies with respect to which the Coverage Litigation relates and a third set of policies the issuers of which had not yet been named by the Company) such that the Synetic Policies would only be liable to pay about \$23,000 of the \$96,400 total coverage available under such policies. HLTH filed its opposition to the motion together with its motion for summary judgment against such carrier

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and several other carriers who have issued the Synetic Policies seeking to require such carriers to advance payment of the defense costs that the Company is obligated to pay while the Coverage Litigation is pending. On July 31, 2008, the Superior Court for the State of Delaware denied the motion filed by the carriers seeking allocation and granted HLTH's motion for partial summary judgment to enforce the duty of such carriers to advance and reimburse these costs. Pursuant to the Court's order, the issuers of the Synetic Policies began reimbursing the Company for its costs as described below.

On September 9, 2008 and February 4, 2009, respectively, the eighth and ninth level carriers of the Synetic Policies notified HLTH that they believed that they were not bound by the Court's July 31, 2008 order regarding the duty of the Synetic carriers to advance and reimburse defense costs. This resulted in HLTH making a motion to the Court on February 23, 2009 to require such eighth and ninth level carriers to advance and reimburse defense costs. HLTH later settled with the eighth level carrier. Under the terms of the settlement such carrier has paid, in full and final settlement, an agreed-upon percentage of the policy amount against each payment of defense costs made by the Company as such policy was implicated. On April 15, 2009, the ninth level carrier made a cross-motion for summary judgment claiming that, in light of a policy endorsement applicable only to the ninth level carrier, because of the time period during which the conspiracy charged in the Second Superseding Indictment is alleged to have taken place, the Synetic Policy issued by such carrier does not cover HLTH's indemnification obligations. HLTH believed that such carrier's motion was without merit and responded to the motion. On July 15, 2009, the Court granted summary judgment in favor of the ninth level carrier and unless and until the Company successfully appeals such decision, the ninth level carrier is not liable to pay any portion of the \$10,000 total coverage of its policy with respect to the Company's indemnification obligations. As of March 31, 2011, \$84,200 has been paid by insurance companies representing the EPS Policies and the Synetic Policies through a combination of payment under the terms of the Policies, payment under reservation of rights or through settlement. Of this amount, \$62,800 represents the portion received through settlement.

On November 17, 2008, HLTH filed a Second Amended Complaint which added four new insurance companies as defendants in the Coverage Action. These carriers are the issuers of a third set of policies (the "Emdeon Policies") that provide coverage with respect to HLTH's indemnification obligations to the former officers and directors of HLTH's former EPS subsidiary who were indicted in connection with the Investigation. All but one of the carriers who issued the Emdeon Policies moved for summary judgment asserting that exclusions in the Emdeon Policies preclude coverage for HLTH's indemnification obligations and HLTH filed motions seeking to compel such carriers to advance defense costs that HLTH was obligated to indemnify. On August 31, 2009, the Court issued two opinions. In the first opinion, the Court granted summary judgment in favor of HLTH with respect to one of the exclusions asserted by the carriers who issued the Emdeon Policies. In the second opinion, the Court granted summary judgment in favor of the carriers with respect to the other exclusion asserted by such carriers. The Company and the carriers who issued the Emdeon Policies (with the exception of the second level carrier with whom the Company has settled) each appealed the trial Court's August 31, 2009 rulings to the Supreme Court of Delaware and, on April 22, 2010, the Supreme Court decided both appeals in favor of the carriers who issued the Emdeon Policies. The implication of this decision is that the Company has effectively exhausted its insurance with respect to its obligation to indemnify the indicted individuals.

The insurance carriers assert that the Company's insurance policies provide that under certain circumstances, amounts advanced by the insurance companies in connection with the defense costs of the indicted individuals may have to be repaid by the Company, although the amounts that the Company has received in settlement from certain carriers is not subject to being repaid. The Company has obtained an undertaking from each indicted individual pursuant to which, under certain circumstances, such individual has agreed to repay defense costs advanced on such individual's behalf.

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In addition to the Coverage Litigation, on December 22, 2009, TIG Specialty Insurance Company (“TIG”), the second level issuer of the EPS Policies, commenced an action against the Company to recover the \$5,000 that TIG advanced to the Company in 2006. The Company and TIG settled the matter in 2010.

The Company intends to continue to satisfy its legal obligations to the indicted individuals with respect to advancement of amounts for their defense costs.

Roger H. Kaye and Roger H. Kaye, MD PC v. WebMD, LLC, et al.

In December 2009, a lawsuit was filed by Dr. Roger H. Kaye (and Roger H. Kaye MD PC) individually, and as an alleged class action, under the Telephone Consumer Protection Act (the “TCPA”) and under a similar Connecticut statute, in the U.S. District Court for the District of Connecticut against subsidiaries of the Company. The lawsuit claims that faxes allegedly sent during the period from August 1, 2006 to April 21, 2010 by subsidiaries of the Company and by The Little Blue Book business that the Company sold in September 2009 were sent in violation of the TCPA and the Connecticut statute. With respect to the TCPA claims, the lawsuit seeks statutory damages in excess of \$5,000 for each of two classes of plaintiffs, and a trebling of those damages. With respect to the claims under the Connecticut statute, under which trebling is unavailable, the lawsuit additionally seeks an undetermined amount of damages. In April 2010, Plaintiffs filed an amended complaint making substantially the same claims as were asserted in the original complaint. The Company’s subsidiaries have filed their answer as well as a motion to dismiss the action with prejudice on the grounds that the Court lacks subject matter jurisdiction and also filed a motion to stay discovery, which was granted pending resolution of the motion to dismiss. On July 8, 2010, the Court denied the motion to dismiss and ordered that class-related discovery should proceed, while continuing a stay of full merits discovery. The parties have agreed on terms to settle the matter and, on May 1, 2011, the Court entered a final order approving the settlement and dismissing the lawsuit. The Company believes that any costs related to this litigation are covered by insurance, subject to the Company’s deductible.

Daniel Rodimer, et.al., on behalf of themselves and all others similarly situated v. Apple, Inc., et. al.

On February 17, 2011, the Company was served with a complaint in this lawsuit, which is pending in the United States District Court for the Northern District of California. The Plaintiffs are seeking to have the case certified as a class action. The complaint alleges that Apple, Inc. (“Apple”) and several other defendants, including one or more subsidiaries of the Company, have violated several Federal and California statutes and are also liable under various common law claims in connection with the distribution of software applications for mobile devices through Apple’s iTunes store. The Federal Statutes that are alleged to have been violated are the Computer Fraud and Abuse Act, 18 U.S.C. § 1030; and the Electronic Communications Privacy Act, 18 U.S.C. § 2510. The complaint seeks injunctive relief as well as damages in unspecified amounts. On April 20, 2011, Plaintiffs and the Company signed an agreement tolling the statutes of limitations applicable to Plaintiffs’ alleged claims against the Company. On April 21, 2011, Plaintiffs filed a first consolidated class action complaint that did not name the Company as a party. Pursuant to the terms of the tolling agreement, Plaintiffs dismissed the Company from the case without prejudice, with each party bearing its own costs, and with the reservation of the right to name the Company as party at a subsequent time, subject to any substantive defenses available to the Company. The tolling agreement may be terminated by either party upon 30 days’ written notice.

Other Legal Proceedings

In the normal course of business, the Company and its subsidiaries are involved in various claims and legal proceedings. While the ultimate resolution of these matters, including those discussed in Note 9 to the Consolidated Financial Statements included in the Company’s 2010 Annual Report on Form 10-K, has yet to

WEBMD HEALTH CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

be determined, the Company does not believe that their outcomes will have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

10. Stock-Based Compensation

Prior to the Merger on October 23, 2009, HLTH had various stock-based compensation plans (collectively, the "HLTH Plans") under which directors, officers and other eligible employees received awards of options to purchase HLTH Common Stock and restricted shares of HLTH Common Stock. WebMD also had similar stock-based compensation plans (the "WebMD Plans") that provide for the grant of stock options, restricted stock awards, and other awards based on WebMD Common Stock. In connection with the Merger, all outstanding stock options and restricted stock awards under the HLTH Plans were converted into outstanding stock options and restricted stock awards of WebMD based on the Merger exchange ratio of 0.4444. The following sections of this note present the historical activity of the HLTH Plans (on a converted basis after giving effect to the Merger exchange ratio of 0.4444) combined with the historical activity of the WebMD Plans, which are collectively referred to as the "Plans".

The 2005 Long-Term Incentive Plan, (as amended, the "2005 Plan") is the only plan under which future grants can be made. The maximum number of shares of the Company's Common Stock that may be subject to awards under the 2005 Plan was 18,200,000 as of March 31, 2011, subject to adjustment in accordance with the terms of the 2005 Plan. The Company had an aggregate of 3,366,458 shares of Common Stock available for future grants under the 2005 Plan at March 31, 2011.

Stock Options

Generally, options under the Plans vest and become exercisable ratably over periods ranging from four to five years based on their individual grant dates, subject to continued employment on the applicable vesting dates, and generally expire within ten years from the date of grant. Options are granted at prices not less than the fair market value of the Company's Common Stock on the date of grant. The following table summarizes stock option activity for the Plans:

	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value ⁽¹⁾
Outstanding at January 1, 2011	10,227,755	\$ 30.79		
Granted	408,400	52.82		
Exercised	(873,029)	28.35		
Cancelled	(110,594)	37.25		
Outstanding at March 31, 2011	<u>9,652,532</u>	\$ 31.87	7.3	\$208,715
Vested and exercisable at the end of the period	<u>3,869,804</u>	\$ 28.06	6.0	\$ 98,646

(1) The aggregate intrinsic value is based on the market price of the Company's Common Stock on March 31, 2011, which was \$53.42, less the applicable exercise price of the underlying option. This aggregate intrinsic value represents the amount that would have been realized if all the option holders had exercised their options on March 31, 2011.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model considering the weighted average assumptions noted in the following table. Expected volatility is based on implied volatility from traded options of the Company's Common Stock combined with historical volatility of the Company's Common Stock. The expected term represents the period of time that options are expected to be outstanding following their grant date, and was determined using historical exercise data

WEBMD HEALTH CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

combined with assumptions for future exercise activity. The risk-free rate is based on the U.S. Treasury yield curve for periods equal to the expected term of the options on the grant date.

	Three Months Ended March 31,	
	2011	2010
Expected dividend yield	0.0%	0.0%
Expected volatility	0.30	0.25
Risk-free interest rate	1.97%	1.61%
Expected term (years)	4.6	3.4
Weighted average fair value of options granted during the period	\$15.38	\$8.52

Restricted Stock Awards

The Company's Restricted Stock consists of shares of the Company's Common Stock which have been awarded to employees with restrictions that cause them to be subject to substantial risk of forfeiture and restrict their sale or other transfer by the employee until they vest. Generally, the Company's Restricted Stock awards vest ratably over periods ranging from three to five years from their individual award dates subject to continued employment on the applicable vesting dates. The following table summarizes the activity of the Company's Restricted Stock:

	Shares	Weighted Average Grant Date Fair Value
Balance at January 1, 2011	1,106,751	\$ 33.13
Granted	129,000	53.90
Vested	(139,243)	25.72
Forfeited	(9,000)	42.89
Balance at March 31, 2011	<u>1,087,508</u>	\$ 36.47

Proceeds received from the exercise of options to purchase shares of the Company's Common Stock were \$10,220 and \$28,224 during the three months ended March 31, 2011 and 2010, respectively. Additionally, in connection with the exercise of certain stock options and the vesting of restricted stock, the Company made payments of \$3,172 and \$22,449 during the three months ended March 31, 2011 and 2010, respectively, related to employee statutory withholding taxes that were satisfied by withholding shares of Common Stock of equal value from the respective employees. The proceeds and payments described above are reflected within cash flows from financing activities within the accompanying consolidated statements of cash flows.

The intrinsic value related to stock options that were exercised, combined with the fair value of shares of restricted stock that vested, aggregated \$30,303 and \$92,251 for the three months ended March 31, 2011 and 2010, respectively.

Other

Each year, the Company issues shares of its Common Stock to each WebMD non-employee director with a value equal to their annual board and committee retainers. The Company recorded \$86 and \$92 of stock-based compensation expense for the three months ended March 31, 2011 and 2010, respectively, in connection with these issuances.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Summary of Stock-Based Compensation Expense

The following table summarizes the components and classification of stock-based compensation expense:

	Three Months Ended March 31,	
	<u>2011</u>	<u>2010</u>
Stock options	\$6,623	\$5,787
Restricted stock	3,104	1,958
Other	86	92
Total stock-based compensation expense	<u>\$9,813</u>	<u>\$7,837</u>
Included in:		
Cost of operations	\$2,103	\$1,789
Sales and marketing	2,391	2,193
General and administrative	5,319	3,855
Total stock-based compensation expense	<u>\$9,813</u>	<u>\$7,837</u>

As of March 31, 2011, approximately \$79,600 of unrecognized stock-based compensation expense related to unvested awards (net of estimated forfeitures) is expected to be recognized over a weighted-average period of approximately 2.7 years, related to the Plans.

Tax benefits attributable to stock-based compensation represented 39% and 40% of stock-based compensation expense during the three months ended March 31, 2011 and 2010, respectively.

11. Other Expense, Net

Other expense, net consists of the following items:

	Three Months Ended March 31,	
	<u>2011</u>	<u>2010</u>
Reduction of tax contingencies ^(a)	\$ —	\$ 178
Legal expense ^(b)	(53)	(476)
Other expense, net	<u>\$(53)</u>	<u>\$(298)</u>

(a) Represents the reduction of certain sales and use tax contingencies resulting from the expiration of various statutes.

(b) Represents the costs and expenses incurred by the Company related to the investigation by the United States Attorney for the District of South Carolina and the SEC and the related Coverage Litigation.

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 "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 is intended to provide an understanding of our results of operations, financial condition and changes in our results of operations and financial condition. Our MD&A is organized as follows:

- *Introduction.* This section provides: a general description of our company and its business; background information on certain trends, transactions and other developments affecting our company; and a discussion of how seasonal factors may impact the timing of our revenue.
- *Critical Accounting Estimates and Policies.* This section discusses those accounting policies that are considered important to the evaluation and reporting of our financial condition and results of operations, and whose application requires us to exercise subjective and often complex judgments in making estimates and assumptions. In addition, all of our significant accounting policies, including our critical accounting policies, are summarized in Note 2 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission (which we refer to as the SEC).
- *Results of Operations and Supplemental Financial and Operating Information.* These sections provide our analysis and outlook for the significant line items on our statements of operations, as well as other information that we deem meaningful to understand our results of operations on a consolidated basis.
- *Liquidity and Capital Resources.* This section provides an analysis of our liquidity and cash flows, as well as a discussion of our commitments that existed as of March 31, 2011.
- *Recent Accounting Pronouncements.* This section provides a summary of the most recent authoritative accounting standards and guidance that have either been recently adopted by our company or may be adopted in the future.

Introduction

Our Company. WebMD Health Corp. is a Delaware corporation that was incorporated on May 3, 2005. We completed an initial public offering on September 28, 2005. Our Common Stock trades under the symbol "WBMD" on the Nasdaq Global Select Market.

Our Business. We are a leading provider of health information services to consumers, physicians and other healthcare professionals, employers and health plans through our public and private online portals, mobile platforms and health-focused publications.

Our public portals for consumers enable them to obtain health and wellness information (including information on specific diseases or conditions), check symptoms, locate physicians, store individual healthcare information, receive periodic e-newsletters on topics of individual interest and participate in online communities with peers and experts. Our public portals for physicians and healthcare professionals make it easier for them to access clinical reference sources, stay abreast of the latest clinical information, learn about new treatment options, earn continuing medical education (which we refer to as CME) credit and communicate with peers. We also provide mobile health information applications for use by consumers and physicians. We generate revenue from our public portals primarily through the sale of advertising and sponsorship products, including CME services. Our public portals' sponsors and advertisers include pharmaceutical, biotechnology, medical device and consumer products companies. We also generate revenue from the sale of e-detailing promotion and physician recruitment services and from advertising sold in *WebMD the Magazine*, a consumer

magazine distributed to physician office waiting rooms. In addition, we generate revenue from the sale of certain information products.

Our private portals enable employers and health plans to provide their employees and members with access to personalized health and benefit information and decision-support technology that helps them to make more informed benefit, treatment and provider decisions. In addition, we offer clients of our private portals telephonic health coaching services on a per participant basis across an employee or plan population. We generate revenue from our private portals through the licensing of these portals and related services to employers and health plans either directly or through distributors.

Background Information on Certain Trends Influencing the Use of Our Services. Several key trends in the healthcare and Internet industries are influencing the use of healthcare information services of the types we provide or are developing. Those trends are described briefly below:

- *Use of the Internet by Consumers and Physicians.* The Internet has emerged as a major communications medium and has already fundamentally changed many sectors of the economy, including the marketing and sales of financial services, travel, and entertainment, among others. The Internet is also changing the healthcare industry and has transformed how consumers and physicians find and utilize healthcare information.
 - Healthcare consumers increasingly seek to educate themselves online about their healthcare-related issues, motivated in part by the larger share of healthcare costs they are being asked to bear due to changes in the benefit designs being offered by health plans and employers. The Internet has fundamentally changed the way consumers obtain health and wellness information, enabling them to have immediate access to searchable information and dynamic interactive content to check symptoms, assess risks, understand diseases, find providers and evaluate treatment options.
 - The Internet has also become a primary source of information for physicians seeking to improve clinical practice and is growing relative to traditional information sources, such as conferences, meetings and offline journals.
- *Increased Online Marketing and Education Spending for Healthcare Products.* Pharmaceutical, biotechnology and medical device companies spend large amounts each year marketing their products and educating consumers and physicians about them; however, only a small portion is currently spent on online services. We believe that these companies, which comprise the majority of the advertisers and sponsors of our public portals, are becoming increasingly aware of the effectiveness of the Internet relative to traditional media in providing health, clinical and product-related information to consumers and physicians, and this increasing awareness will result in increasing demand for our services. In addition, in an effort to improve operating efficiencies, some pharmaceutical companies have been reducing their field sales forces in the past several years. We believe that, in their effort to achieve greater overall marketing efficiency, pharmaceutical companies will continue to increase the use of online promotional marketing to physicians and other healthcare professionals, including through use of our services. However, notwithstanding our general expectation for increased demand, our advertising and sponsorship revenue may vary significantly from quarter to quarter due to a number of factors, including general economic and regulatory conditions and the following:
 - The majority of our advertising and sponsorship contracts are for terms of approximately four to twelve months. We have relatively few longer term advertising and sponsorship contracts.
 - The time between the date of initial contact with a potential advertiser or sponsor regarding a specific program and the execution of a contract with the advertiser or sponsor for that program may be subject to delays over which we have little or no control, including as a result of budgetary constraints of the advertiser or sponsor or their need for internal approvals, including internal approvals relating to compliance with the laws and regulations applicable to the marketing of healthcare products. Recently, we have seen a trend toward the lengthening of this internal review process as it applies to our services for pharmaceutical companies.

Other factors that may affect the timing of contracting for specific programs with advertisers and sponsors, or receipt of revenue under such contracts, include: the timing of FDA approval for new products or for new approved uses for existing products; the timing of FDA approval of generic products that compete with existing brand name products; the timing of withdrawals of products from the market; the timing of roll-outs of new or enhanced services on our public portals; seasonal factors relating to the prevalence of specific health conditions and other seasonal factors that may affect the timing of promotional campaigns for specific products; and the scheduling of conferences for physicians and other healthcare professionals.

- *Reaching Health-Conscious Consumers.* More than half of the traffic to our consumer portals is in areas of health and wellness that are not related solely to diseases and conditions. The demand for reaching health-conscious consumers is growing significantly. In addition to pharmaceutical, biotechnology and medical device companies, our public portals advertisers and sponsors include consumer products companies whose products relate to health, wellness, diet, fitness, lifestyle, safety and illness prevention. During 2010, we supported a growing number of consumer product company clients, including Johnson & Johnson, Proctor & Gamble and Nestle Corp., along with retailers such as Wal-Mart and Target. We plan to continue to focus on increasing sponsorship revenues from consumer products companies, retailers and other companies that are interested in communicating health-related or safety-related information about their products or services to our audience.
- *Use of Health and Benefits Applications.* In a healthcare market where a greater share of the responsibility for healthcare costs and decision-making has been shifting to consumers, use of information technology to assist consumers in making informed decisions about healthcare has also increased. We believe that through our WebMD Health and Benefits Manager tools, including our personal health record application, we are well positioned to play a role in this environment. However, our strategy depends, in part, on increasing usage of our private portal services by our employer and health plan clients' employees and members and being able to demonstrate a sufficient return on investment and other benefits for our private portals clients from those services. Increasing usage of our private portal services requires us to continue to develop new and updated applications, features and services. In addition, we face competition in the area of healthcare decision-support tools and online health management applications and health information services. Many of our competitors have greater financial, technical, product development, marketing and other resources than we do, and may be better known than we are. We also expect that, for clients and potential clients that have been adversely affected by general economic conditions, we may continue to experience some reductions in initial contracts, contract expansions and contract renewals for our private portal services, as well as reductions in the size of existing contracts.
- *Developments in Social Media and Other Applications.* In the past several years, video and multimedia applications have become an increasingly important part of what users expect from Internet sites. In addition, consumers are increasingly using the Internet to access social media as a means to communicate and exchange information, including regarding health and wellness. Similarly, physicians and other healthcare professionals are increasingly participating in condition or topic specific community groups and other interactive applications. Consumers and healthcare professionals are also increasingly using mobile devices to access the Internet, with physicians increasingly using mobile devices in diagnosis and treatment at the point of care. Mobile, while not yet a meaningful revenue source for us, is expected to be an important area of growth for the future. We are focused on delivering a multi-screen platform that extends the user experience beyond the desktop portal onto the mobile device. We have invested and intend to continue to invest in software and systems that allow us to meet the demands of our users and sponsors, including customized content management and publishing technology to deliver interactive content, multimedia programming and personalized health applications that engage our users. The following are some of our recent and current initiatives to improve the user experience on our Websites, expand our services and increase our user base:
 - *Physician Connect*, our social networking platform for physicians, allows them to exchange information online on a range of topics, including patient care, drug information, healthcare-related

legislation and practice management. Physicians can also create polls to assess the opinions of their colleagues on a range of topics. We also offer third parties the opportunity to sponsor *Physician Connect* discussions and polls so that they can gain insights into physicians' perspectives and areas of interest. As of March 31, 2011, *Physician Connect* had attracted more than 150,000 physician members. *Medscape from WebMD* also offers a variety of sponsored and unsponsored blogs where healthcare professionals can share their thoughts and opinions with the *Medscape from WebMD* community.

- In March 2010, we launched *The WebMD Community*, a social networking initiative that gives consumers the ability to connect with health experts and with other WebMD members to exchange information, experiences and support. *The WebMD Community* is being integrated throughout each of the core content areas of WebMD.com, giving members the ability to safely and easily connect with others on topics that are most relevant to them. In addition to expert-led communities, members are empowered to create their own communities and to exchange information with other users. *The WebMD Community* also enables third party sponsors to create branded experiences and to host consumer discussions on specific health and wellness topics most important to them.
- *Medscape Mobile* is a free medical application that includes Medscape's specialty-specific news, comprehensive drug information and clinical reference tools. *Medscape Mobile* also includes CME activities organized by specialty and designed for use on a mobile device. *Medscape Mobile* was launched for iPhone[®] and iPod touch[®] users in 2009, for Blackberry[®] users in April 2010 and for iPad[™] and Android[™] users in January 2011. As of March 31, 2011, *Medscape Mobile* had attracted approximately one million registered users.
- *WebMD for iPhone* and *WebMD for iPad* are free applications for consumers that provide mobile access to certain WebMD content and tools on an iPhone[®] or iPad[™], including Symptom Checker, First Aid, and Pill Identifier applications, as well as other health information. As of May 6, 2011, these applications had been downloaded more than five million times. We also provide the entire mobile audience with access to our consumer content and tools through our new mobile site at www.m.webmd.com.
- We are pursuing opportunities to expand the reach of our brands outside the United States. Generally, we expect that we would accomplish this through partnerships or joint ventures with other companies having expertise in the specific country or region. In October 2009, we launched our first major consumer portal outside the United States in partnership with Boots, the UK's leading pharmacy-led health and beauty retailer. In addition, in certain markets outside of the U.S., we expect to provide some of our online services directly to healthcare professionals and, to a lesser extent, consumers.
- **Healthcare Reform Legislation.** The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (which we refer to as the Reform Legislation), was signed into law in March 2010. The Reform Legislation makes extensive changes to the system of healthcare insurance and benefits in the U.S. In general, the Reform Legislation seeks to reduce healthcare costs and decrease the number of uninsured legal U.S. residents by, among other things, requiring individuals to carry, and certain employers to offer, health insurance or be subject to penalties. The Reform Legislation also imposes new regulations on health insurers, including guaranteed coverage requirements, prohibitions on certain annual and all lifetime limits on amounts paid on behalf of or to plan members, increased restrictions on rescinding coverage, establishment of minimum medical loss ratio requirements, a requirement to cover certain preventive services on a first dollar basis, the establishment of state insurance exchanges and essential benefit packages, and greater limitations on how health insurers price certain of their products. The Reform Legislation also contains provisions that will affect the revenues and profits of pharmaceutical and medical device companies, including new taxes on certain sales of their products. Many of the provisions of the Reform Legislation that expand insurance coverage will not become effective until 2014, and many provisions require regulations and interpretive guidance to be issued before they will be fully implemented. Some provisions do not apply

to health plans that were in place when the Reform Legislation was enacted and have not been substantially changed since. In addition, it is difficult to foresee how individuals and businesses will respond to the choices available to them under the Reform Legislation. Furthermore, the Reform Legislation will result in future state legislative and regulatory changes, which we are unable to predict at this time, in order for states to comply with certain provisions of the Reform Legislation and to participate in grants and other incentive opportunities. In addition, a number of states have filed lawsuits challenging the constitutionality of certain provisions of the Reform Legislation. As of May 9, 2011, two federal courts have ruled that the requirement for individuals to carry insurance is unconstitutional, but other courts have upheld this provision, and the Supreme Court has rejected a request for expedited review of one of the rulings against the provision, suggesting that an extended appellate process is likely.

While we do not currently anticipate any significant adverse effects on WebMD as a direct result of the application of the Reform Legislation to our businesses or on our company in its capacity as an employer, we are unable to predict what the indirect impacts of the Reform Legislation will be on WebMD's businesses through its effects on other healthcare industry participants, including pharmaceutical and medical device companies that are advertisers and sponsors of our public portals and employers and health plans that are clients of our private portals. Healthcare industry participants may respond to the Reform Legislation or to uncertainties created by the Reform Legislation by reducing their expenditures or postponing expenditure decisions, including expenditures for our services, which could have a material adverse effect on our business. However, we believe that certain aspects of the Reform Legislation and future implementing regulations that seek to reduce healthcare costs may create opportunities for WebMD, including with respect to our personal health record applications and health and benefits decision-support tools and, more generally, with respect to our capabilities in providing health and wellness information and education. For example, the Reform Legislation encourages use of wellness programs through grants to small employers to establish such programs, permission for employers to offer rewards, in the form of waivers of cost-sharing, premium discounts, or additional benefits, to employees for participating in these programs and meeting certain standards, and the inclusion of wellness services and chronic disease management among the essential health benefits that certain plans are required to provide. However, we cannot yet determine the scope of any such opportunities or what competition we may face in our efforts to pursue such opportunities.

The healthcare industry in the United States and relationships among healthcare payers, providers and consumers are very complicated. In addition, the Internet and the market for online services are relatively new and still evolving. Accordingly, there can be no assurance that the trends identified above will continue or that the expected benefits to our businesses from our responses to those trends will be achieved. In addition, the market for healthcare information services is highly competitive and not only are our existing competitors seeking to benefit from these same trends, but the trends may also attract additional competitors.

Background Information on Certain Transactions and Other Significant Developments

Merger with HLTH. From the completion of our initial public offering until the completion of our merger with HLTH Corporation (which we refer to as HLTH) on October 23, 2009 (which we refer to as the Merger), WebMD was more than 80% owned by HLTH. On October 23, 2009, the transaction was completed, with HLTH merging into WebMD and WebMD continuing as the surviving corporation. In the Merger, each share of HLTH common stock was converted into 0.4444 shares of WebMD common stock. The key reasons for the Merger included allowing HLTH's stockholders to participate directly in the ownership of WebMD, while eliminating HLTH's controlling interest in WebMD and the inefficiencies associated with having two separate public companies, increasing the ability of WebMD to raise capital and to obtain financing, and improving the liquidity of WebMD common stock by significantly increasing the number of shares held by public stockholders. WebMD was the only operating business of HLTH at the time the Merger closed. Accordingly, the completion of the Merger did not have a significant effect on the operations of WebMD since there were no HLTH business operations to combine with WebMD's business operations. In this MD&A, "WebMD" (or the use of "we," "our," or similar words) refers not only to WebMD itself but also, where the

context requires, to HLTH. The specific names of HLTH and WebMD are used only where there is a need to distinguish between the legal entities.

Convertible Notes. During the three months ended March 31, 2010, we repurchased \$19,307 principal amount of our 3¹/₈% Convertible Notes due 2025 (which we refer to as the 3¹/₈% Notes) for \$22,565 in cash. In addition, the holders of the 3¹/₈% Notes converted \$83,927 principal amount into 2,396,129 shares of WebMD common stock. We recognized an aggregate pre-tax loss of \$3,727 related to the repurchase and conversions of the 3¹/₈% Notes during the three months ended March 31, 2010. The loss includes the expensing of remaining deferred issuance costs outstanding related to the repurchased and converted notes.

On January 11, 2011, we issued \$400,000 aggregate principal amount of 2.50% Convertible Notes due 2018 (which we refer to as the 2.50% Notes) in a private offering. Unless previously converted, the 2.50% Notes will mature on January 31, 2018. Net proceeds from the sale of the 2.50% Notes were approximately \$387,345, after deducting the related offering expenses, of which approximately \$100,000 was used by us to repurchase 1,920,490 shares of WebMD Common Stock at a price of \$52.07 per share, the last reported sale price of WebMD Common Stock on January 5, 2011, which repurchase settled on January 11, 2011. Interest on the 2.50% Notes is payable semiannually on January 31 and July 31 of each year, commencing July 31, 2011. Under the terms of the 2.50% Notes, holders may surrender their 2.50% Notes for conversion into WebMD Common Stock at an initial conversion rate of 15.1220 shares of WebMD Common Stock per thousand dollars principal amount of 2.50% Notes. This is equivalent to an initial conversion price of approximately \$66.13 per share of Common Stock. In the aggregate, the 2.50% Notes are convertible into 6,048,800 shares of Common Stock.

On March 14, 2011, we issued \$400,000 aggregate principal amount of 2.25% Convertible Notes due 2016 (which we refer to as the 2.25% Notes) in a private offering. Unless previously converted, the 2.25% Notes will mature on March 31, 2016. Net proceeds from the sale of the 2.25% Notes were approximately \$387,400, after deducting the related offering expenses, of which approximately \$50,000 was used to repurchase 868,507 shares of WebMD's Common Stock at a price of \$57.57 per share, the last reported sale price of WebMD Common Stock on March 8, 2011, which repurchase settled on March 14, 2011. Interest on the 2.25% Notes is payable semi-annually on March 31 and September 30 of each year, commencing September 30, 2011. Under the terms of the 2.25% Notes, holders may surrender their 2.25% Notes for conversion into WebMD Common Stock at an initial conversion rate of 13.5704 shares of Common Stock per thousand dollars principal amount of the 2.25% Notes. This is equivalent to an initial conversion price of approximately \$73.69 per share of Common Stock. In the aggregate, the 2.25% Notes are convertible into 5,428,160 shares of Common Stock.

Tender Offers. On September 8, 2010, we completed a tender offer for our common stock and repurchased 3,000,000 shares at a price of \$52.00 per share. In this MD&A, we refer to this tender offer as the September 2010 Tender Offer. The total cost of the September 2010 Tender Offer was \$156,421, which includes \$421 of costs directly attributable to the purchase. On April 8, 2010, we completed a tender offer for our common stock and repurchased 5,172,204 shares at a price of \$46.80 per share for total consideration of \$242,795, which includes \$736 of costs directly attributable to the purchase. In this MD&A, we refer to this tender offer as the April 2010 Tender Offer and, together with the September 2010 Tender Offer as the Tender Offers. The Tender Offers represented an opportunity for WebMD to return capital to stockholders who elected to tender their shares of WebMD common stock, while stockholders who chose not to participate in the Tender Offers automatically increased their relative percentage interest in our company at no additional cost to them.

Sale of Porex; Senior Secured Notes. SNTC Holding, Inc., a wholly-owned subsidiary of our company, entered into a stock purchase agreement, dated as of September 17, 2009, for the sale of our Porex business (which we refer to as Porex) for which we received \$74,378 in cash at closing, received \$67,500 in senior secured notes (which we refer to as the Senior Secured Notes) and incurred approximately \$4,900 of transaction expenses. The sale was completed on October 19, 2009. During the three months ended March 31, 2010, we also paid \$1,430 to Porex related to the finalization of a customary working capital adjustment. On April 1, 2010, we sold the Senior Secured Notes to their issuer for \$65,475 (which represented 97% of the aggregate principal amount) and paid accrued interest through that date.

Auction Rate Securities. Effective April 20, 2010, we entered into an agreement pursuant to which we sold our holdings of auction rate securities (which we refer to as ARS), for an aggregate of \$286,399. Under the terms of the agreement, we retained an option (which we refer to as the ARS Option), for a period of two years from the date of the agreement: (a) to repurchase from the purchaser the same principal amount of any or all of the various series of ARS sold at the agreed upon purchase prices received on April 20, 2010; and (b) to receive from the purchaser additional proceeds upon certain redemptions of the various series of ARS sold. Through the ARS Option, we received cash proceeds of \$10,467 during the period from April 20, 2010 through December 31, 2010 and \$5,240 during the first quarter of 2011.

Directors & Officers Liability Insurance Coverage Litigation. On July 23, 2007, HLTH commenced litigation (which we refer to as the Coverage Litigation) in the Court of Chancery of the State of Delaware in and for New Castle County against ten insurance companies in which HLTH was seeking to compel the defendant companies (which we refer to collectively as the Defendants) to honor their obligations under certain directors and officers liability insurance policies (which we refer to as the Policies). WebMD succeeded to HLTH as plaintiff in this action as a result of the Merger. HLTH was seeking an order requiring the Defendants to advance and/or reimburse expenses that HLTH has incurred and expected to continue to incur for the advancement of the reasonable defense costs of initially ten, and now four, former officers and directors of HLTH's former Emdeon Practice Services subsidiary (which we refer to as EPS) who were indicted in connection with the investigation by United States Attorney for the District of South Carolina (which we refer to as the Investigation) described in Note 9, "Commitments and Contingencies" located in the Notes to the Consolidated Financial Statements included in this Quarterly Report.

Pursuant to a stipulation among the parties, the Coverage Litigation was transferred on September 13, 2007 to the Superior Court of the State of Delaware in and for New Castle County. The Policies were issued to HLTH and to EPS, which is a co-plaintiff with WebMD in the Coverage Litigation (which we refer to collectively as the Plaintiffs). EPS was sold in September 2006 to Sage Software and has changed its name to Sage Software Healthcare, Inc. (which we refer to as SSHI). In connection with HLTH's sale of EPS to Sage Software, HLTH retained certain obligations relating to the Investigation and agreed to indemnify Sage Software and SSHI with respect to certain expenses in connection with the Investigation and we assumed those obligations as a result of the Merger. HLTH retained (and we succeeded to as a result of the Merger) the right to assert claims and recover proceeds under the Policies on behalf of SSHI.

Prior to the filing of the Second Amended Complaint which is discussed below, the Policies at issue in the Coverage Litigation consisted of two separate groups of insurance policies. Each group of policies consists of several layers of coverage, with different insurers having agreed to provide specified amounts of coverage at various levels. The first group of policies was issued to EPS in the amount of \$20,000 (which we refer to as the EPS Policies) and the second group of policies was issued to Synetic, Inc. (the former parent of EPS, which merged into HLTH) in the amount of \$100,000, of which approximately \$3,600 was paid by the primary carrier with respect to another unrelated matter (which we refer to as the Synetic Policies).

The carrier with the third level of coverage in the Synetic Policies filed a motion for summary judgment in the Coverage Litigation, which most of the carriers who have issued the Synetic Policies joined, which sought summary judgment that any liability to pay defense costs should be allocated among the three sets of policies available to us (including the policies with respect to which the Coverage Litigation relates and a third set of policies the issuers of which had not yet been named by us) such that the Synetic Policies would only be liable to pay about \$23,000 of the \$96,400 total coverage available under such policies. HLTH filed its opposition to the motion together with its motion for summary judgment against such carrier and several other carriers who have issued the Synetic Policies seeking to require such carriers to advance payment of the defense costs that we are obligated to pay while the Coverage Litigation is pending. On July 31, 2008, the Superior Court for the State of Delaware denied the motion filed by the carriers seeking allocation and granted HLTH's motion for partial summary judgment to enforce the duty of such carriers to advance and reimburse these costs. Pursuant to the Court's order, the issuers of the Synetic Policies began reimbursing us for our costs as described below.

On September 9, 2008 and February 4, 2009, respectively, the eighth and ninth level carriers of the Synetic Policies notified HLTH that they believe that they were not bound by the Court's July 31, 2008 order regarding the duty of the Synetic carriers to advance and reimburse defense costs. This resulted in HLTH making a motion to the Court on February 23, 2009 to require such eighth and ninth level carriers to advance and reimburse defense costs. HLTH later settled with the eighth level carrier. Under the terms of the settlement such carrier has paid, in full and final settlement, an agreed-upon percentage of the policy amount against each payment of defense costs made by us as such policy was implicated. On April 15, 2009, the ninth level carrier made a cross-motion for summary judgment claiming that, in light of a policy endorsement applicable only to the ninth level carrier, because of the time period during which the conspiracy charged in the Second Superseding Indictment is alleged to have taken place, the Synetic Policy issued by such carrier does not cover HLTH's indemnification obligations. HLTH believed that such carrier's motion was without merit and responded to the motion. On July 15, 2009, the Court granted summary judgment in favor of the ninth level carrier and unless and until we successfully appeal such decision, the ninth level carrier is not liable to pay any portion of the \$10,000 total coverage of its policy with respect to our indemnification obligations. As of March 31, 2011, \$84,200 has been paid by insurance companies representing the EPS Policies and the Synetic Policies through a combination of payment under the terms of the Policies, payment under reservation of rights or through settlement. Of this amount, \$62,800 represents the portion received through settlement.

On November 17, 2008, HLTH filed a Second Amended Complaint which added four new insurance companies as defendants in the Coverage Action. These carriers are the issuers of a third set of policies (which we refer to as the Emdeon Policies) that provide coverage with respect to HLTH's indemnification obligations to the former officers and directors of HLTH's former EPS subsidiary who were indicted in connection with the Investigation. All but one of the carriers who issued the Emdeon Policies moved for summary judgment asserting that exclusions in the Emdeon Policies preclude coverage for HLTH's indemnification obligations and HLTH filed motions seeking to compel such carriers to advance defense costs that HLTH was obligated to indemnify. On August 31, 2009, the Court issued two opinions. In the first opinion, the Court granted summary judgment in favor of HLTH with respect to one of the exclusions asserted by the carriers who issued the Emdeon Policies. In the second opinion, the Court granted summary judgment in favor of the carriers with respect to the other exclusion asserted by such carriers. We and the carriers who issued the Emdeon Policies (with the exception of the second level carrier with whom we have settled) each appealed the trial Court's August 31, 2009 rulings to the Supreme Court of Delaware and, on April 22, 2010, the Supreme Court decided both appeals in favor of the carriers who issued the Emdeon Policies. The implication of this decision is that we have effectively exhausted our insurance with respect to our obligation to indemnify the indicted individuals.

The insurance carriers assert that our insurance policies provide that under certain circumstances, amounts advanced by the insurance companies in connection with the defense costs of the indicted individuals may have to be repaid by us, although the amounts that we have received in settlement from certain carriers is not subject to being repaid. We have obtained an undertaking from each indicted individual pursuant to which, under certain circumstances, such individual has agreed to repay defense costs advanced on such individual's behalf.

In addition to the Coverage Litigation, on December 22, 2009, TIG Specialty Insurance Company (which we refer to as TIG), the second level issuer of the EPS Policies, commenced an action against us to recover the \$5,000 that TIG advanced to us in 2006. Our company and TIG settled this matter in 2010.

We intend to continue to satisfy our legal obligation to the indicted individuals with respect to advancement of amounts for their defense costs.

Indemnification Obligations to Former Officers and Directors of EPS. HLTH had certain indemnity obligations to advance amounts for reasonable defense costs for initially ten, and now four, former officers and directors of EPS, who were indicted in connection with the Investigation. In connection with the sale of EPS, HLTH agreed to indemnify Sage Software relating to these indemnity obligations and we also assumed that obligation in the Merger. During 2007, based on information available at that time, we determined a reasonable estimate of the range of probable costs with respect to our indemnification obligation and

accordingly, recorded an aggregate pre-tax charge of \$73,347, which represented our estimate of the low end of the probable range of costs related to this matter. We reserved the low end of the probable range of costs because no estimate within the range was a better estimate than any other amount. That estimate included assumptions as to the duration of the trial and pre-trial periods, and the defense costs to be incurred during these periods. During 2008 and 2009, we updated the estimated range of our indemnification obligation based on new information received during those periods, and as a result, recorded additional pre-tax charges of \$29,078 and \$14,367, respectively. As described in more detail above, two of the former officers and directors of EPS were found guilty; however, the Court set the verdict aside on May 27, 2010 and entered a judgment of acquittal. On January 19, 2011, the Court granted the motion of those two individuals for a new trial in the event that the government's appeal of the Court's ruling to set aside the verdict is successful. The government is in the process of deciding whether it will appeal both of these rulings. Two other former officers of EPS are awaiting trial in Tampa, Florida, which was scheduled to begin on October 4, 2010; however, on July 9, 2010, the Court in Tampa placed the case against those defendants on hold pending resolution of the appeal of the South Carolina ruling. As of March 31, 2011, the remaining accrual with respect to the costs for these matters was \$7,385 and is included within liabilities of discontinued operations on the accompanying consolidated balance sheet. The ultimate outcome of this matter is still uncertain and, accordingly, the amount of cost we may ultimately incur could be substantially more than the reserve we have currently provided. If the recorded reserves are insufficient to cover the ultimate cost of this matter, we will need to record additional charges to our results of operations in future periods.

Seasonality

The timing of our revenue is affected by seasonal factors. Our public portal advertising and sponsorship revenue is seasonal, primarily due to the annual spending patterns of the advertising and sponsorship clients of our public portals. This portion of our revenue is usually the lowest in the first quarter of each calendar year, and increases during each consecutive quarter throughout the year. The timing of revenue in relation to our expenses, much of which do not vary directly with revenue, has an impact on cost of operations, sales and marketing and general and administrative expenses as a percentage of revenue in each calendar quarter.

Critical Accounting Estimates and Policies

Critical Accounting Estimates

Our MD&A is based upon our Consolidated Financial Statements and Notes to Consolidated Financial Statements, which were prepared in conformity with U.S. generally accepted accounting principles. 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 consider to form a basis for making judgments about the carrying values of assets and liabilities, the recorded amounts of revenue and expenses and the disclosure of contingent assets and liabilities. We are subject to uncertainties such as the impact of future events, economic and political factors, and changes in our business environment; therefore, actual results could differ from these estimates. Accordingly, the accounting estimates used in the 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, the allowance for doubtful accounts, the carrying value of long-lived assets (including goodwill and indefinite lived intangible assets), the amortization period of long-lived assets (excluding goodwill and indefinite lived intangible assets), the carrying value, capitalization and amortization of software and Website development costs, the carrying value of investments, the provision for income taxes and related deferred tax accounts, certain accrued expenses, contingencies, litigation and related legal accruals and the value attributed to employee stock options and other stock-based awards.

Critical Accounting Policies

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 Recognition.* Revenue from advertising is recognized as advertisements are delivered or as publications are distributed. Revenue from sponsorship arrangements, content syndication and distribution arrangements, information services and licenses of healthcare management tools and private portals as well as related health coaching services are recognized ratably over the term of the applicable agreement. Revenue from the sponsorship of CME is recognized over the period the Company substantially completes its contractual deliverables as determined by the applicable agreements.

For contracts that contain multiple deliverables that were entered into prior to January 1, 2011, revenue is allocated to each deliverable based on its relative fair value determined using vendor-specific objective evidence (“VSOE”). In certain instances where fair value does not exist for all the elements, the amount of revenue allocated to the delivered elements equals the total consideration less the fair value of the undelivered elements to the extent VSOE exists for the undelivered elements. In instances where fair value does not exist for the undelivered elements, the entire consideration is recognized over the period that the last element is delivered.

Contracts that contain multiple deliverables that were entered into subsequent to January 1, 2011 are subject to Accounting Standards Update No. 2009-13 Multiple-Deliverable Revenue Arrangements (“ASU 2009-13”). ASU 2009-13 requires the allocation of revenue to each deliverable of multiple-deliverable revenue arrangements, based on the relative selling price of each deliverable. It also changes the level of evidence of selling price required to separate deliverables by allowing a Company to make its best estimate of the standalone selling price of deliverables when more objective evidence of selling price is not available.

We adopted ASU 2009-13 on a prospective basis for arrangements entered into or materially modified on or subsequent to January 1, 2011. Beginning January 1, 2011, pursuant to the guidance of ASU 2009-13, when a sales arrangement contains multiple deliverables, we allocate revenue to each deliverable based on relative selling price. The selling price for a deliverable is based on VSOE if available, third-party evidence (“TPE”) if VSOE is not available, or best estimate of selling price if neither VSOE nor TPE is available. We then recognize revenue on each deliverable in accordance with our revenue recognition policies over the period that delivery occurs. VSOE of selling price is based on the price charged when the deliverable is sold separately. In determining VSOE, we require that a substantial majority of the selling prices fall within a reasonable range based on historical pricing trends for specific products and services. TPE is based on competitor prices of similar deliverables when sold separately. We are generally not able to determine TPE of selling price as we are unable to reliably determine what competitors’ selling prices are for comparable services, combined with the fact that our services often contain unique features and customizations such that comparable services do not exist. The determination of best estimate of selling price is a judgmental process that considers multiple factors including, but not limited to, recent selling prices and related discounting practices for each service, market conditions, customer classes, sales channels and other factors.

As a result of the adoption of ASU 2009-13, revenue for the three months ended March 31, 2011 was approximately \$1,800 higher than the revenue that would have been recorded under the previous accounting standards. This resulted from services that were provided or partially provided during the three months ended March 31, 2011, for certain deliverables of our multiple deliverable arrangements which we would have previously deferred the related revenue under the previous accounting standards. During the three months ended March 31, 2011, we assigned value to these deliverables using our best estimate of selling price, and recognized revenue as they were delivered. The multiple deliverable arrangements that were impacted by ASU 2009-13 related to our public portal revenues and the services underlying such arrangements are generally delivered over periods of twelve months or less. We are not able to reasonably estimate the effect of adopting ASU 2009-13 on future periods as the impact will vary based on many factors including, but not limited to, the quantity and size of new or

materially modified multiple-deliverable arrangements entered into, as well as the nature of the various services contained within those arrangements and the time periods over which those services are delivered.

- *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 fair value using exit price and market participant view, such as discounted cash flow and replacement cost models. Our long-lived assets, excluding goodwill and indefinite lived intangible assets, are amortized over their estimated useful lives, which we determine 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 and indefinite lived intangible assets, whenever indicators of impairment are present. We evaluate the carrying value of goodwill and indefinite lived intangible assets annually, or whenever indicators of impairment are present. We use a discounted cash flow approach to determine the fair value of goodwill and indefinite lived intangible assets. Long-lived assets held for sale are reported at the lower of cost or fair value less cost to sell. There was no impairment of goodwill or indefinite lived intangible assets noted as a result of our impairment testing in 2010.
- *Fair Value of Investments in Auction Rate Securities (ARS).* Through April 20, 2010, we held investments in ARS which were backed by student loans, 97% guaranteed under the Federal Family Education Loan Program (FFELP), and had credit ratings of AAA or Aaa when purchased. Historically, the fair value of these ARS holdings approximated par value due to the frequent auction periods, generally every 7 to 28 days, which provided liquidity to these investments. However, since February 2008, substantially all auctions involving these securities have failed. The result of a failed auction is that these ARS holdings will continue to pay interest in accordance with their terms at each respective auction date; however, liquidity of the securities will be limited until there is a successful auction, the issuer redeems the securities, the securities mature or until such time as other markets develop. Additionally, approximately one-half of the auction rate securities we held were, during 2009, either downgraded below AAA or placed on “watch” status by one or more of the major credit rating agencies.

During the periods that we held them, we estimated the fair value of our ARS holdings using an income approach valuation technique. Using this approach, expected future cash flows are calculated over the expected life of each security and are discounted to a single present value using a market required rate of return. Some of the more significant assumptions made in the present value calculations included (i) the estimated weighted average lives for the loan portfolios underlying each individual ARS and (ii) the required rates of return used to discount the estimated future cash flows over the estimated life of each security, which considered both the credit quality for each individual ARS and the market liquidity for these investments. Additionally, effective April 1, 2009, we adopted new authoritative guidance which required us to separate losses associated with our ARS into two categories, the portion of the loss which is considered credit loss and the portion of the loss which is due to other factors. As discussed above, certain of the auction rate securities we held were, during 2009, downgraded below AAA by one or more of the major credit rating agencies. These revised credit ratings were a significant consideration in determining the estimated credit loss associated with our ARS.

Our ARS were classified as Level 3 assets as their valuation, including the portion of their valuation attributable to credit losses, required substantial judgment and estimation of factors that were not currently observable in the market due to the lack of trading in the securities. If different assumptions were used for the various inputs to the valuation approach including, but not limited to, assumptions involving the estimated lives of the ARS holdings, the estimated cash flows over those estimated lives, and the estimated discount rates applied to those cash flows, the estimated fair value of those investments could have been significantly higher or lower than the fair value we determined. In connection with the sale of our ARS on April 20, 2010, we retained an option (which we refer to as the ARS Option), for a period of two years: (a) to repurchase from the purchaser the same principal

amount of any or all of the various series of ARS sold, at the agreed upon purchase prices received on April 20, 2010; and (b) to receive additional proceeds from the purchaser upon certain redemptions of the various series of ARS sold. During 2010, we recognized an aggregate gain of \$14,712 related to the ARS Option, and received cash proceeds of \$10,467 during the period from April 20, 2010 through December 31, 2010. During the first quarter of 2011, we recorded an aggregate gain of \$14,060 related to the ARS Option and we received cash proceeds of \$5,240. The value of the ARS Option as of March 31, 2011 is estimated to be \$13,065 and has been classified as a Level 3 asset as its valuation requires substantial judgment. The historical redemption activity of the specific ARS underlying the ARS Option was the most significant assumption used to determine an estimated value of the ARS Option. We are required to reassess the value of this ARS Option at each reporting period, and any changes in value will be recorded within the statement of operations in future periods. See Note 5 in the Notes to the Consolidated Financial Statements included elsewhere in this Quarterly Report for additional information regarding our ARS Option.

- *Stock-Based Compensation.* Stock-based compensation expense for all share-based payment awards granted is determined based on the grant-date fair value. The grant date fair value for stock options is estimated using the Black-Scholes Option Pricing Model. We recognize these compensation costs net of an estimated forfeiture rate on a straight-line basis over the requisite service period of the award, which is generally the vesting term of the share-based payment awards. As of March 31, 2011, there was approximately \$79.6 million of unrecognized stock-based compensation expense (net of estimated forfeitures) related to unvested stock options and restricted stock awards held by employees, which is expected to be recognized over a weighted-average period of approximately 2.7 years, related to our stock-based compensation plans.
- *Deferred Taxes.* Our deferred tax assets are comprised primarily of net operating loss carryforwards and federal tax credits. These net operating loss carryforwards and federal tax credits may be used to offset taxable income in future periods, reducing the amount of taxes we might otherwise be required to pay. A significant portion of our net deferred tax assets, including the portion related to excess tax benefits of stock-based awards, are reserved for by a valuation allowance as required by relevant accounting literature. The remaining portion of our net deferred tax assets are no longer reserved for by a valuation allowance. Management determines the need for a valuation allowance by assessing the probability of realizing deferred tax assets, taking into consideration factors including historical operating results, expectations of future earnings and taxable income. Management will continue to evaluate the need for a valuation allowance in the future.
- *Tax Contingencies.* Our tax contingencies are recorded to address potential exposures involving tax positions we have taken that could be challenged by tax authorities. These potential exposures result from applications of various statutes, rules, regulations and interpretations. Our estimates of tax contingencies reflect assumptions and judgments about potential actions by taxing jurisdictions. We believe that these assumptions and judgments are reasonable. However, our accruals may change in the future due to new developments in each matter and the ultimate resolution of these matters may be greater or less than the amount that we have accrued. Consistent with our historical financial reporting, we have elected to reflect interest and penalties related to uncertain tax positions as part of the income tax provision (benefit).

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:

	Three Months Ended March 31,			
	2011		2010	
	\$	% (a)	\$	% (a)
Revenue	\$131,609	100.0	\$108,030	100.0
Cost of operations	48,449	36.8	42,994	39.8
Sales and marketing	32,294	24.5	28,407	26.3
General and administrative	22,821	17.3	18,809	17.4
Depreciation and amortization	6,424	4.9	7,015	6.5
Interest income	16	—	3,409	3.2
Interest expense	3,141	2.4	5,139	4.8
Loss on convertible notes	—	—	3,727	3.4
Gain (loss) on investments	14,060	10.7	(28,848)	(26.7)
Other expense, net	53	—	298	0.3
Income (loss) before income tax provision (benefit)	32,503	24.7	(23,798)	(22.0)
Income tax provision (benefit)	12,958	9.8	(20,008)	(18.5)
Net income (loss)	<u>\$ 19,545</u>	<u>14.9</u>	<u>\$ (3,790)</u>	<u>(3.5)</u>

(a) Amounts may not add due to rounding.

Revenue from our public portal advertising and sponsorship is derived from online advertising, sponsorship (including online CME services), e-detailing promotion and physician recruitment services, content syndication and distribution, information services and other print services (including advertisements in *WebMD the Magazine*). Revenue from our private portal services is derived from licensing our private online portals to employers, healthcare payers and others, along with related services including lifestyle education and personalized telephonic coaching. Our customers include pharmaceutical, biotechnology, medical device and consumer products companies, as well as employers and health plans.

Cost of operations consists of salaries and related expenses, and non-cash stock-based compensation expense related to providing and distributing services and products we provide to customers and costs associated with the operation and maintenance of our public and private portals. Cost of operations also consists of editorial and production costs, Website operations costs, non-capitalized Website development costs, costs we pay to our distribution partners, costs associated with our lifestyle education and personalized telephonic coaching services, and costs related to the production and distribution of our publications, including costs related to creating and licensing content, telecommunications, leased properties and printing and distribution.

Sales and marketing expense consists primarily of advertising, product and brand promotion, as well as selling expenses including salaries and related expenses, and non-cash stock-based compensation for account executives and account management. These expenses include items related to salaries and related expenses of marketing personnel, costs and expenses for marketing programs, and fees for professional marketing and advertising services.

General and administrative expense consists primarily of salaries, non-cash stock-based compensation and other salary-related expenses of administrative, finance, legal, information technology, human resources and executive personnel. Also included in general and administrative expense are general insurance and costs of accounting and internal control systems to support our operations.

Our discussions throughout MD&A make references to certain non-cash expenses. Our principal non-cash expenses related to the awards of all share-based payments to employees and non-employee directors, such as grants of employee stock options and restricted stock. Non-cash stock-based compensation expense is reflected in the same expense captions as the related salary cost of the respective employee.

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The following table is a summary of our non-cash expenses included in the respective statements of operations captions:

	Three Months Ended March 31,	
	2011	2010
Stock-based compensation expense included in:		
Cost of operations	\$2,103	\$1,789
Sales and marketing	2,391	2,193
General and administrative	5,319	3,855
Total stock-based compensation expense	<u>\$9,813</u>	<u>\$7,837</u>

Three Months Ended March 31, 2011 and 2010

The following discussion is a comparison of our results of operations on a consolidated basis for the three months ended March 31, 2011 and 2010.

Revenue

Our total revenue increased 21.8% to \$131,609 from \$108,030 in the prior year period. This increase is primarily due to higher revenue from our public portals. A more detailed discussion regarding changes in revenue is included below under “— Supplemental Financial and Operating Information.”

Costs and Expenses

Cost of Operations. Cost of operations increased to \$48,449 for the three months ended March 31, 2011 from \$42,994 in the prior year period. As a percentage of revenue, cost of operations was 36.8% for the three months ended March 31, 2011, compared to 39.8% for the prior year period. Included in cost of operations in the three months ended March 31, 2011 was non-cash expense related to stock-based compensation of \$2,103 compared to \$1,789 in the prior year period. Cost of operations excluding such non-cash expense was \$46,346 or 35.2% of revenue for the three months ended March 31, 2011, compared to \$41,205 or 38.1% of revenue for the prior year period. The increase in absolute dollars was primarily attributable to an increase of approximately \$6,626 of Website operations expense associated with the delivery of our advertising and sponsorship arrangements and increased traffic to our Web sites, and a decrease of approximately \$1,571 in development and distribution expense. The decrease as a percentage of revenue, excluding the non-cash expenses discussed above, for the three months ended March 31, 2011 compared to the prior year period, was primarily due to our ability to achieve the increase in revenue without incurring a proportional increase in operations expense.

Sales and Marketing. Sales and marketing expense increased to \$32,294 for the three months ended March 31, 2011 from \$28,407 in the prior year period. As a percentage of revenue, sales and marketing expense was 24.5% in the 2011 quarter, compared to 26.3% in the 2010 quarter. Included in sales and marketing expense was non-cash expense related to stock-based compensation of \$2,391 and \$2,193 in the first quarters of 2011 and 2010, respectively. Sales and marketing expense, excluding such non-cash expenses, was \$29,903 or 22.7% of revenue for the three months ended March 31, 2011, compared to \$26,214 or 24.3% of revenue for the prior year period. The increase in absolute dollars was primarily attributable to an increase in compensation related costs due to increased staffing. The decrease as a percentage of revenue, excluding the non-cash expenses discussed above, for 2011 compared to 2010 was primarily due to our ability to achieve the increase in revenue without incurring a proportional increase in sales and marketing expense.

General and Administrative. General and administrative expense increased to \$22,821 for the three months ended March 31, 2011, from \$18,809 in the prior year period. As a percentage of revenue, general and administrative expense was 17.3% in the three months ended March 31, 2011, compared to 17.4% in the prior year period. Included in general and administrative expense in the first quarters of 2011 and 2010 was non-cash stock-based compensation expense of \$5,319 and \$3,855, respectively. The increase in non-cash stock-based compensation expense was primarily due to certain stock options and restricted stock awards that were

granted after March 31, 2010, for which there was no comparable expense in the 2010 quarter. General and administrative expense, excluding such non-cash expense, was \$17,502 or 13.3% of revenue for the three months ended March 31, 2011, compared to \$14,954 or 13.8% of revenue for the prior year period. The decrease in general and administrative expense as a percentage of revenue, excluding the non-cash expense discussed above, for the three months ended March 31, 2011 compared to the prior year period, was primarily due to our ability to achieve the increase in revenue without incurring a proportional increase in general and administrative expense.

Depreciation and Amortization. Depreciation and amortization expense was \$6,424 for the three months ended March 31, 2011, compared to \$7,015 in the same period last year. The decrease over the prior year period included a \$420 decrease in amortization expense resulting from certain intangible assets becoming fully amortized.

Interest Income. Interest income decreased to \$16 for the three months ended March 31, 2011 from \$3,409 in the same period last year. The decrease resulted from a decrease in the average rates of return during 2011.

Interest Expense. Interest expense was \$3,141 for the three months ended March 31, 2011, compared to \$5,139 in the same period last year. Interest expense in the 2011 and 2010 quarters included non-cash interest expense of \$516 and \$2,257, respectively. The 2010 quarter amount related to the amortization of the debt discount for our 3 1/8 % Notes and the amortization of the debt issuance costs for our 3 1/8 % Notes and our 1.75% Notes. The 2011 quarter amounts relate to the amortization of the debt issuance costs for our 2.50% Notes and our 2.25% Notes. The decrease in interest expense is a result of lower debt outstanding during the 2011 quarter when compared to the 2010 quarter due to the repurchases and conversions of our 3 1/8 % Notes and our 1.75% Notes over these periods and the 2.50% Notes and 2.25% Notes only being outstanding for a portion of the 2011 quarter.

Gain (Loss) on Investments. On April 20, 2010, we sold our holdings of ARS for an aggregate of \$286,399. See “— Introduction — Background Information on Certain Transactions and Other Significant Developments — Auction Rate Securities” for additional information. As a result, during the three months ended March 31, 2010 we recorded a charge of \$28,848, representing the difference between the adjusted cost basis of our ARS holdings and the proceeds received on April 20, 2010. During the three months ended March 31, 2011 we recorded a gain on investments of \$14,060 related to adjustments in the value of our ARS Option.

Other Expense, Net. Other expense, net was \$53 in the three months ended March 31, 2011, compared to other expense, net of \$298 in the three months ended March 31, 2010. Included in other expense, net was \$53 and \$476 for the three months ended March 31, 2011 and 2010, respectively, of external legal costs and expenses we incurred related to the investigation by the United States Attorney for the District of South Carolina and the SEC and the related Coverage Litigation and \$178 for the three months ended March 31, 2010 related to the reversal of certain sales and use tax contingencies resulting from the expiration of various statutes of limitations.

Income Tax Provision (Benefit). The income tax provision was \$12,958 for the three months ended March 31, 2011, compared to an income tax benefit of \$20,008 for the three months ended March 31, 2010. Included in the income tax benefit for the three months ended March 31, 2010 is a deferred tax benefit of approximately \$22,000 primarily related to the reversal of income tax valuation allowance attributable to the sale of our investments in ARS.

Supplemental Financial and Operating Information

The following table and the discussion that follows presents information for groups of revenue based on similar services we provide, as well as information related to a non-GAAP performance measure that we use to monitor the performance of our business which we refer to as “Earnings before interest, taxes, non-cash and

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other items” or “Adjusted EBITDA.” Due to the fact that Adjusted EBITDA is a non-GAAP measure, we have also included a reconciliation from Adjusted EBITDA to net income (loss).

	Three Months Ended March 31,	
	2011	2010
Revenue		
Public portal advertising and sponsorship	\$110,363	\$ 86,257
Private portal services	21,246	21,773
	<u>\$131,609</u>	<u>\$108,030</u>
Earnings before interest, taxes, non-cash and other items (Adjusted EBITDA)	\$ 37,858	\$ 25,657
Interest, taxes, non-cash and other items		
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 investment	14,060	(28,848)
Other expense, net	(53)	(298)
Net income (loss)	<u>\$ 19,545</u>	<u>\$ (3,790)</u>

The following discussion is a comparison of the results of operations for our two groups of revenue and our Adjusted EBITDA for the three months ended March 31, 2011 and 2010.

Public Portal Advertising and Sponsorship. Public portal advertising and sponsorship revenue was \$110,363 in the three months ended March 31, 2011, an increase of \$24,106 or 27.9% from the three months ended March 31, 2010. The increase in public portal advertising and sponsorship revenue was primarily attributable to an increase in the number and average size of unique sponsored programs on our sites, including both brand sponsorship and educational programs. Approximately \$1,800 of the increase was related to the adoption of a new revenue recognition standard that impacts the timing of revenue related to multiple deliverable revenue arrangements. For a more detailed description of the impact of this new accounting guidance, see “— Critical Accounting Estimates and Policies — Critical Accounting Policies — Revenue Recognition”. In general, pricing remained relatively stable for our advertising and sponsorship programs and was not a significant source of the revenue increase.

Private Portal Services. Private portal services revenue was \$21,246 in the three months ended March 31, 2011, a decrease of \$527 or 2.4% from the prior year period. The decline in revenue was primarily due to a decline in the number of employees and health plan members of our customers and a reduction in the overall number of customers. In general, pricing remained relatively stable for our private portal services and was not a significant source of the revenue decrease. As of March 31, 2011, we also had approximately 121 customers who purchase stand-alone decision support services from us, compared to 131 customers at March 31, 2010.

Adjusted EBITDA. Adjusted EBITDA increased to \$37,858 or 28.8% of revenue in the three months ended March 31, 2011 from \$25,657 or 23.7% of revenue in the prior year period. This increase as a percentage of revenue was primarily due to higher revenue, specifically related to the increase in the number of brands and sponsored programs in our public portals, without incurring a proportionate increase in overall expenses.

Explanatory Note Regarding Adjusted EBITDA. Adjusted EBITDA is a non-GAAP financial measure and should be viewed as supplemental to, and not as an alternative for, “income (loss) from continuing operations” or “net income (loss)” calculated in accordance with GAAP. Our management uses Adjusted EBITDA as an additional measure of 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 financial results that may not be shown

solely by period-to-period comparisons of income (loss) from continuing operations or 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 performance. 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 our management in light of the performance metrics used in making those decisions. In addition, we believe that providing Adjusted EBITDA, together with a reconciliation of Adjusted EBITDA to income (loss) from continuing operations or to net income (loss), helps investors make comparisons between us 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. Please see the "Explanation of Non-GAAP Financial Information" filed as Exhibit 99.1 to this Quarterly Report for additional background information regarding our use of Adjusted EBITDA. Exhibit 99.1 is incorporated in this MD&A by this reference.

Liquidity and Capital Resources

As of March 31, 2011, we had \$1,065,383 of cash and cash equivalents, and working capital of \$1,069,649. Our working capital is affected by the timing of each period end in relation to items such as payments received from customers, payments made to vendors, and internal payroll and billing cycles, as well as the seasonality within our business. Accordingly, our working capital, and its impact on cash flow from operations, can fluctuate materially from period to period.

Cash provided by operating activities in the first quarter of 2011 was \$25,485, which related to consolidated net income of \$19,545, adjusted for the gain on investments of \$14,060, for the non-cash income tax provision of \$4,798 related to deferred income taxes, and other non-cash expenses of \$16,753, which include depreciation and amortization expense, non-cash interest expense and non-cash stock-based compensation expense. Additionally, changes in operating assets and liabilities resulted in a cash use of \$1,551, primarily due to cash used by a decrease in accrued liabilities of \$7,642 and a decrease in deferred revenue of \$219 offset by cash provided as a result of a decrease in accounts receivable of \$5,688 and a decrease in prepaid and other assets of \$622.

Cash provided by operating activities from our continuing operations in the first quarter of 2010 was \$27,447, which related to consolidated net loss of \$3,790, adjusted for the losses on investments and convertible notes aggregating \$32,575, for the non-cash income tax benefit of \$21,463 related to deferred income taxes, and other non-cash expenses of \$16,942, which include depreciation and amortization expense, non-cash interest expense and non-cash stock-based compensation expense. Additionally, changes in operating assets and liabilities provided cash flow of \$3,183, primarily due to cash provided by an increase in deferred revenue of \$21,665 offset by cash used as a result of a decrease in accrued expenses and other long-term liabilities of \$14,224, an increase in accounts receivable of \$2,429 and an increase in prepaid expenses of \$1,829.

Cash provided by investing activities was \$391 in the first quarter of 2011, compared to cash used by investing activities of \$44 in the first quarter of 2010. We received \$5,240 related to our ARS Option in the first quarter of 2011 compared to the receipt of \$4,500 related to the sales of available for sale securities in the 2010 period. We used \$4,849 in connection with purchases of property and equipment in the first quarter of 2011 compared to \$3,114 of purchases of property and equipment in the prior year period. In the 2010 period, we also used \$1,430 to finalize the sale price of our discontinued operations related to our Porex business.

Cash provided by financing activities was \$639,148 in the first quarter of 2011, compared to cash used in financing activities from our continuing operations of \$28,722 in the first quarter of 2010. Cash provided by financing activities in the 2011 period principally related to the issuance of \$400,000 aggregate principal amount 2.50% Notes and \$400,000 aggregate principal amount 2.25% Notes. After deducting the related issuance costs, the issuance of our 2.50% Notes and 2.25% Notes resulted in an aggregate cash inflow of \$774,745. Other sources of cash during the first quarter of 2011 include \$10,220 of proceeds received from the exercise of stock options and \$7,355 of a tax benefit on stock-based awards. Cash used in financing activities in the 2011 period principally related to \$150,000 used for the repurchase of our Common Stock and \$3,172 used for withholding taxes on stock-based awards. Cash used in financing activities in the 2010 period principally related to \$22,565 used for the repurchase of our 3 1/8% Notes, \$13,345 used for the purchase of treasury stock and \$22,449 used for withholding taxes on stock-based awards. These uses of cash were offset by proceeds of \$28,224 received from the exercise of stock options and \$1,413 of a tax benefit on stock-based awards.

Included in our consolidated statements of cash flows are cash flows used in operating activities of our discontinued operations and include \$142 and \$9,276 in payments made in the 2011 and 2010 periods, respectively, in connection with the defense costs of the former officers and directors of our former EPS subsidiary in connection with the investigation by the United States Attorney for the District of South Carolina and the SEC. For additional information, see “Introduction — Background Information on Certain Transactions and other Significant Developments — Directors & Officers Liability Insurance Coverage Litigation” and “— Indemnification Obligations to Former Officers and Directors of EPS.” Offsetting the 2010 payment above is the receipt of \$1,043 of reimbursements from our Director & Officer insurance carriers.

Potential future uses of cash include repurchases of our Common Stock and our anticipated 2011 capital expenditure requirements for the full year, which we currently estimate to be up to \$35,000 and which relate to expansion of our facilities and improvements that will be deployed across our public and private portal Websites in order to enable us to service future growth in unique users and page views, as well as to create new sponsorship areas for our customers, and to improve the systems used to provide our private portal applications.

Based on our plans and expectations, we believe that our available cash resources and future cash flow from operations will provide sufficient cash resources to meet the cash commitments of our Convertible Notes and to fund our currently anticipated working capital and capital expenditure requirements for at least the next twenty-four months. Our future liquidity and capital requirements will depend upon numerous factors, including retention of customers at current volume and revenue levels, implementation of new or updated application and service offerings, competing technological and market developments and potential future acquisitions. In addition, our ability to generate cash flow is subject to numerous factors beyond our control, including general economic, regulatory and other matters affecting us and our customers. We plan to continue to enhance our online services and to continue to invest in acquisitions, strategic relationships, facilities and technological infrastructure and product development. We intend to grow each of our existing businesses and enter into complementary ones through both internal investments and acquisitions. 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. We cannot assure that such financing will be available on acceptable terms, if at all, or that such financing will not be dilutive to our stockholders. Future indebtedness may impose various restrictions and covenants on us that could limit our ability to respond to market conditions, to provide for unanticipated capital investments or to take advantage of business opportunities.

ITEM 3. *Quantitative and Qualitative Disclosures About Market Risk*

Interest Rate Sensitivity

The primary objective of our investment activities is to preserve principal and maintain adequate liquidity.

Our cash and money market investments, which approximate \$1.065 billion at March 31, 2011, are not subject to changes in interest rates.

The 2.50% Notes and the 2.25% Notes have fixed interest rates; therefore, changes in interest rates will not impact our results of operations or financial position.

ITEM 4. *Controls and Procedures*

As required by Exchange Act Rule 13a-15(b), WebMD management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of WebMD’s disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of March 31, 2011. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that WebMD’s disclosure controls and procedures were effective as of March 31, 2011.

In connection with the evaluation required by Exchange Act Rule 13a-15(d), WebMD management, including the Chief Executive Officer and Chief Financial Officer, concluded that no changes in WebMD’s internal control over financial reporting occurred during the first quarter of 2011 that have materially affected, or are reasonably likely to materially affect, WebMD’s internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. *Legal Proceedings*

The information relating to legal proceedings contained in Note 9 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report is incorporated herein by this reference.

ITEM 1A. *Risk Factors*

This section describes circumstances or events that could have a negative effect on our financial results or operations or that could change, for the worse, existing trends in some or all of our businesses. The occurrence of one or more of the circumstances or events described below could have a material adverse effect on our financial condition, results of operations and cash flows or on the trading prices of our Common Stock and Convertible Notes or of securities that we may issue in the future. The risks and uncertainties described in this Quarterly Report are not the only ones facing us. 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 Operations and the Healthcare Content We Provide

If we are unable to provide content and services that attract and retain users to The WebMD Health Network on a consistent basis, our advertising and sponsorship revenue could be reduced

Users of *The WebMD Health Network* have numerous other online and offline sources of healthcare information services. Our ability to compete for user traffic on our public portals depends upon our ability to make available a variety of health and medical content, decision-support applications and other services that meet the needs of a variety of types of users, including consumers, physicians and other healthcare professionals, with a variety of reasons for seeking information. Our ability to do so depends, in turn, on:

- our ability to hire and retain qualified authors, journalists and independent writers;
- our ability to license quality content from third parties; and
- our ability to monitor and respond to increases and decreases in user interest in specific topics.

We cannot assure you that we will be able to continue to develop or acquire needed content, applications and tools at a reasonable cost. In addition, since consumer users of our public portals may be attracted to *The WebMD Health Network* as a result of a specific condition or for a specific purpose, it is difficult for us to predict the rate at which they will return to the public portals. Because we generate revenue by, among other things, selling sponsorships of specific pages, sections or events on *The WebMD Health Network*, a decline in user traffic levels or a reduction in the number of pages viewed by users could cause our revenue to decrease and could have a material adverse effect on our results of operations.

Developing and implementing new and updated features and services for our public and private portals and our mobile applications may be more difficult than expected, may take longer and cost more than expected, and may not result in sufficient increases in revenue to justify the costs

Attracting and retaining users of our public portals and our mobile applications and clients for our private portals requires us to continue to improve the technology underlying those portals and applications and to continue to develop new and updated features and services for those portals and applications. If we are unable to do so on a timely basis or if we are unable to implement new features and services without disruption to our existing ones, we may lose potential users and clients.

We rely on a combination of internal development, strategic relationships, licensing and acquisitions to develop our portals, mobile applications and related features and services. Our development and/or implementation of new technologies, features and services may cost more than expected, may take longer than originally expected, may require more testing than originally anticipated and may require the acquisition of additional

personnel and other resources. There can be no assurance that the revenue opportunities from any new or updated technologies, applications, features or services will justify the amounts spent.

We face significant competition for our healthcare information products and services

The markets for healthcare information products and services are intensely competitive, continually evolving and, in some cases, subject to rapid change.

- Our public portals and mobile applications face competition from numerous other companies, both in attracting users and in generating revenue from advertisers and sponsors. We compete for users with online services and Websites that provide health-related information, including both commercial sites and not-for-profit sites. We compete for advertisers and sponsors with: health-related Websites; general purpose consumer Websites that offer specialized health sub-channels; other high-traffic Websites that include both healthcare-related and non-healthcare-related content and services; search engines that provide specialized health search; and advertising networks that aggregate traffic from multiple sites. Our public portals also face competition from offline publications and information services.
- Our private portals compete with: providers of healthcare decision-support tools and online health management applications, including personal health records; wellness and disease management vendors; and health information services and health management offerings of healthcare benefits companies and their affiliates.

Many of our competitors have greater financial, technical, product development, marketing and other resources than we do. These organizations may be better known than we are and have more customers or users than we do. We cannot provide assurance that we will be able to compete successfully against these organizations or any alliances they have formed or may form. In addition, we expect that competitors will continue to enter these markets.

Failure to maintain and enhance the “WebMD” brand could have a material adverse effect on our business

We believe that the “WebMD” brand identity that we have developed has contributed to the success of our business and has helped us achieve recognition as a trusted source of health and wellness information. We also believe that maintaining and enhancing that brand is important to expanding the user base for our public portals, to our relationships with sponsors and advertisers, and to our ability to gain additional employer and healthcare payer clients for our private portals. We have expended considerable resources on establishing and enhancing the “WebMD” brand and our other brands, and we have developed policies and procedures designed to preserve and enhance our brands, including editorial procedures designed to provide quality control of the information we publish. We expect to continue to devote resources and efforts to maintain and enhance our brands. However, we may not be able to successfully maintain or enhance our brands, and events outside of our control may have a negative effect on our brands. If we are unable to maintain or enhance our brands, and do so in a cost-effective manner, our business could be adversely affected.

Our online businesses have a limited operating history

Our online businesses have a limited operating history and participate in relatively new markets. These markets, and our online businesses, have undergone significant changes during their short history and can be expected to continue to change. Many companies with business plans based on providing healthcare information and related services through the Internet have failed to be profitable and some have filed for bankruptcy or ceased operations. Even if demand from users exists, we cannot assure you that our businesses will continue to be profitable.

Our failure to attract and retain qualified executives and employees may have a material adverse effect on our business

Our business depends largely on the skills, experience and performance of key members of our management team. We also depend, in part, on our ability to attract and retain qualified writers and editors,

software developers and other technical personnel and sales and marketing personnel. Competition for qualified personnel in the healthcare information services and Internet industries is intense. We cannot assure you that we will be able to hire or retain a sufficient number of qualified personnel to meet our requirements, or that we will be able to do so at costs that are acceptable to us. Failure to do so may have an adverse effect on our business.

The timing of our advertising and sponsorship revenue may vary significantly from quarter to quarter and is subject to factors beyond our control, including regulatory changes affecting advertising and promotion of drugs and medical devices and general economic conditions

Our advertising and sponsorship revenue may vary significantly from quarter to quarter due to a number of factors, many of which are not within our control, and some of which may be difficult to forecast accurately, including potential effects on demand for our services as a result of regulatory changes affecting advertising and promotion of drugs and medical devices and general economic conditions. The majority of our advertising and sponsorship programs are for terms of approximately four to twelve months. We have relatively few longer term advertising and sponsorship programs. We cannot assure you that our current advertisers and sponsors will continue to use our services beyond the terms of their existing contracts or that they will enter into any additional contracts.

The time between the date of initial contact with a potential advertiser or sponsor regarding a specific program and the execution of a contract with the advertiser or sponsor for that program may be lengthy, especially for larger contracts, and may be subject to delays over which we have little or no control, including as a result of budgetary constraints of the advertiser or sponsor or their need for internal approvals, including internal approvals relating to compliance with the laws and regulations applicable to the marketing of healthcare products. Recently, we have seen a trend toward the lengthening of this internal review process as it applies to our services for pharmaceutical companies. Other factors that could affect the timing of contracting for specific programs with advertisers and sponsors, or receipt of revenue under such contracts, include:

- the timing of FDA approval for new products or for new approved uses for existing products;
- the timing of FDA approval of generic products that compete with existing brand name products;
- the timing of withdrawals of products from the market;
- the timing of rollouts of new or enhanced services on our public portals;
- seasonal factors relating to the prevalence of specific health conditions and other seasonal factors that may affect the timing of promotional campaigns for specific products; and
- the scheduling of conferences for physicians and other healthcare professionals.

We may be unsuccessful in our efforts to increase advertising and sponsorship revenue from consumer products companies

Most of our advertising and sponsorship revenue has, in the past, come from pharmaceutical, biotechnology and medical device companies. We have been focusing on increasing sponsorship revenue from consumer products companies that are interested in communicating health-related or safety-related information about their products to our audience. However, while many consumer products companies are increasing the portion of their promotional spending used on the Internet, we cannot assure you that these advertisers and sponsors will find our consumer Websites to be as effective as other Websites or traditional media for promoting their products and services. If we encounter difficulties in competing with the other alternatives available to consumer products companies, this portion of our business may develop more slowly than we expect or may fail to develop. In addition, revenues from consumer products companies are more likely to reflect general economic conditions, and to be reduced to a greater extent during economic downturns or recessions, than revenues from pharmaceutical, biotechnology and medical device companies.

Increasingly, individuals are using mobile devices to access the Internet and, if we fail to capture a significant share of this portion of the market for online health information services, our business could be adversely affected

The number of people who access the Internet through mobile devices has increased dramatically in the past few years, including the number of physicians and other healthcare professionals who do so. New devices and new platforms continue to be developed and released. It is difficult to predict the problems we may encounter in developing and maintaining versions of our services for use on these devices and we may need to devote significant resources to their creation, maintenance and support. If we fail to capture a significant share of this increasingly important portion of the market for online health information services (including the market for information services for physicians and other healthcare professionals), it could adversely affect our business. In addition, even if demand for our mobile applications exists and we achieve a significant share of the market for mobile health information services, we cannot assure you that we will be able to achieve significant revenue or profits from these services.

Lengthy sales and implementation cycles for our private online portals make it difficult to forecast our revenues from these applications and may have an adverse impact on our business

The period from our initial contact with a potential client for a private online portal and the first purchase of our solution by the client is difficult to predict. In the past, this period has generally ranged from six to twelve months, but in some cases has been longer. Potential sales may be subject to delays or cancellations due to a client's internal procedures for approving large expenditures and other factors beyond our control, including the effect of general economic conditions on the willingness of potential clients to commit to licensing our private portals. The time it takes to implement a private online portal is also difficult to predict and has lasted as long as six months from contract execution to the commencement of live operation. Implementation may be subject to delays based on the availability of the internal resources of the client that are needed and other factors outside of our control. As a result, we have limited ability to forecast the timing of revenue from new clients. This, in turn, makes it more difficult to predict our financial performance from quarter to quarter.

During the sales cycle and the implementation period, we may expend substantial time, effort and money preparing contract proposals, negotiating contracts and implementing the private online portal without receiving any related revenue. In addition, many of the expenses related to providing private online portals are relatively fixed in the short term, including personnel costs and technology and infrastructure costs. Even if our private portal revenue is lower than expected, we may not be able to reduce related short-term spending in response. Any shortfall in such revenue would have a direct impact on our results of operations.

Our ability to renew existing agreements with employers and health plans will depend, in part, on our ability to continue to increase usage of our private portal services by their employees and plan members

In a healthcare market where a greater share of the responsibility for healthcare costs and decision-making has been shifting to consumers, use of information technology (including personal health records) to assist consumers in making informed decisions about healthcare has also increased. We believe that through our WebMD Health and Benefits Manager platform, including our personal health record application, we are well positioned to play a role in this environment. However, our strategy depends, in part, on increasing usage of our private portal services by our employer and health plan clients' employees and members and being able to demonstrate a sufficient return on investment and other benefits for our private portals clients from those services. Increasing usage of our private portal services requires us to continue to develop new and updated applications, features and services. In addition, we face competition in the area of healthcare decision-support tools and online health management applications and health information services. Many of our competitors have greater financial, technical, product development, marketing and other resources than we do, and may be better known than we are. We cannot provide assurance that we will be able to meet our development and implementation goals or that we will be able to compete successfully against other vendors offering competitive services and, if we are unable to do so, we may experience static or diminished usage for our private portal services and possible non-renewals of our customer agreements.

We may be subject to claims brought against us as a result of content we provide

Consumers access health-related information through our online services, including information regarding particular medical conditions and possible adverse reactions or side effects from medications. If our content, or content we obtain from third parties, contains inaccuracies, it is possible that consumers, employees, health plan members or others may sue us for various causes of action. Although our Websites and mobile applications contain terms and conditions, including disclaimers of liability, that are intended to reduce or eliminate our liability, the law governing the validity and enforceability of online agreements and other electronic transactions is evolving. We could be subject to claims by third parties that our online agreements with consumers and physicians that provide the terms and conditions for use of our public or private portals or mobile applications are unenforceable. A finding by a court that these agreements are invalid and that we are subject to liability could harm our business and require costly changes to our business.

We have editorial procedures in place to provide quality control of the information that we publish or provide. However, we cannot assure you that our editorial and other quality control procedures will be sufficient to ensure that there are no errors or omissions in particular content. Even if potential claims do not result in liability to us, investigating and defending against these claims could be expensive and time consuming and could divert management's attention away from our operations. In addition, our business is based on establishing the reputation of our portals as trustworthy and dependable sources of healthcare information. Allegations of impropriety or inaccuracy, even if unfounded, could harm our reputation and business.

Expansion to markets outside the United States will subject us to additional risks

One element of our growth strategy is to seek to expand our online services to markets outside the United States. Generally, we expect that we would accomplish this through partnerships or joint ventures with other companies having expertise in the specific country or region. In addition, in certain markets outside of the U.S., we expect to provide some of our online services directly to healthcare professionals and, to a lesser extent, consumers. Our participation in international markets will still be subject to certain risks beyond those applicable to our operations in the United States, such as:

- challenges caused by language and cultural differences;
- difficulties in staffing and managing operations from a distance;
- uncertainty regarding liability for services and content;
- burdens of complying with a wide variety of legal, regulatory and market requirements;
- variability of economic and political conditions, including the extent of the impact of adverse economic conditions in markets outside the United States;
- tariffs or other trade barriers;
- fluctuations in currency exchange rates;
- potentially adverse tax consequences, including restrictions on repatriation of earnings; and
- difficulties in protecting intellectual property.

Risks Related to the Internet and Our Technological Infrastructure

Any service interruption or failure in the systems that we use to provide online services could harm our business

Our online services are designed to operate 24 hours a day, seven days a week, without interruption. However, we have experienced and expect that we will in the future experience interruptions and delays in services and availability from time to time. We rely on internal systems as well as third-party vendors, including data center providers, bandwidth providers and mobile carriers, to provide our online services. We

may not maintain redundant systems or facilities for some of these services. In the event of a catastrophic event with respect to one or more of these systems or facilities, we may experience an extended period of system unavailability, which could negatively impact our relationship with users. In addition, system failures may result in loss of data, including user registration data, content, and other data critical to the operation of our online services, which could cause significant harm to our business and our reputation.

To operate without interruption or loss of data, both we and our service providers must guard against:

- damage from fire, power loss and other natural disasters;
- communications failures;
- software and hardware errors, failures and crashes;
- security breaches, computer viruses and similar disruptive problems; and
- other potential service interruptions.

Any disruption in the network access or co-location services provided by third-party providers to us or any failure by these third-party providers or our own systems to handle current or higher volume of use could significantly harm our business. We exercise little control over these third-party vendors, which increases our vulnerability to problems with services they provide.

Any errors, failures, interruptions or delays experienced in connection with these third-party technologies and information services or our own systems could negatively impact our relationships with users and adversely affect our brand and our business and could expose us to liabilities to third parties. Although we maintain insurance for our business, the coverage under our policies may not be adequate to compensate us for all losses that may occur. In addition, we cannot provide assurance that we will continue to be able to obtain adequate insurance coverage at an acceptable cost.

Implementation of additions to or changes in hardware and software platforms used to deliver our online services may result in performance problems and may not provide the additional functionality that was expected

From time to time, we implement additions to or changes in the hardware and software platforms we use for providing our online services. During and after the implementation of additions or changes, a platform may not perform as expected, which could result in interruptions in operations, an increase in response time or an inability to track performance metrics. In addition, in connection with integrating acquired businesses, we may move their operations to our hardware and software platforms or make other changes, any of which could result in interruptions in those operations. Any significant interruption in our ability to operate any of our online services could have an adverse effect on our relationships with users and clients and, as a result, on our financial results. We rely on a combination of purchasing, licensing, internal development, and acquisitions to develop our hardware and software platforms. Our implementation of additions to or changes in these platforms may cost more than originally expected, may take longer than originally expected, and may require more testing than originally anticipated. In addition, we cannot provide assurance that additions to or changes in these platforms will provide the additional functionality and other benefits that were originally expected.

If the systems we use to provide online portals experience security breaches or are otherwise perceived to be insecure, our business could suffer

We retain and transmit confidential information, including personal health records, in the processing centers and other facilities we use to provide online services. It is critical that these facilities and infrastructure remain secure and be perceived by the marketplace as secure. A security breach could damage our reputation or result in liability. 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, denial-of-service attacks or other attacks by third parties or similar disruptive

problems. Any compromise of our security, whether as a result of our own systems or the systems that they interface with, could reduce demand for our services and could subject us to legal claims from our clients and users, including for breach of contract or breach of warranty.

Our online services are dependent on the development and maintenance of the Internet infrastructure

Our ability to deliver our online services is dependent on the development and maintenance of the infrastructure of the Internet by third parties. The Internet has experienced a variety of outages and other delays as a result of damages to portions of its infrastructure, and it could face outages and delays in the future. The Internet has also experienced, and is likely to continue to experience, significant growth in the number of users and the amount of traffic. If the Internet continues to experience increased usage, the Internet infrastructure may be unable to support the demands placed on it. In addition, the reliability and performance of the Internet may be harmed by increased usage or by denial-of-service attacks. Any resulting interruptions in our services or increases in response time could, if significant, result in a loss of potential or existing users of and advertisers and sponsors on our Websites and, if sustained or repeated, could reduce the attractiveness of our services.

Customers who utilize our online services depend on Internet service providers and other Website operators for access to our Websites. All of these providers have experienced significant outages in the past and could experience outages, delays and other difficulties in the future due to system failures unrelated to our systems. Any such outages or other failures on their part could reduce traffic to our Websites.

Third parties may challenge the enforceability of our online agreements

The law governing the validity and enforceability of online agreements and other electronic transactions is evolving. We could be subject to claims by third parties that the online terms and conditions for use of our Websites, including disclaimers or limitations of liability, are unenforceable. A finding by a court that these terms and conditions or other online agreements are invalid could harm our business.

We could be subject to breach of warranty or other claims by clients of our online portals if the software and systems we use to provide them contain errors or experience failures

Errors in the software and systems we use could cause serious problems for clients of our online portals. We may fail to meet contractual performance standards or client expectations. Clients of our online portals 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. In addition, we could face breach of warranty or other claims by clients or additional development costs. Our software and systems are inherently complex and, despite testing and quality control, we cannot be certain that they will perform as planned.

We attempt to limit, by contract, our liability to our clients for damages arising from our 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, if any, 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 would 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 or hinder market acceptance of our services, including unrelated services.

Risks Related to the Healthcare Industry, Healthcare Regulation and Internet Regulation

Developments in the healthcare industry could adversely affect our business

Most of our revenue is derived from the healthcare industry and could be affected by changes affecting healthcare spending. We are particularly dependent on pharmaceutical, biotechnology and medical device companies for our advertising and sponsorship revenue. 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;
- 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, biotechnology or medical device companies or other healthcare industry participants.

Federal and state legislatures and agencies periodically consider reforming aspects of the United States healthcare system and significant federal healthcare reform legislation was enacted in March 2010, as discussed in the next risk factor.

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

- changes in the design of health insurance plans;
- a decrease in the number of new drugs or medical devices coming to market; and
- decreases in marketing expenditures by pharmaceutical or medical device companies, including as a result of governmental regulation or private initiatives that discourage or prohibit advertising or sponsorship activities by pharmaceutical or medical device companies.

In addition, our customers' expectations 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 assure you 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.

Recently enacted federal health care reform legislation could adversely affect our healthcare industry customers and clients, causing them to reduce expenditures, including expenditures for our services

The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (which we refer to as the Reform Legislation), was signed into law in March 2010. The Reform Legislation makes extensive changes to the system of healthcare insurance and benefits in the U.S. In general, the Reform Legislation seeks to reduce healthcare costs and decrease the number of uninsured legal U.S. residents by, among other things, requiring individuals to carry, and certain employers to offer, health insurance or be subject to penalties. The Reform Legislation also imposes new regulations on health insurers, including guaranteed coverage requirements, prohibitions on certain annual and all lifetime limits on amounts paid on behalf of or to plan members, increased restrictions on rescinding coverage, establishment of minimum medical loss ratio requirements, a requirement to cover certain preventive services on a first dollar basis, the establishment of state insurance exchanges and essential benefit packages, and greater limitations on how health insurers price certain of their products. The Reform Legislation also contains provisions that will

affect the revenues and profits of pharmaceutical and medical device companies, including new taxes on certain sales of their products.

Many of the provisions of the Reform Legislation that expand insurance coverage will not become effective until 2014, and many provisions require regulations and interpretive guidance to be issued before they will be fully implemented. Some provisions do not apply to health plans that were in place when the Reform Legislation was enacted and have not been substantially changed since. In addition, it is difficult to foresee how individuals and businesses will respond to the choices available to them under the Reform Legislation. Furthermore, the Reform Legislation will result in future state legislative and regulatory changes, which we are unable to predict at this time, in order for states to comply with certain provisions of the Reform Legislation and to participate in grants and other incentive opportunities. In addition, a number of states have filed lawsuits challenging the constitutionality of certain provisions of the Reform Legislation. As of May 9, 2011, two federal courts have ruled that the requirement for individuals to carry insurance is unconstitutional, while other courts have upheld this provision, and the Supreme Court has rejected a request for expedited review of one of the rulings against the provision, suggesting that an extended appellate process is likely. Accordingly, while we do not currently anticipate any significant adverse effects on WebMD as a direct result of application of the Reform Legislation to our businesses or on our company in its capacity as an employer, we are unable to predict what the indirect impacts of the Reform Legislation will be on WebMD's businesses through its effects on other healthcare industry participants, including pharmaceutical and medical device companies that are advertisers and sponsors of our public portals and employers and health plans that are clients of our private portals. Healthcare industry participants may respond to the Reform Legislation or to uncertainties created by the Reform Legislation by reducing their expenditures or postponing expenditure decisions, including expenditures for our services, which could have a material adverse effect on our business.

Government regulation of healthcare creates risks and challenges with respect to our compliance efforts and our business strategies

The healthcare industry is highly regulated and is subject to changing political, legislative, regulatory and other influences. Existing and new laws and regulations affecting the healthcare industry could create unexpected liabilities for us, could cause us to incur additional costs and could restrict our operations. Many healthcare laws are complex, and their application to specific products and services may not be clear. In particular, many existing healthcare laws and regulations, when enacted, did not anticipate the healthcare information services that we provide. However, these laws and regulations may nonetheless be applied to our products and services. Our failure to accurately anticipate the application of these laws and regulations, or other failure to comply, could create liability for us, result in adverse publicity and negatively affect our businesses. Some of the risks we face from healthcare regulation are as follows:

- *Regulation of Drug and Medical Device Advertising and Promotion.* The WebMD Health Network provides services involving advertising and promotion of prescription and over-the-counter drugs and medical devices. If the Food and Drug Administration (FDA) or the Federal Trade Commission (FTC) finds that any information on *The WebMD Health Network*, in our mobile applications, or in *WebMD the Magazine* violates applicable regulations, they may take regulatory or judicial action against us and/or the advertiser or sponsor of that information. State attorneys general may also take similar action based on their state's consumer protection statutes. Any increase or change in regulation of drug or medical device advertising and promotion could make it more difficult for us to contract for sponsorships and advertising. We cannot predict what actions the FDA or industry participants may take in the future. It is also possible that new laws would be enacted that impose restrictions on such advertising. In addition, recent private industry initiatives have resulted in voluntary restrictions, which advertisers and sponsors have agreed to follow. Our advertising and sponsorship revenue could be materially reduced by additional restrictions on the advertising of prescription drugs and medical devices to consumers, whether imposed by law or regulation or required under policies adopted by industry members.
- *Anti-kickback Laws.* There are federal and state laws that govern patient referrals, physician financial relationships and inducements to healthcare providers and patients. The federal healthcare programs

anti-kickback law prohibits any person or entity from offering, paying, soliciting or receiving anything of value, directly or indirectly, for the referral of patients covered by Medicare, Medicaid and other federal healthcare programs or the leasing, purchasing, ordering or arranging for or recommending the lease, purchase or order of any item, good, facility or service covered by these programs. Many states also have similar anti-kickback laws that are not necessarily limited to items or services for which payment is made by a federal healthcare program. These laws are applicable to manufacturers and distributors and, therefore, may restrict how we and some of our customers market products to healthcare providers, including e-details. Any determination by a state or federal regulatory agency that any of our practices violate any of these laws could subject us to civil or criminal penalties and require us to change or terminate some portions of our business and could have an adverse effect on our business. Even an unsuccessful challenge by regulatory authorities to our practices could result in adverse publicity and be costly for us to respond to.

- *False Claims Laws.* The Federal False Claims Act imposes liability on any person or entity who, among other things, knowingly presents, or causes to be presented, a false or fraudulent claim for payment by a Federal healthcare program. In addition, various states have enacted false claim laws analogous to the Federal False Claims Act, and many of these state laws apply where a claim is submitted to any third-party payor and not merely a federal healthcare program. When an entity is determined to have violated the Federal False Claims Act, it may be required to pay up to three times the actual damages sustained by the government plus civil penalties. In recent years an increasing number of Federal False Claims Act cases have been brought against drug manufacturers and resulted in significant monetary settlements and imposition of federally supervised corporate integrity agreements. Any action against us for violation of these laws could cause us to incur significant legal expenses and may adversely affect our ability to operate our business.
- *Medical Professional Regulation.* The practice of most healthcare professions requires licensing under applicable state law. In addition, the laws in some states prohibit business entities from practicing medicine. If a state determines that some portion of our business violates these laws, it may seek to have us discontinue those portions or subject us to penalties or licensure requirements. Any determination that we are a healthcare provider and have acted improperly as a healthcare provider may result in liability to us.
- *GINA.* The Genetic Information Nondiscrimination Act (GINA) prohibits discrimination based on genetic information in employment and in health insurance coverage. The law applies to our private portal customers, including both employers and group health plans. WebMD's Health Risk Assessment (or HRA), HealthQuotient, is typically offered to employees as a voluntary component of their employer-sponsored wellness program. Title I of GINA can have significant implications for wellness programs offered by group health plans in that it prohibits the collection of genetic information, which includes an individual's family medical history, prior to or in connection with enrollment or for underwriting purposes. Underwriting purposes includes providing incentives or rewards for completion of an HRA that requests genetic information. Title II of GINA prohibits employment discrimination based on genetic information as well as the request or purchase of genetic information of employees or their family members with limited exceptions, including a limited exception for voluntary wellness programs. WebMD may face challenges as a result of varying interpretations of the law by our customers and by the multiple enforcing agencies including the U.S. Departments of Health and Human Services ("HHS"), Labor and Treasury and the Equal Employment Opportunity Commission. Interpretations of the law have required us to modify the HealthQuotient product and we could experience increases in operational costs or decreases in demand for our products.

Government regulation of the Internet could adversely affect our business

The Internet and its associated technologies are subject to government regulation. However, whether and how existing laws and regulations in various jurisdictions, including privacy and consumer protection laws, apply to the Internet is still uncertain. Our failure, or the failure of our business partners or third-party service providers, to accurately anticipate the application of these laws and regulations to our products and services

and the manner in which we deliver them, or any other failure to comply with such laws and regulations, could create liability for us, result in adverse publicity and negatively affect our business. In addition, new laws and regulations, or new interpretations of existing laws and regulations, may be adopted with respect to the Internet and online services, including in areas such as: user privacy, confidentiality, consumer protection, marketing, pricing, content, copyrights and patents, and characteristics and quality of products and services. We cannot predict how these laws or regulations will affect our business.

Internet user privacy, personal data security and the use of consumer information to track online activities are major issues both in the United States and abroad. For example, in February 2009, the FTC published Self-Regulatory Principles to govern the tracking of consumers' activities online in order to deliver advertising targeted to the interests of individual consumers (sometimes referred to as behavioral advertising). These principles serve as guidelines to industry. In December 2010, following a series of workshops, the FTC issued a preliminary staff report containing a proposed framework for businesses and policymakers for online consumer privacy issues. The U.S. Department of Commerce issued a similar draft green paper on privacy issues. Both agencies expressed a willingness to support legislation and the FTC favors legislative solutions if it determines self-regulatory approaches are not adequately protecting consumers. The FTC has otherwise been active in investigating and entering into consent decrees under its current unfair or deceptive trade practices authority with companies because of their online privacy practices. There is a possibility of legislation, regulations and increased enforcement activities relating to privacy and behavioral advertising. Some bills have been introduced in Congress, and more are expected, that, if passed, could impose substantial new regulations on online behavioral advertising activities. We have privacy policies posted on our Websites that we believe comply with existing applicable laws requiring notice to users about our information collection, use and disclosure practices. We also notify users about our information collection, use and disclosure practices relating to data we receive through offline means such as paper health risk assessments. Moreover, we take steps to reasonably protect certain sensitive personal information we hold. We cannot assure you that the privacy policies and other statements we provide to users of our products and services, or our practices will be found sufficient to protect us from liability or adverse publicity in this area. A determination by a state or federal agency or court that any of our practices do not meet applicable standards, or the implementation of new standards or requirements, could adversely affect our business.

Failure to comply with laws relating to privacy and security of personal information, including personal health information, could result in liability to us and concerns about privacy-related issues could damage our reputation and our business

Privacy and security of personal information stored or transmitted electronically, including personal health information, is a major issue in the United States. While we strive to comply with all applicable privacy and security laws and regulations, as well as our own posted privacy policies, any failure or perceived failure to comply may result in proceedings or actions against us by government entities or others, or could cause us to lose users and customers, which could have a material adverse effect on our business. There has been an increase in the number of private privacy-related lawsuits filed against companies in recent months. In addition, we are unable to predict what additional legislation or regulation in the area of privacy of personal information, including personal health information, could be enacted and what effect that could have on our operations and business. Concerns about our practices with regard to the collection, use, disclosure, or security of personal information or other privacy-related matters, even if unfounded and even if we are in compliance with applicable laws, could damage our reputation and harm our business.

The Privacy Standards and Security Standards under the Health Insurance Portability and Accountability Act of 1996 (or HIPAA) establish a set of national privacy and security standards for the protection of individually identifiable health information by health plans, healthcare clearinghouses and healthcare providers (referred to as covered entities) and their business associates. Previously, only covered entities were directly subject to potential civil and criminal liability under these Standards. However, the Health Information Technology for Economic and Clinical Health (HITECH) Act, which was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) amended the HIPAA Privacy and Security Standards and made certain provisions applicable to those portions of our business, such as those managing employee or plan

member health information for employers or health plans, that are business associates of covered entities. Currently, we are bound by certain contracts and agreements to use and disclose protected health information in a manner consistent with the Privacy Standards and Security Standards. Beginning on February 17, 2010, some provisions of the HIPAA Privacy and Security Standards began to apply directly to us. For periods prior to that, depending on the facts and circumstances, we could potentially be subject to criminal liability for aiding and abetting or conspiring with a covered entity to violate the Privacy Standards or Security Standards. As of February 17, 2010, we became directly subject to HIPAA's criminal and civil penalties. HITECH increased civil penalty amounts for violations of HIPAA and significantly strengthens enforcement by requiring HHS to conduct periodic audits to confirm compliance and authorizing state attorneys general to bring civil actions seeking either injunctions or damages in response to violations of HIPAA Privacy and Security Standards that threaten the privacy of state residents. It is expected that HHS will issue additional regulations to implement many of the HITECH amendments. We cannot assure you that we will adequately address the risks created by these amended HIPAA Privacy and Security Standards. In addition, we are unable to predict what changes to these Standards might be made in the future or how those changes, or other changes in applicable laws and regulations, could affect our business.

Failure to maintain CME accreditation could adversely affect Medscape, LLC's ability to provide online CME offerings

Medscape, LLC's continuing medical education (or CME) activities are planned and implemented in accordance with the current Essential Areas and Elements and the Policies of the Accreditation Council for Continuing Medical Education, or ACCME, which oversees providers of CME credit, and other applicable accreditation standards. ACCME's standards for commercial support of CME are intended to assure, among other things, that CME activities of ACCME-accredited providers, such as Medscape, LLC, are independent of "commercial interests," which are defined as entities that produce, market, re-sell or distribute healthcare goods and services, excluding certain organizations. "Commercial interests," and entities owned or controlled by "commercial interests," are ineligible for accreditation by the ACCME.

From time to time, the ACCME revises its standards for commercial support of CME. As a result of certain past ACCME revisions, we adjusted our corporate structure and made changes to our management and operations intended to allow Medscape, LLC to provide CME activities that are developed independently from programs developed by its sister companies, which may not be independent of "commercial interests." We believe that these changes allow Medscape, LLC to satisfy the applicable standards.

Medscape, LLC's current ACCME accreditation expires in 2016. In order for Medscape, LLC to renew its accreditation, it will be required to demonstrate to the ACCME that it continues to meet ACCME requirements. If Medscape, LLC fails to maintain its status as an accredited ACCME provider (whether at the time of such renewal or at an earlier time as a result of a failure to comply with existing or additional ACCME standards), it would not be permitted to accredit CME activities for physicians and other healthcare professionals. Instead, Medscape, LLC would be required to use third parties to provide such CME-related services. That, in turn, could discourage potential supporters from engaging Medscape, LLC to develop CME or education-related activities, which could have a material adverse effect on our business.

Government regulation and industry initiatives could adversely affect the volume of sponsored online CME programs implemented through our Websites or require changes to how Medscape, LLC offers CME

CME activities may be subject to government oversight or regulation by Congress, the FDA, HHS, and state regulatory agencies. Medscape, LLC and/or the sponsors of the CME activities that Medscape, LLC accredits may be subject to enforcement actions if any of these CME activities are deemed improperly promotional, potentially leading to the termination of sponsorships.

During the past several years, educational activities, including CME, directed at physicians have been subject to increased governmental scrutiny to ensure that sponsors do not influence or control the content of the activities. In response, pharmaceutical and medical device companies have developed and implemented internal controls and procedures that promote adherence to applicable regulations and requirements. In

implementing these controls and procedures, supporters of CME may interpret the regulations and requirements differently and may implement varying procedures or requirements. These controls and procedures:

- may discourage pharmaceutical companies from providing grants for independent educational activities;
- may slow their internal approval for such grants;
- may reduce the volume of sponsored educational programs that Medscape, LLC produces to levels that are lower than in the past, thereby reducing revenue; and
- may require Medscape, LLC to make changes to how it offers or provides educational programs, including CME.

In addition, future changes to laws, regulations or accreditation standards, or to the internal compliance programs of supporters or potential supporters, may further discourage, significantly limit, or prohibit supporters or potential supporters from engaging in educational activities with Medscape, LLC, or may require Medscape, LLC to make further changes in the way it offers or provides educational activities.

Other Risks Applicable to Our Company and to Ownership of Our Securities

Provisions in our organizational documents and Delaware law may inhibit a takeover, which could adversely affect the value of our Common Stock

Our Restated Certificate of Incorporation and Bylaws, as well as Delaware corporate law, contain provisions that could delay or prevent a change of control or changes in our management and board of directors that holders of our Common Stock might consider favorable and may prevent them from receiving a takeover premium for their shares. These provisions include, for example, our classified board structure and the authorization of our board of directors to issue up to 50 million shares of preferred stock without a stockholder vote. In addition, our Restated Certificate of Incorporation provides that stockholders may not act by written consent and may not call special meetings. These provisions apply even if an offer to purchase our company may be considered beneficial by some of our stockholders. If a change of control or change in management is delayed or prevented, the market price of our Common Stock could decline.

If certain transactions occur with respect to our capital stock, limitations may be imposed on our ability to utilize net operating loss carryforwards and tax credits to reduce our income taxes

WebMD has substantial accumulated net operating loss (NOL) carryforwards and tax credits available to offset taxable income in future tax periods. If certain transactions occur with respect to WebMD's capital stock (including issuances, redemptions, recapitalizations, exercises of options, conversions of convertible debt, purchases or sales by 5%-or-greater shareholders and similar transactions) that result in a cumulative change of more than 50% of the ownership of capital stock over a three-year period (as determined under rules prescribed by the U.S. Internal Revenue Code and applicable Treasury regulations), an annual limitation would be imposed with respect to the ability to utilize WebMD's NOL carryforwards and federal tax credits.

In November 2008, HLTH repurchased shares of its Common Stock in a tender offer. The tender offer resulted in a cumulative change of more than 50% of the ownership of HLTH's capital, as determined under the applicable rules and regulations. As a result of this ownership change, there is an annual limitation imposed on the ability to utilize our NOL carryforwards and federal tax credits.

Because substantially all of WebMD's NOL carryforwards have already been reduced by a valuation allowance for financial accounting purposes, we would not expect an annual limitation on the utilization of the NOL carryforwards to significantly reduce the net deferred tax asset, although the timing of cash flows may be impacted to the extent any such annual limitation deferred the utilization of NOL carryforwards to future tax years.

We may not be successful in protecting our intellectual property and proprietary rights

Our intellectual property and proprietary rights are important to our businesses. The steps that we take to protect our intellectual property, proprietary information and trade secrets may prove to be inadequate and, whether or not adequate, may be expensive. We rely on a combination of trade secret, patent and other intellectual property laws and confidentiality procedures and non-disclosure contractual provisions to protect our intellectual property. We cannot assure you that we will be able to detect potential or actual misappropriation or infringement of our intellectual property, proprietary information or trade secrets. Even if we detect misappropriation or infringement by a third party, we cannot assure you that we will be able to enforce our rights at a reasonable cost, or at all. In addition, our rights to intellectual property, proprietary information and trade secrets may not prevent independent third-party development and commercialization of competing products or services.

Third parties may claim that we are infringing their intellectual property, and we could suffer significant litigation or licensing expenses or be prevented from providing certain services, which may harm our business

We could be subject to claims that we are misappropriating or infringing intellectual property or other proprietary rights of others. These claims, even if not meritorious, could be expensive to defend and divert management's attention from our operations. If we become liable to third parties for infringing these rights, we could be required to pay a substantial damage award and to develop non-infringing technology, obtain a license or cease selling the products or services that use or contain the infringing intellectual property. We may be unable to develop non-infringing products or services or obtain a license on commercially reasonable terms, or at all. We may also be required to indemnify our customers if they become subject to third-party claims relating to intellectual property that we license or otherwise provide to them, which could be costly.

Acquisitions, business combinations and other transactions may be difficult to complete and, if completed, may have negative consequences for our business and our security holders

WebMD has been built, in part, through acquisitions. We intend to continue to seek to acquire or to engage in business combinations with companies engaged in complementary businesses. In addition, we may enter into joint ventures, strategic alliances or similar arrangements with third parties. These transactions may result in changes in the nature and scope of our operations and changes in our financial condition. Our success in completing these types of transactions will depend on, among other things, our ability to locate suitable candidates and negotiate mutually acceptable terms with them, and to obtain adequate financing. Significant competition for these opportunities exists, which may increase the cost of and decrease the opportunities for these types of transactions. Financing for these transactions may come from several sources, including:

- cash and cash equivalents on hand and marketable securities;
- proceeds from the incurrence of indebtedness; and
- proceeds from the issuance of common stock, preferred stock, convertible debt or of other securities.

The issuance of additional equity or debt securities could:

- cause substantial dilution of the percentage ownership of our stockholders at the time of the issuance;
- cause substantial dilution of our earnings per share;
- subject us to the risks associated with increased leverage, including a reduction in our ability to obtain financing or an increase in the cost of any financing we obtain;
- subject us to restrictive covenants that could limit our flexibility in conducting future business activities; and
- adversely affect the prevailing market price for our outstanding securities.

We do not intend to seek security holder approval for any such acquisition or security issuance unless required by applicable law, regulation or the terms of then existing securities.

Our business will suffer if we fail to successfully integrate acquired businesses and technologies or to assess the risks in particular transactions

We have in the past acquired, and may in the future acquire, businesses, technologies, services, product lines and other assets. The successful integration of the acquired businesses and assets into our operations, on a cost-effective basis, can be critical to our future performance. The amount and timing of the expected benefits of any acquisition, including potential synergies between our company and the acquired business, are subject to significant risks and uncertainties. These risks and uncertainties include, but are not limited to, those relating to:

- our ability to maintain relationships with the customers of the acquired business;
- our ability to retain or replace key personnel of the acquired business;
- potential conflicts in sponsor or advertising relationships or in relationships with strategic partners;
- our ability to coordinate organizations that are geographically diverse and may have different business cultures; and
- compliance with regulatory requirements.

We cannot guarantee that any acquired businesses will be successfully integrated with our operations in a timely or cost-effective manner, or at all. Failure to successfully integrate acquired businesses or to achieve anticipated operating synergies, revenue enhancements or cost savings could have a material adverse effect on our business, financial condition and results of operations.

Although our management attempts to evaluate the risks inherent in each transaction and to value acquisition candidates appropriately, we cannot assure you that we will properly ascertain all such risks or that acquired businesses and assets will perform as we expect or enhance the value of our company as a whole. In addition, acquired companies or businesses may have larger than expected liabilities that are not covered by the indemnification, if any, that we are able to obtain from the sellers.

We may not be able to raise additional funds when needed for our business or to exploit opportunities

Our future liquidity and capital requirements will depend upon numerous factors, including the success of our service offerings, market developments, and repurchases of our Common Stock. 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.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) The following table provides information about purchases by WebMD during the three months ended March 31, 2011 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

Issuer Purchases of Equity Securities

<u>Period</u>	<u>Total Number of Shares Purchased ⁽¹⁾</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽⁴⁾</u>
01/01/11 - 01/31/11	1,925,672 ⁽²⁾	\$ 52.07	—	\$ 15,085,946
02/01/11 - 02/28/11	1,475	\$ 53.06	—	\$ 15,085,946
03/01/11 - 03/31/11	913,065 ⁽³⁾	\$ 57.37	—	\$ 15,085,946
Total	<u>2,840,212</u>	\$ 53.77	<u>—</u>	

- (1) Includes the following number of shares withheld from WebMD Restricted Common Stock that vested during the respective periods in order to satisfy withholding tax requirements related to the vesting of the awards: 5,182 in January, 1,475 in February and 44,558 in March. The value of these shares was determined based on the closing price of WebMD Common Stock on the date of vesting.
- (2) Includes 1,920,490 shares repurchased on January 5, 2011 with a portion of the net proceeds from the sale of the Company's 2.50% Convertible Notes due 2018. The price paid for these shares was equal to the closing price of WebMD Common Stock on that date. For additional information see Notes 3 and 7 to the Consolidated Financial Statements included in this Quarterly Report.
- (3) Includes 868,507 shares repurchased on March 8, 2011 with a portion of the net proceeds from the sale of the Company's 2.25% Convertible Notes due 2016. The price paid for these shares was equal to the closing price of WebMD Common Stock on that date. For additional information see Notes 3 and 7 to the Consolidated Financial Statements included in this Quarterly Report.
- (4) In each period, \$15,085,946 relates to the repurchase program that WebMD announced in December 2008, at which time WebMD was authorized to use up to \$30 million to purchase shares of its common stock from time to time. For additional information, see Note 7 to the Consolidated Financial Statements included in this Quarterly Report.

ITEM 6. Exhibits

The exhibits listed in the accompanying Exhibit Index on page E-1 are filed or furnished as part of this Quarterly Report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WEBMD HEALTH CORP.

BY: /s/ ANTHONY VUOLO

Anthony Vuolo
*Chief Operating Officer and
Chief Financial Officer*

Date: May 10, 2011

EXHIBIT INDEX*

<u>Exhibit No.</u>	<u>Description</u>
3.1	Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-8 filed on October 23, 2009 (Reg. No. 333-162651))
3.2	Amended and Restated By-laws of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form S-8 filed on October 23, 2009 (Reg. No. 333-162651))
4.1	Indenture, dated as of January 11, 2011, between the Registrant and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit 4.1 to Amendment No. 1, filed on January 14, 2011, to the Registrant's Current Report on Form 8-K filed on January 11, 2011)
4.2	Form of 2.50% Convertible Note Due 2018 (included in Exhibit 4.1)
4.3	Indenture, dated as of March 14, 2011, between the Registrant and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit 4.1 to Amendment No. 1, filed on March 15, 2011, to the Registrant's Current Report on Form 8-K filed on March 14, 2011)
4.4	Form of 2.25% Convertible Note Due 2016 (included in Exhibit 4.3)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of Registrant
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Registrant
32.1	Section 1350 Certification of Chief Executive Officer of Registrant
32.2	Section 1350 Certification of Chief Financial Officer of Registrant
99.1	Explanation of Non-GAAP Financial Measures

* XBRL Interactive Data File will be filed by amendment to this Form 10-Q within 30 days of the filing date of this Form 10-Q, as permitted by Rule 405(a)(2)(ii) of Regulation S-T.

**CERTIFICATIONS PURSUANT TO
SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Wayne T. Gattinella, certify that:

1. I have reviewed this quarterly report on Form 10-Q of WebMD Health Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2011

/s/ Wayne T. Gattinella
Wayne T. Gattinella
Chief Executive Officer
(Principal executive officer)

**CERTIFICATIONS PURSUANT TO
SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Anthony Vuolo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of WebMD Health Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2011

/s/ Anthony Vuolo
Anthony Vuolo
*Chief Operating Officer and
Chief Financial Officer*
(Principal financial and accounting officer)

STATEMENT OF CHIEF EXECUTIVE OFFICER OF
WEBMD HEALTH CORP.
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of WebMD Health Corp. (“WebMD”) on Form 10-Q for the period ended March 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Wayne T. Gattinella, Chief Executive Officer of WebMD, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of WebMD.

Dated: May 10, 2011

/s/ Wayne T. Gattinella

Wayne T. Gattinella
Chief Executive Officer

The foregoing certification is being furnished to accompany WebMD’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011 (the “Report”) solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed as part of the Report or as a separate disclosure document and shall not be deemed incorporated by reference into any other filing of WebMD that incorporates the Report by reference. A signed original of this written certification required by Section 906 has been provided to WebMD and will be retained by WebMD and furnished to the Securities and Exchange Commission or its staff upon request.

STATEMENT OF CHIEF FINANCIAL OFFICER OF
WEBMD HEALTH CORP.
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of WebMD Health Corp. ("WebMD") on Form 10-Q for the period ended March 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anthony Vuolo, Chief Operating Officer and Chief Financial Officer of WebMD, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of WebMD.

Dated: May 10, 2011

/s/ Anthony Vuolo
Anthony Vuolo
Chief Operating Officer and
Chief Financial Officer

The foregoing certification is being furnished to accompany WebMD's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011 (the "Report") solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed as part of the Report or as a separate disclosure document and shall not be deemed incorporated by reference into any other filing of WebMD that incorporates the Report by reference. A signed original of this written certification required by Section 906 has been provided to WebMD and will be retained by WebMD and furnished to the Securities and Exchange Commission or its staff upon request.

Explanation of Non-GAAP Financial Measures

Item 2 of Part I (the “MD&A”) of the Quarterly Report on Form 10-Q to which this is filed as Exhibit 99.1 includes 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 MD&A also includes 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 MD&A.

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.
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- **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.
- **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.
- **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 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.