

WEBMD HEALTH CORP.

FORM 10-Q (Quarterly Report)

Filed 08/09/12 for the Period Ending 06/30/12

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|-------------|--|
| Address | 111 EIGHTH AVE. NEW YORK, NY 10011 |
| Telephone | 212-624-3700 |
| CIK | 0001326583 |
| Symbol | WBMD |
| SIC Code | 7389 - Business Services, Not Elsewhere Classified |
| Industry | Computer Services |
| Sector | Technology |
| Fiscal Year | 12/31 |

**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 June 30, 2012

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: 001-35337

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 August 3, 2012, the Registrant had 50,123,881 shares of Common Stock (including unvested shares of restricted Common Stock).

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For the period ended June 30, 2012
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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;
- 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;
- reductions in promotional and educational spending by pharmaceutical and biotechnology companies for brand name prescription drugs, including as a result of lower revenue from such products, whether resulting from the amount and timing of regulatory approvals of such products, from the amount and timing of regulatory approvals of generic products that compete with existing brand name products or from other factors affecting the relevant markets;
- the inability to successfully deploy new or updated applications or services;
- failure to preserve and enhance the "WebMD" brand and our other brands;
- 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.

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**PART I
FINANCIAL INFORMATION**

ITEM 1. Financial Statements

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

| | <u>June 30, 2012</u> (Unaudited) | <u>December 31, 2011</u> |
|--|---|------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 964,226 | \$ 1,121,217 |
| Accounts receivable, net of allowance for doubtful accounts of \$842 at June 30, 2012 and \$1,129 at December 31, 2011 | 96,834 | 121,335 |
| Prepaid expenses and other current assets | 16,933 | 12,690 |
| Deferred tax assets. | 21,872 | 20,482 |
| Total current assets | 1,099,865 | 1,275,724 |
| Property and equipment, net | 65,193 | 57,139 |
| Goodwill | 202,104 | 202,104 |
| Intangible assets, net | 18,686 | 19,999 |
| Deferred tax assets | 52,816 | 55,017 |
| Other assets | 28,875 | 31,042 |
| TOTAL ASSETS | <u>\$ 1,467,539</u> | <u>\$ 1,641,025</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accrued expenses | \$ 49,322 | \$ 55,238 |
| Deferred revenue | 89,285 | 88,055 |
| Liabilities of discontinued operations. | 1,506 | 1,506 |
| Total current liabilities | 140,113 | 144,799 |
| 2.25% convertible notes due 2016 | 400,000 | 400,000 |
| 2.50% convertible notes due 2018 | 400,000 | 400,000 |
| Other long-term liabilities | 22,942 | 21,790 |
| 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; 62,410,849 shares issued at June 30, 2012 and 62,410,255 shares issued at December 31, 2011 | 624 | 624 |
| Additional paid-in capital . | 9,481,237 | 9,473,811 |
| Treasury stock, at cost; 13,322,861 shares at June 30, 2012 and 6,685,439 shares at December 31, 2011 | (458,069) | (294,062) |
| Accumulated deficit | (8,519,308) | (8,505,937) |
| Stockholders' equity | 504,484 | 674,436 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$ 1,467,539</u> | <u>\$ 1,641,025</u> |

See accompanying notes.

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

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------------|--------------------|------------------|
| | June 30, | | June 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Revenue | \$112,668 | \$141,369 | \$219,615 | \$272,978 |
| Cost of operations | 54,243 | 51,152 | 107,714 | 99,601 |
| Sales and marketing | 31,822 | 32,270 | 61,925 | 64,564 |
| General and administrative | 21,746 | 22,006 | 50,768 | 44,827 |
| Depreciation and amortization | 6,713 | 6,724 | 13,643 | 13,148 |
| Interest income | 34 | 51 | 45 | 67 |
| Interest expense | 5,832 | 5,833 | 11,668 | 8,974 |
| Gain on investments | — | 1,769 | 8,074 | 15,829 |
| Other expense | 1,097 | — | 2,297 | 53 |
| (Loss) income from continuing operations before income tax (benefit) provision | (8,751) | 25,204 | (20,281) | 57,707 |
| Income tax (benefit) provision | (2,649) | 11,003 | (6,402) | 23,961 |
| (Loss) income from continuing operations | (6,102) | 14,201 | (13,879) | 33,746 |
| Income from discontinued operations, net of a tax (benefit) of (\$887) for the three and six months ended June 30, 2012 and tax provision of \$4,812 for the three and six months ended June 30, 2011 | 508 | 7,394 | 508 | 7,394 |
| Net (loss) income | <u>\$ (5,594)</u> | <u>\$ 21,595</u> | <u>\$ (13,371)</u> | <u>\$ 41,140</u> |
| Basic (loss) income per common share: | | | | |
| (Loss) income from continuing operations | \$ (0.12) | \$ 0.24 | \$ (0.26) | \$ 0.58 |
| Income from discontinued operations | 0.01 | 0.13 | 0.01 | 0.12 |
| Net (loss) income | <u>\$ (0.11)</u> | <u>\$ 0.37</u> | <u>\$ (0.25)</u> | <u>\$ 0.70</u> |
| Diluted (loss) income per common share: | | | | |
| (Loss) income from continuing operations | \$ (0.12) | \$ 0.23 | \$ (0.26) | \$ 0.55 |
| Income from discontinued operations | 0.01 | 0.13 | 0.01 | 0.13 |
| Net (loss) income | <u>\$ (0.11)</u> | <u>\$ 0.36</u> | <u>\$ (0.25)</u> | <u>\$ 0.68</u> |
| Weighted-average shares outstanding used in computing per share amounts: | | | | |
| Basic | 49,615 | 58,096 | 52,692 | 58,140 |
| Diluted | <u>49,615</u> | <u>60,236</u> | <u>52,692</u> | <u>60,473</u> |

See accompanying notes.

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

| | Six Months Ended | |
|--|------------------|-------------|
| | June 30, | |
| | 2012 | 2011 |
| Cash flows from operating activities: | | |
| Net (loss) income | \$ (13,371) | \$ 41,140 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | |
| Income from discontinued operations, net of tax | (508) | (7,394) |
| Depreciation and amortization | 13,643 | 13,148 |
| Non-cash interest, net | 2,163 | 1,599 |
| Non-cash stock-based compensation | 26,281 | 19,161 |
| Deferred income taxes | (6,870) | 4,423 |
| Gain on investments | (8,074) | (15,829) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 24,501 | 19,234 |
| Prepaid expenses and other, net | (4,469) | (2,103) |
| Accrued expenses and other long-term liabilities | (9,128) | 4,765 |
| Deferred revenue | 1,230 | (1,044) |
| Net cash provided by continuing operations | 25,398 | 77,100 |
| Net cash used in discontinued operations | — | (136) |
| Net cash provided by operating activities | 25,398 | 76,964 |
| Cash flows from investing activities: | | |
| Proceeds received from ARS option | 9,269 | 16,561 |
| Purchases of property and equipment | (16,606) | (9,557) |
| Net cash (used in) provided by investing activities | (7,337) | 7,004 |
| Cash flows from financing activities: | | |
| Proceeds from exercise of stock options | 816 | 25,053 |
| Cash used for withholding taxes due on stock-based awards | (1,958) | (6,632) |
| Net proceeds from issuance of 2.50% convertible notes and 2.25% convertible notes | — | 774,745 |
| Purchases of treasury stock | (173,910) | (150,417) |
| Excess tax benefit on stock-based awards | — | 17,843 |
| Net cash (used in) provided by financing activities | (175,052) | 660,592 |
| Net (decrease) increase in cash and cash equivalents | (156,991) | 744,560 |
| Cash and cash equivalents at beginning of period | 1,121,217 | 400,501 |
| Cash and cash equivalents at end of period | \$ 964,226 | \$1,145,061 |

See accompanying notes.

WEBMD HEALTH CORP.
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.

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 healthcare services companies, and consumer products companies whose products relate to health, wellness, diet, fitness, lifestyle, safety and illness prevention. The Company also generates revenue 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 and data 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 tools that help them to make more informed benefit, treatment and provider decisions and motivate them to make healthier lifestyle choices. In addition, the Company offers clients of its private portals health and condition management programs and health coaching services on a per participant basis. 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 and six months ended June 30, 2012 are not necessarily indicative of the operating results to be expected for any subsequent period or for the entire year ending December 31, 2012. Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting 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, 2011, which are included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission.

WEBMD HEALTH CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 generally increases during each consecutive quarter throughout the year. The timing of revenue in relation to the Company’s expenses, many 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.

Presentation of Segment Information

The Company generates its revenue through its public and private portals. Discrete financial information related to a measure of profit or loss for these two revenue streams is not available as they leverage many common expenses, and the Company does not separately allocate these common expenses in assessing the performance of its business. Accordingly, the Company views its business as one reportable operating segment.

The following table presents the revenues recognized related to the Company’s public portals and private portals during the three and six months ended June 30, 2012 and 2011:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-------------------------|--------------------------------|------------------|------------------------------|------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Public portal revenues | \$ 93,744 | \$121,108 | \$181,520 | \$231,471 |
| Private portal revenues | 18,924 | 20,261 | 38,095 | 41,507 |
| | <u>\$112,668</u> | <u>\$141,369</u> | <u>\$219,615</u> | <u>\$272,978</u> |

WEBMD HEALTH CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Loss Contingencies

The Company accounts for loss contingencies in accordance with FASB ASC No. 450, "Contingencies." Under ASC No. 450, accruals for loss contingencies are recorded when both (i) the information available indicates that it is probable that a liability has been incurred and (ii) the amount of the loss can be reasonably estimated. The Company records adjustments to these accruals to reflect the status of negotiations, settlements, advice of counsel and other information and events related to an individual matter.

Net (Loss) Income Per Common Share

Basic (loss) 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 (loss) income per common share has been computed using the weighted-average number of shares of Common Stock outstanding during the periods, increased to give effect 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 June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------------|------------------------------|------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Numerator: | | | | |
| (Loss) income from continuing operations | \$ (6,102) | \$ 14,201 | \$ (13,879) | \$ 33,746 |
| Effect of participating non-vested restricted stock | — | (91) | — | (255) |
| (Loss) income from continuing operations—Basic and Diluted | <u>\$ (6,102)</u> | <u>\$ 14,110</u> | <u>\$ (13,879)</u> | <u>\$ 33,491</u> |
| Income from discontinued operations, net of tax | \$ 508 | \$ 7,394 | \$ 508 | \$ 7,394 |
| Effect of participating non-vested restricted stock | — | (47) | — | (56) |
| Income from discontinued operations, net of tax—Basic and Diluted | <u>\$ 508</u> | <u>\$ 7,347</u> | <u>\$ 508</u> | <u>\$ 7,338</u> |
| Denominator: | | | | |
| Weighted-average shares — Basic | 49,615 | 58,096 | 52,692 | 58,140 |
| Employee stock options and restricted stock | — | 2,140 | — | 2,333 |
| Adjusted weighted-average shares after assumed conversions — Diluted | <u>49,615</u> | <u>60,236</u> | <u>52,692</u> | <u>60,473</u> |
| Basic (loss) income per common share: | | | | |
| (Loss) income from continuing operations | \$ (0.12) | \$ 0.24 | \$ (0.26) | \$ 0.58 |
| Income from discontinued operations | 0.01 | 0.13 | 0.01 | 0.12 |
| Net (loss) income | <u>\$ (0.11)</u> | <u>\$ 0.37</u> | <u>\$ (0.25)</u> | <u>\$ 0.70</u> |
| Diluted (loss) income per common share: | | | | |
| (Loss) income from continuing operations | \$ (0.12) | \$ 0.23 | \$ (0.26) | \$ 0.55 |
| Income from discontinued operations | 0.01 | 0.13 | 0.01 | 0.13 |
| Net (loss) income | <u>\$ (0.11)</u> | <u>\$ 0.36</u> | <u>\$ (0.25)</u> | <u>\$ 0.68</u> |

WEBMD HEALTH CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company has excluded its convertible notes, as well as certain outstanding stock options and restricted stock, from the calculation of diluted (loss) 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 (loss) income per common share during the periods presented (shares in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|------------------------------|--------------------------------|---------------|------------------------------|---------------|
| | 2012 | 2011 | 2012 | 2011 |
| Options and restricted stock | 11,576 | 2,408 | 11,553 | 2,162 |
| Convertible notes | 11,624 | 11,477 | 11,551 | 8,970 |
| | <u>23,200</u> | <u>13,885</u> | <u>23,104</u> | <u>11,132</u> |

Recent Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (the “FASB”) issued an update to the existing guidance for goodwill and other intangible assets. The update simplifies how a company tests goodwill for impairment by providing both public and nonpublic entities an option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under that option, an entity would no longer be required to calculate the fair value of a reporting unit unless the entity determines, based on that qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, which for the Company was the first quarter of 2012. The adoption of this amendment did not have an impact on the Company’s financial condition, results of operations or cash flows.

In June 2011, the FASB issued an amendment to the existing guidance on the presentation of comprehensive income. Under the amended guidance, entities have the option to present the components of net income and other comprehensive income in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Entities no longer have the option of presenting the components of other comprehensive income within the statement of changes in stockholders’ equity. For public entities, the amendment is effective on a retrospective basis for fiscal years, and interim periods within those years, beginning after December 15, 2011, which for the Company was the first quarter of 2012. As the Company did not have any components of other comprehensive income during the periods presented in these accompanying consolidated financial statements, the adoption of this amendment did not have any impact on the Company’s consolidated financial statements or related disclosures.

In May 2011, the FASB issued amendments to the existing guidance on fair value measurement. The amendments are intended to create consistency between U.S. generally accepted accounting standards and International Financial Reporting Standards on measuring fair value and disclosing information about fair value measurements. The amendments clarify the application of existing fair value measurement requirements including (i) the application of the highest and best use valuation premise concepts, (ii) measuring the fair value of an instrument classified in a reporting entity’s shareholders’ equity, and (iii) quantitative information required for fair value measurements categorized within Level 3. In addition, the amendments require additional disclosure for Level 3 measurements regarding the sensitivity of fair value to changes in unobservable inputs and any interrelationships between those inputs. For public entities, the amendments are effective for interim and annual periods beginning after December 15, 2011, which for the Company was the first quarter of 2012. These changes are required to be applied prospectively. The adoption of this amendment did not have any impact on the Company’s financial statements.

WEBMD HEALTH CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2. Discontinued Operations

On September 14, 2006, the Company completed the sale of Emdeon Practice Services, Inc. (together with its subsidiaries, “EPS”) to Sage Software, Inc., an indirect wholly owned subsidiary of The Sage Group plc (the “EPS Sale”). The Company had certain indemnity obligations to advance amounts for reasonable defense costs for initially ten, and later four, former officers and directors of EPS (the “EPS Indemnification Obligations”) who were indicted in connection with an investigation by the United States Attorney for the District of South Carolina (the “Investigation”) that began in 2003. The Investigation related 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 EPS. On December 15, 2005, the United States Attorney announced the indictments of the ten former officers and employees of Medical Manager Health Systems. 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. One of the defendants passed away in 2008 and was dismissed from the indictment. Four of the defendants were dismissed from the case and two defendants were severed from the case and their cases were transferred to Tampa, Florida. In addition, one of the defendants entered into a Deferred Prosecution Agreement with the United States pursuant to which all charges were dismissed against him on July 26, 2010. The trial of two of the 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. The government entered a notice of appeal with respect to the Court’s order. At that time, two other former officers of EPS were 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. On June 8, 2011, upon the motion of the government, the United States Court of Appeals for the Fourth Circuit dismissed the government’s appeal of the District Court’s rulings, thereby ending the government’s case against the two defendants in South Carolina. On July 8, 2011, upon the motion of the government, the United States District Court for the Middle District of Florida granted a motion to dismiss the government’s case against the remaining two defendants in Florida.

In connection with the EPS Sale, the Company agreed to retain the responsibility for the EPS Indemnification 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, representing the Company’s estimate, and adjustments to its estimate of probable costs with respect to its indemnification obligation. 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. As a result of the June 8, 2011 and July 8, 2011 decisions discussed above, it is the Company’s understanding that the Investigation has concluded. As a result, the Company reversed the remaining accrual with respect to its EPS Indemnification Obligations of \$7,527 through income from discontinued operations during the three months ended June 30, 2011.

Included within liabilities of discontinued operations related to this matter was \$5,000 as of March 31, 2011, which represented certain reimbursements received from the Company’s insurance carriers between July 31, 2008 and December 31, 2010 under certain directors and officers liability insurance policies (the “Policies”) for expenses that the Company had incurred and expected to continue to incur for the EPS Indemnification Obligations. The Company had previously deferred recognizing these insurance reimbursements within the consolidated statement of operations because of the possibility they might have to be repaid to the insurance carriers under the terms of the applicable Policies. However, as a result of the June 8, 2011 and July 8, 2011 dismissals described above, the Company believes that the insurance carriers do not have the ability to recover this amount and accordingly, the Company reversed this accrual through income from discontinued operations during the three months ended June 30, 2011.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Included in income from discontinued operations during the three and six months ended June 30, 2012, is a net state tax refund of \$508 that the Company received in connection with the finalization of a state tax appeal related to the EPS Sale.

3. Convertible Notes

2.50% Convertible Notes due 2018

On January 11, 2011, the Company issued \$400,000 aggregate principal amount of its 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 were able to 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 was equivalent to an initial conversion price of approximately \$66.13 per share of Common Stock. In the aggregate, the 2.50% Notes were convertible into 6,048,800 shares of the Company's Common Stock. Effective April 4, 2012, after giving effect to an adjustment resulting from a tender offer for the Company's Common Stock that the Company completed on April 3, 2012 (see Note 6 for additional discussion), the conversion rate was adjusted to 15.3223 shares of Common Stock per thousand dollars principal amount of the 2.50% Notes. This is equivalent to an adjusted conversion price of approximately \$65.26 per share of Common Stock. In the aggregate, the 2.50% Notes are convertible into 6,128,920 shares of Common Stock following the April 4, 2012 adjustment.

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 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. However, in the case of certain change of control transactions in which the Company is acquired by a public company, the Company may elect to provide for conversion of the 2.50% Notes into acquirer common stock, in which case the repurchase option would not apply.

2.25% Convertible Notes due 2016

On March 14, 2011, the Company issued \$400,000 aggregate principal amount of its 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 were able to 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 was

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

equivalent to an initial conversion price of approximately \$73.69 per share of Common Stock. In the aggregate, the 2.25% Notes were convertible into 5,428,160 shares of the Company's Common Stock. Effective April 4, 2012, after giving effect to an adjustment resulting from a tender offer for the Company's Common Stock that the Company completed on April 3, 2012 (see Note 6 for additional discussion), the conversion rate was adjusted to 13.7502 shares of Common Stock per thousand dollars principal amount of the 2.25% Notes. This is equivalent to an adjusted conversion price of approximately \$72.73 per share of Common Stock. In the aggregate, the 2.25% Notes are convertible into 5,500,080 shares of Common Stock following the April 4, 2012 adjustment.

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. However, in the case of certain change of control transactions in which the Company is acquired by a public company, the Company may elect to provide for conversion of the 2.25% Notes into acquirer common stock, in which case the repurchase option would not apply.

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 \$1,406 and \$2,896 during the three and six months ended June 30, 2011, respectively, related to the FESCO relationship. FESCO is an affiliate of FMR LLC, which reported beneficial ownership of shares that represented approximately 14.7% of the Company's Common Stock as of June 30, 2011. Beneficial ownership as of June 30, 2012 was less than 5% and accordingly FESCO is no longer deemed to be a related party.

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.
- 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.

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The Company did not have any Level 2 assets during the periods presented. 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 June 30, 2012 and December 31, 2011:

| | Fair Value Estimate Using: | June 30, 2012 | | | December 31, 2011 | | |
|---------------------------|----------------------------|----------------------|------------|------------------------|----------------------|-------------|------------------------|
| | | Amortized Cost Basis | Fair Value | Gross Unrealized Gains | Amortized Cost Basis | Fair Value | Gross Unrealized Gains |
| Cash and cash equivalents | Level 1 | \$964,226 | \$964,226 | \$ — | \$1,121,217 | \$1,121,217 | \$ — |
| ARS Option | Level 3 | — | — | — | 1,195 | 1,195 | — |

The following table reconciles the beginning and ending balances of the Company's Level 3 assets, which consist of the ARS Option:

| | Six Months Ended June 30, | |
|--|---------------------------|----------|
| | 2012 | 2011 |
| Fair value as of the beginning of the period | \$ 1,195 | \$ 4,245 |
| Cash proceeds received | (9,269) | (16,561) |
| Gain included in earnings | 8,074 | 15,829 |
| Fair value as of the end of the period | \$ — | \$ 3,513 |

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.

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. Since April 20, 2010 the ARS Option has been classified as a Level 3 asset as its valuation required substantial judgment. The historical redemption activity of the specific ARS underlying the ARS Option was the most significant assumption used to determine the estimated value of the ARS Option. The Company was required to reassess the value of the ARS Option at each reporting period and changes in value were recorded within the statement of operations. The Company recognized gains of \$0 and \$8,074 during the three and six months ended June 30, 2012, respectively, and \$1,769 and \$15,829 during the three and six months ended June 30, 2011, respectively, and received cash proceeds of \$0 and \$9,269 during the three and six months ended June 30, 2012, respectively, and \$11,321 and \$16,561 during the three and six months ended June 30, 2011, respectively. In the aggregate, the Company received total cash proceeds of \$41,302 through the ARS Option during the period from April 20, 2010 through March 31, 2012. As of March 31, 2012, the Company no longer had any remaining positions related to the ARS Option.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 (based on Level 1 market price data) of the Company's convertible notes that were carried at historical cost as of June 30, 2012 and December 31, 2011:

| | June 30, 2012 | | December 31, 2011 | |
|-------------|-----------------|------------|-------------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| 2.25% Notes | \$ 400,000 | \$373,500 | \$ 400,000 | \$382,704 |
| 2.50% Notes | 400,000 | 336,500 | 400,000 | 371,972 |

6. Stock Repurchase Program, 2012 Tender Offer, and Other Repurchases

On December 4, 2008, the Company announced the authorization of a stock repurchase program (the "2008 Program"), at which time the Company was authorized to use up to \$30,000, which was subsequently increased by \$15,331 in July 2011, 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 August 2011, the Board of Directors terminated the 2008 Program and established a new stock repurchase program (the "2011 Program" and, collectively with the 2008 Program, the "Programs") through which the Company was authorized to use up to \$75,000 to purchase shares of WebMD Common Stock. During October 2011, the Company's Board of Directors authorized a \$75,000 increase to the 2011 Program. During the three and six months ended June 30, 2012, the Company repurchased 1,042,544 shares and 1,058,144 shares, respectively, at an aggregate cost of \$22,786 and \$23,201, respectively, under the Programs. During the three and six months ended June 30, 2011, the Company repurchased 9,000 shares at an aggregate cost of \$417 under the Programs. As of June 30, 2012, \$65,872 remained available for repurchases under the 2011 Program. Repurchased shares are recorded under the cost method and are reflected as treasury stock in the accompanying consolidated balance sheets.

On March 6, 2012, the Company commenced a tender offer to repurchase up to \$150,000 of its Common Stock through a modified "Dutch auction" tender offer (the "2012 Tender Offer"). On April 3, 2012, the Company completed the 2012 Tender Offer through which it repurchased 5,769,230 shares of its Common Stock at a price of \$26.00 per share for total consideration of \$150,709, including 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 Programs.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

7. Intangible Assets

Intangible assets consist of the following:

| | June 30, 2012 | | | | December 31, 2011 | | | |
|------------------------------|------------------|--------------------|-----------------|--|-------------------|--------------------|-----------------|--|
| | Gross Carrying | Accumulated | | Weighted Average Remaining Useful Life (a) | Gross Carrying | Accumulated | | Weighted Average Remaining Useful Life (a) |
| | Amount | Amortization | Net | | Amount | Amortization | Net | |
| Content | \$ 15,954 | \$ (15,954) | \$ — | — | \$ 15,954 | \$ (15,954) | \$ — | — |
| Customer relationships | 34,057 | (21,897) | 12,160 | 6.0 | 34,057 | (20,852) | 13,205 | 6.5 |
| Technology and patents | 14,700 | (14,700) | — | — | 14,700 | (14,700) | — | — |
| Trade names-definite lives | 6,030 | (3,968) | 2,062 | 3.9 | 6,030 | (3,700) | 2,330 | 4.4 |
| Trade names-indefinite lives | 4,464 | — | 4,464 | n/a | 4,464 | — | 4,464 | n/a |
| Total | <u>\$ 75,205</u> | <u>\$ (56,519)</u> | <u>\$18,686</u> | | <u>\$ 75,205</u> | <u>\$ (55,206)</u> | <u>\$19,999</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 \$657 and \$1,313, during the three and six months ended June 30, 2012, respectively, and \$657 and \$1,313, during the three and six months ended June 30, 2011, respectively. Aggregate amortization expense for intangible assets is estimated to be:

| Year Ending December 31: | |
|----------------------------------|---------|
| 2012 (July 1st to December 31st) | \$1,313 |
| 2013 | \$2,627 |
| 2014 | \$2,627 |
| 2015 | \$2,617 |
| 2016 | \$2,257 |
| Thereafter | \$2,781 |

8. Commitments and Contingencies

Legal Proceedings

In re WebMD Health Corp. Securities Litigation, Solomon v. Wygod, In re WebMD Health Corp. Shareholder Derivative Litigation

Six shareholder lawsuits, each of which is described below, have been filed in federal and state court in New York. The lawsuits relate to certain forward-looking information made publicly available by the Company.

On August 2, 2011 and August 26, 2011, federal securities class action complaints entitled Canson v. WebMD Health Corp., et al. and Malland v. WebMD Health Corp., et al., respectively, were filed in the United States District Court for the Southern District of New York on behalf of purchasers of the Company's Common Stock between February 23, 2011 and July 15, 2011. On November 7, 2011, the two cases were consolidated under the caption In re WebMD Health Corp. Securities Litigation (the "Federal Securities Action") and lead plaintiffs and lead counsel were appointed. On February 14, 2012, the lead plaintiffs filed their

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

consolidated amended complaint (the “Complaint”), which alleges claims on behalf of purchasers of the Company’s securities between February 23, 2011 and January 10, 2012. The Complaint alleges that the Company and certain of its officers made false and misleading statements in violation of the Securities Exchange Act of 1934 and seeks unspecified damages and costs. The defendants moved to dismiss the Complaint and the lead plaintiffs opposed that motion. The motion was fully submitted and filed on August 2, 2012.

On August 31, 2011, a shareholder derivative action entitled Solomon, et anno. v. Wygod, et al. was filed in the Supreme Court of the State of New York, New York County (the “State Court Derivative Action”). The State Court Derivative Action purports to assert claims on behalf of the Company, alleging breach of fiduciary duties, abuse of control, gross mismanagement, corporate waste and unjust enrichment by certain of the Company’s officers and directors. The State Court Derivative Action seeks unspecified damages, corporate governance changes, restitution, disgorgement and costs. The parties have agreed to stay the State Court Derivative Action until such time as the Federal Securities Action is dismissed with prejudice or any of the named defendants in the Federal Securities Action files an answer in that action.

On September 19, 2011, September 28, 2011 and October 25, 2011, shareholder derivative actions entitled Gordon v. Wygod, et al., Wargula v. Wygod, et al. and Garber v. Wygod, et al., respectively, were filed in the United States District Court for the Southern District of New York (the “Federal Derivative Action”). The complaints in the Federal Derivative Action purport to assert claims on behalf of the Company. Two of the complaints allege violations of the Securities Exchange Act of 1934, and all three complaints allege state law violations, including breach of fiduciary duties, corporate waste and unjust enrichment by certain of the Company’s officers and directors. The complaints seek unspecified damages, corporate governance changes, restitution, disgorgement and costs. The three actions have been consolidated under the caption In re WebMD Health Corp. Shareholder Derivative Litigation. Pursuant to a stipulated order, a consolidated complaint shall be filed not later than thirty (30) days after entry of an order on the motion to dismiss in the Federal Securities Action referred to above and the defendants need not respond to any prior filed complaints in the consolidated actions.

The Company believes that the Federal Securities Action, the State Court Derivative Action and the Federal Derivative Action are without merit and intends to vigorously defend against them. The Company is unable to predict the outcomes of these actions or to reasonably estimate the possible loss or range of loss, if any, arising from the claims asserted therein.

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 7 to the Consolidated Financial Statements included in the Company’s 2011 Annual Report on Form 10-K, has yet to 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.

9. Stock-Based Compensation

The Company has various stock-based compensation plans (collectively, the “Plans”) that provide for the grant of stock options, restricted stock awards, and other awards based on WebMD Common Stock.

The 2005 Long-Term Incentive Plan (as amended, the “2005 Plan”) is the only existing plan under which future grants can be made. The maximum number of shares of the Company’s Common Stock that may be

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

subject to awards under the 2005 Plan was 18,200,000 as of June 30, 2012, subject to adjustment in accordance with the terms of the 2005 Plan. The Company had an aggregate of 1,036,098 shares of Common Stock available for future grants under the 2005 Plan at June 30, 2012. An additional 1,875,000 shares were approved for future grants under the 2005 Plan at the Company's Annual meeting of Stockholders, held on July 24, 2012.

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, 2012 | 11,054,381 | \$ 32.46 | | |
| Granted | 2,384,900 | 23.71 | | |
| Exercised | (194,489) | 22.85 | | |
| Cancelled | (1,634,619) | 42.56 | | |
| Outstanding at June 30, 2012 | <u>11,610,173</u> | \$ 29.40 | 7.4 | \$ 2,222 |
| Vested and exercisable at the end of the period | <u>4,782,519</u> | \$ 29.27 | 5.3 | \$ 2,123 |

(1) The aggregate intrinsic value is based on the market price of the Company's Common Stock on June 29, 2012, the last trading day in June 2012, which was \$20.51, 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 June 29, 2012.

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 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.

| | Six Months Ended June 30, | |
|--|---------------------------|-----------|
| | 2012 | 2011 |
| Expected dividend yield | 0.0% | 0.0% |
| Expected volatility | 0.42-0.45 | 0.30-0.32 |
| Risk-free interest rate | 0.67% | 1.75% |
| Expected term (years) | 4.7 | 4.7 |
| Weighted average fair value of options granted during the period | \$ 8.80 | \$ 14.76 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

On February 23, 2012, the Company's directors and certain officers voluntarily surrendered a total of 960,600 non-qualified stock options with a weighted average exercise price of \$46.85 per share. None of these individuals received any consideration or promise of consideration in exchange for the surrender of these stock options. These options were originally granted under the 2005 Plan, and therefore, upon their surrender, the shares underlying these options were returned to the 2005 Plan and became available for grant under such plan. During the three months ended March 31, 2012, the Company expensed the remaining unrecognized stock-based compensation expense of \$8,076 related to these stock options.

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:

| | <u>Shares</u> | <u>Weighted Average Grant Date Fair Value</u> |
|----------------------------|------------------|---|
| Balance at January 1, 2012 | 1,205,333 | \$ 36.18 |
| Granted | 267,800 | 22.31 |
| Vested | (214,711) | 36.21 |
| Forfeited | (99,500) | 35.84 |
| Balance at June 30, 2012 | <u>1,158,922</u> | <u>\$ 33.02</u> |

Proceeds received from the exercise of options to purchase shares of the Company's Common Stock were \$62 and \$816 during the three and six months ended June 30, 2012, respectively, and \$14,833 and \$25,053 during the three and six months ended June 30, 2011, respectively. Additionally, in connection with the exercise of certain stock options and the vesting of restricted stock, the Company made payments of \$1,047 and \$1,958 during the three and six months ended June 30, 2012, respectively, and \$3,460 and \$6,632 during the three and six months ended June 30, 2011, 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 \$1,448 and \$6,212 for the three and six months ended June 30, 2012, respectively, and \$15,935 and \$46,238 for the three and six months ended June 30, 2011, 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 \$87 and \$173 of stock-based compensation expense for the three and six months ended June 30, 2012, respectively, and \$87 and \$173 for the three and six months ended June 30, 2011, 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 June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-----------------|------------------------------|-----------------|
| | 2012 | 2011 | 2012 | 2011 |
| Stock options | \$ 5,855 | \$ 6,050 | \$19,598 | \$12,673 |
| Restricted stock | 3,439 | 3,211 | 6,510 | 6,315 |
| Other | 87 | 87 | 173 | 173 |
| Total stock-based compensation expense | <u>\$ 9,381</u> | <u>\$ 9,348</u> | <u>\$26,281</u> | <u>\$19,161</u> |
| Included in: | | | | |
| Cost of operations | \$ 1,873 | \$ 1,856 | \$ 4,630 | \$ 3,959 |
| Sales and marketing | 2,304 | 2,188 | 4,465 | 4,579 |
| General and administrative | 5,204 | 5,304 | 17,186 | 10,623 |
| Total stock-based compensation expense | <u>\$ 9,381</u> | <u>\$ 9,348</u> | <u>\$26,281</u> | <u>\$19,161</u> |

As of June 30, 2012, approximately \$74,600 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 2.8 years, related to the Plans.

Tax benefits attributable to stock-based compensation represented 39% of stock-based compensation expense for all periods presented.

10. Other expense

Other expense consists of the following items:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-------------|------------------------------|--------------|
| | 2012 | 2011 | 2012 | 2011 |
| Severance and recruitment expenses ^(a) | \$ 1,097 | \$ — | \$ 2,297 | \$ — |
| Legal expense ^(b) | — | — | — | 53 |
| Other expense | <u>\$ 1,097</u> | <u>\$ —</u> | <u>\$ 2,297</u> | <u>\$ 53</u> |

(a) Represents cash severance and related expenses due to the resignation of the Company's former Chief Executive Officer and the related search and recruitment of its new Chief Executive Officer.

(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.

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

This Item 2 contains forward-looking statements with respect to possible events, outcomes or results that are, and are expected to continue to be, subject to risks, uncertainties and contingencies. See "Forward-Looking Statements" on page iii above. The results of operations for the periods reflected in this Quarterly Report are not necessarily indicative of results that may be expected for future periods, and our actual results may differ materially from those discussed in our forward-looking statements as a result of various factors, including but not limited to those listed under "Risk Factors" in Part II, Item 1A of this Quarterly Report, those discussed in this Item 2 and those included elsewhere in this Quarterly Report. In this Item 2, dollar amounts (other than per share amounts) are stated in thousands, unless otherwise noted.

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, 2011 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 June 30, 2012.
- *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, as well as CME

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services. Our public portals' sponsors and advertisers include, but are not limited to, pharmaceutical, biotechnology and medical device companies, healthcare services companies, and consumer products companies whose products relate to health, wellness, diet, fitness, lifestyle, safety and illness prevention. We also generate revenue 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 tools that help them to make more informed benefit, treatment and provider decisions and motivate them to make healthier lifestyle choices. We also provide health and condition management programs for use by our private portals clients' employees and members to help them become and stay well. In addition, we offer clients telephonic, online and onsite health coaching services for their employees and members. We generate revenue from our private portals through the licensing of our technology and content to employers and health plans, either directly or through our distributors. We offer our health coaching services on a per participant basis.

Background Information on Certain Trends and Developments Affecting Our Business. Key trends and developments affecting the use of healthcare information services of the types we provide or are developing and our ability to generate revenue from those services include the following:

- *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 by the desire to become better informed patients and to become more engaged healthcare consumers because of 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, 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 to interact with their peers.
- *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 should, over time, 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 should, over time, increase the use of online promotional marketing to physicians and other healthcare professionals, including through the use of our services. However, notwithstanding our general expectation for increased future demand, we cannot predict how long it will take for pharmaceutical, biotechnology and medical device companies to shift a more significant portion of their marketing expenditures to online services. In addition, as discussed under “— Recent Developments in the Business Outlook for Our Public Portals” below, many of these companies have been reducing their overall marketing and education spending and are expected to continue to do so. Furthermore, 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.

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- 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, as well as the additional time period before our services are delivered, may be longer than expected, especially for medium-sized and 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. In the past year, we experienced a lengthening of this internal review process by pharmaceutical and biotechnology companies, which resulted in delays in contracting as well as delays in recognizing expected revenue under executed contracts and which may continue to cause such delays.

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 and any increase in the number or significance of such approvals or of withdrawals of products from the market; consolidation of companies in the pharmaceutical and biotechnology industries; 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. We expect that the demand for reaching health-conscious consumers will continue to grow. 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. We plan to continue to focus on generating 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. However, our services for these clients are subject to competition from traditional media, Internet search engines, social media Internet sites, general purpose consumer sites, and numerous other alternatives. Competition for this business may also result in pressure to reduce prices, which could reduce our profit margins even if we are able to generate revenue. 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. Accordingly, revenues from this portion of our business may continue to decline and may be subject to significant quarter-to-quarter variations.
- *Recent Developments in the Business Outlook for Our Public Portals.* Notwithstanding our general expectation for increased future demand for our public portal services over the long term, we experienced reduced public portal advertising and sponsorship revenue in the first half of 2012, compared to the prior year period, as a result of what we believe has been a more cautious business outlook by many of our larger customers since late 2011. Certain of our pharmaceutical company customers experienced patent expirations for highly profitable drugs in 2011 and others expect to do so in 2012 and the next several years. In the pharmaceutical industry, patent expirations allow for competition from lower-priced generic versions of these drugs and generally result in the termination of marketing efforts for the drug. Additionally, we believe that these patent expirations have also led to, and may continue to lead to, significant overall reductions in marketing and educational expenditures by some of these pharmaceutical companies across their entire product portfolios, as well as delays in their budgeting and purchase decisions. As a result, we have experienced reduced revenues in late 2011 and the first half of 2012. We expect the trends that caused these reductions in our revenue to continue for the remainder of 2012 and into 2013, as we anticipate that many of our customers will continue to reevaluate expenditures in various areas, including marketing expenditures across their entire product portfolios and their educational expenditures as they deal with both the ongoing and anticipated impact of patent expirations across their businesses as well as greater than expected delays in new product launches as a result of unanticipated

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delays in FDA approvals. Even if there is an increase in the number of new pharmaceutical products coming to market later in 2012 and we were to make sales of advertising and sponsorship products relating to those products, marketing for these products would not be expected to begin until very late in 2012 or in 2013 and, as a result, they would not begin to contribute to revenue until sometime during 2013.

- *Strategic Review.* We have stated publicly that, in response to challenges facing our business (including those described under “—Recent Developments in the Business Outlook for Our Public Portals” above), we are conducting a strategic review of, among other things, our product and service offerings and how we market them to clients. Our goal is to strengthen the portfolio of our services for customers, while also diversifying our customer base to generate revenues in other parts of healthcare. We are also reevaluating our infrastructure to seek operational improvements and cost efficiencies, while improving our customer experience and investing in areas where we can expect long-term growth. The strategic review includes evaluating, considering and executing changes to our existing ways of doing business as well as new business initiatives, both of which can be difficult. Management may not properly assess the risks of strategic changes or new business initiatives, and subsequent events may alter the risks that were evaluated at the time decisions are made on these matters. Failure to effectively identify, assess and pursue strategic changes and new business initiatives may adversely affect our company and its prospects.
- *Mobile.* Consumers and healthcare professionals are increasingly using smartphones, tablets and other mobile devices to access the Internet, with physicians increasingly using mobile devices in diagnosis and treatment at the point of care. Accordingly, the portion of our page views from mobile devices has increased rapidly in the past several years and is expected to continue to increase. We are focused on delivering a multi-screen platform that extends the user experience beyond the desktop portal onto the mobile device. Mobile, while not yet a meaningful source of revenue for us, could be an important area of growth for the future and will be an important area of focus in the strategic review described in the preceding paragraph. Although we believe that the substantial majority of our mobile users also access and engage with *The WebMD Health Network* on personal computers where we generate advertising and sponsorship revenue, our users could increasingly access our services through mobile devices. If users access our services through mobile devices as a substitute for access through personal computers, and if we are unable to successfully implement monetization strategies for our mobile services, our financial results could be negatively affected.
- *Use of Health Management 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 private portals, 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 online healthcare decision-support tools and health management applications. 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 that have been adversely affected by general economic conditions or are seeking to reduce expenses for other reasons, we may continue to experience some reduction in contract renewals for our private portal services, as well as some reductions in the size of existing contracts.
- *International.* We are pursuing opportunities to expand the reach of our brands outside the United States. In certain markets outside the United States, 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 United Kingdom’s leading pharmacy-led health and beauty retailer. In addition, in certain markets outside of the United States, we are providing some of our online services in the local language directly to healthcare professionals and, to a lesser extent, consumers. The provision of online services in foreign languages presents additional challenges. Our company has only recently begun this activity and, therefore, has limited experience in this area.

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- *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 United States. In general, the Reform Legislation seeks to reduce healthcare costs and decrease the number of uninsured legal United States 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, Congress is considering various proposals to repeal some or all of the Reform Legislation.

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 business 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 business 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 and mobile 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 business 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.

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Background Information on Certain Significant Transactions

2012 Tender Offer. On April 3, 2012, we completed a tender offer for our Common Stock and repurchased 5,769,230 shares at a price of \$26.00 per share (we refer to this as the 2012 Tender Offer). The total cost of the 2012 Tender Offer was \$150,709, which includes \$709 of costs directly attributable to the purchase. The 2012 Tender Offer 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 offer automatically increased their relative percentage interest in our company at no additional cost to them.

Convertible 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 semi-annually on January 31 and July 31 of each year, commencing July 31, 2011. Under the terms of the 2.50% Notes, as adjusted in April 2012 following completion of the 2012 Tender Offer, holders may surrender their 2.50% Notes for conversion into WebMD Common Stock at a conversion rate of 15.3223 shares of WebMD Common Stock per thousand dollars principal amount of the 2.50% Notes. This is equivalent to a conversion price of approximately \$65.26 per share of Common Stock. In the aggregate, the 2.50% Notes are convertible into 6,128,920 shares of Common Stock following the April 4, 2012 adjustment.

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, as adjusted in April 2012 following completion of the 2012 Tender Offer, holders may surrender their 2.25% Notes for conversion into WebMD Common Stock at a conversion rate of 13.7502 shares of Common Stock per thousand dollars principal amount of the 2.25% Notes. This is equivalent to a conversion price of approximately \$72.73 per share of Common Stock. In the aggregate, the 2.25% Notes are convertible into 5,500,080 shares of Common Stock following the April 4, 2012 adjustment.

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 \$0 and \$9,269 during the three and six months ended June 30, 2012, respectively, and \$11,321 and \$16,561 during the three and six months ended June 30, 2011, respectively. We recorded pretax gains of \$0 and \$8,074 during the three and six months ended June 30, 2012, respectively, and \$1,769 and \$15,829 during the three and six months ended June 30, 2011, respectively, related to the ARS Option. As of March 31, 2012, we no longer had any remaining positions related to the ARS Option and will receive no further cash proceeds.

Voluntary Surrender of Certain Option Grants. On February 23, 2012, our directors, and certain officers voluntarily surrendered certain grants of non-qualified options to purchase WebMD Common Stock made to them, one of which was made in 2007, some in 2010 and some in 2011 and all of which were out-of-the-money at the time of surrender. None of these individuals received any consideration or promise of consideration in exchange for the surrender of these stock options. These options were originally granted under our 2005

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Long-Term Incentive Plan (which we refer to as the 2005 Plan), and therefore, upon their surrender, the shares underlying these options were returned to the 2005 Plan and became available for grant under such plan. These surrenders of stock options were intended to allow WebMD to use the shares that became available under the 2005 Plan to attract new employees and to motivate and retain current key employees. During the first quarter of 2012, we recorded pre-tax stock-based compensation expense of \$8,076 related to the voluntary surrender of these options, which represented the remaining unrecognized stock compensation amounts for such grants.

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 generally increases during each consecutive quarter throughout the year. The timing of revenue in relation to our expenses, many 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 we substantially complete our contractual deliverables as determined by the applicable agreements.

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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.

The adoption of ASU 2009-13 did not have a material impact to our consolidated financial statements.

- *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 2011.
- *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 been unsuccessful.

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Effective April 20, 2010, we entered into an agreement pursuant to which we sold all of our holdings of ARS for an aggregate of \$286,399. Under the terms of the agreement, we 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. Since April 20, 2010, the ARS Option has been classified as a Level 3 asset as its valuation required substantial judgment. The historical redemption activity of the specific ARS underlying the ARS Option was the most significant assumption used to determine the estimated value of the ARS Option. We were required to reassess the value of the ARS Option at each reporting period and changes in value were recorded within the statement of operations. We recognized gains of \$0 and \$8,074 during the three and six months ended June 30, 2012, respectively, and \$1,769 and \$15,829 during the three and six months ended June 30, 2011, respectively, and received cash proceeds of \$0 and \$9,269 during the three and six months ended June 30, 2012, respectively, and \$11,321 and \$16,561 during the three and six months ended June 30, 2011, respectively. In the aggregate, the Company received total cash proceeds of \$41,302 through the ARS Option during the period from April 20, 2010 through March 31, 2012. As of March 31, 2012, we no longer had any remaining positions related to the ARS Option. 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 June 30, 2012, there was approximately \$74.6 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 2.8 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 (benefit) provision.

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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 June 30, | | | | Six Months Ended June 30, | | | |
|--|-----------------------------|-------|-----------|-------|---------------------------|-------|-----------|-------|
| | 2012 | | 2011 | | 2012 | | 2011 | |
| | \$ | % (a) | \$ | % (a) | \$ | % (a) | \$ | % (a) |
| Revenue | \$112,668 | 100.0 | \$141,369 | 100.0 | \$219,615 | 100.0 | \$272,978 | 100.0 |
| Cost of operations | 54,243 | 48.1 | 51,152 | 36.2 | 107,714 | 49.0 | 99,601 | 36.5 |
| Sales and marketing | 31,822 | 28.2 | 32,270 | 22.8 | 61,925 | 28.2 | 64,564 | 23.7 |
| General and administrative | 21,746 | 19.3 | 22,006 | 15.6 | 50,768 | 23.1 | 44,827 | 16.4 |
| Depreciation and amortization | 6,713 | 6.0 | 6,724 | 4.8 | 13,643 | 6.2 | 13,148 | 4.8 |
| Interest income | 34 | — | 51 | — | 45 | — | 67 | — |
| Interest expense | 5,832 | 5.2 | 5,833 | 4.1 | 11,668 | 5.3 | 8,974 | 3.3 |
| Gain on investments | — | — | 1,769 | 1.3 | 8,074 | 3.7 | 15,829 | 5.8 |
| Other expense | 1,097 | 1.0 | — | — | 2,297 | 1.0 | 53 | — |
| (Loss) income from continuing operations | | | | | | | | |
| before income tax (benefit) provision | (8,751) | (7.8) | 25,204 | 17.8 | (20,281) | (9.2) | 57,707 | 21.1 |
| Income tax (benefit) provision | (2,649) | (2.4) | 11,003 | 7.8 | (6,402) | (2.9) | 23,961 | 8.8 |
| (Loss) income from continuing operations | (6,102) | (5.4) | 14,201 | 10.0 | (13,879) | (6.3) | 33,746 | 12.4 |
| Income from discontinued operations | 508 | 0.5 | 7,394 | 5.2 | 508 | 0.2 | 7,394 | 2.7 |
| Net (loss) income | \$ (5,594) | (5.0) | \$ 21,595 | 15.3 | \$ (13,371) | (6.1) | \$ 41,140 | 15.1 |

(a) Amounts may not add due to rounding.

Revenue from our public portal advertising and sponsorship is derived from online advertising and sponsorship products, online CME services, information and data 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 health and condition management programs and personalized health coaching services. 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 health and condition management programs and personalized health 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.

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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 this MD&A make reference to certain non-cash expenses. Our principal non-cash expenses are 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.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-----------------|------------------------------|-----------------|
| | 2012 | 2011 | 2012 | 2011 |
| Stock-based compensation expense included in: | | | | |
| Cost of operations | \$ 1,873 | \$ 1,856 | \$ 4,630 | \$ 3,959 |
| Sales and marketing | 2,304 | 2,188 | 4,465 | 4,579 |
| General and administrative | 5,204 | 5,304 | 17,186 | 10,623 |
| Total stock-based compensation expense | \$ 9,381 | \$ 9,348 | \$26,281 | \$19,161 |

Three and six months ended June 30, 2012 and 2011

The following discussion is a comparison of our results of operations on a consolidated basis for the three and six months ended June 30, 2012 and 2011.

Revenue

Our total revenue decreased by 20.3% and 19.5% to \$112,668 and \$219,615 in the three and six months ended June 30, 2012, respectively, from \$141,369 and \$272,978 in the prior year periods. This decrease is primarily due to lower 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 \$54,243 and \$107,714 for the three and six months ended June 30, 2012, respectively, from \$51,152 and \$99,601 in the prior year periods. As a percentage of revenue, cost of operations was 48.1% and 49.0% for the three and six months ended June 30, 2012, compared to 36.2% and 36.5% for the prior year periods. Included in cost of operations was non-cash expense related to stock-based compensation of \$1,873 and \$4,630 during the three and six months ended June 30, 2012, respectively, compared to \$1,856 and \$3,959 in the prior year periods. Cost of operations excluding such non-cash expense was \$52,370 and \$103,084 for the three and six months ended June 30, 2012, respectively, or 46.5% and 46.9% of revenue, compared with \$49,296 and \$95,642, or 34.9% and 35.0% of revenue for the prior year periods. The increase in absolute dollars was primarily attributable to an increase of approximately \$4,800 and \$10,700 of expenses for the three and six month periods, respectively, associated with the operations and maintenance of our network, including efforts to drive and support the increased traffic to our Websites, expenses related to the development of new content and the development of tools and features designed to increase the engagement of visitors to our Websites, and costs associated with the creation and delivery of our advertising and sponsorship programs. The increase in these expenses was partially offset by a decrease of \$1,700 and \$3,300 for the three and six month periods of distribution expense related to the phase out of our affiliate partner sites and other distribution partners. The increase as a percentage of revenue, excluding the non-cash expenses discussed above, for the three and six months ended June 30, 2012 compared to the prior year periods, was due to the decrease in our revenue of 20.3% and 19.5%, respectively, combined with the increase in our cost of operations as certain of these expenses are fixed in nature and do not vary directly with revenue.

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Sales and Marketing. Sales and marketing expense decreased to \$31,822 and \$61,925 for the three and six months ended June 30, 2012, respectively, from \$32,270 and \$64,564 in the prior year periods. As a percentage of revenue, sales and marketing expense was 28.2% in both the three and six months ended June 30, 2012, compared to 22.8% and 23.7% in the prior year periods. Included in sales and marketing expense was non-cash expense related to stock-based compensation of \$2,304 and \$4,465 during the three and six months ended June 30, 2012, respectively, compared to \$2,188 and \$4,579 in the prior year periods. Sales and marketing expense, excluding such non-cash expenses, was \$29,518 and \$57,460 during the three and six months ended June 30, 2012, respectively, or 26.2% and 26.2% of revenue, respectively, compared to \$30,082 and \$59,985, or 21.3% or 22.0% of revenue for the prior year periods. The decrease in absolute dollars was primarily attributable to a decrease in certain compensation related costs attributable to the lower revenue in the first half of 2012 compared to the prior year period. The increase as a percentage of revenue, excluding the non-cash expenses discussed above, for 2012 compared to 2011 was primarily due to the decrease in our revenue of 19.5% without a commensurate decrease in our sales and marketing expenses as certain of these expenses are fixed in nature.

General and Administrative. General and administrative expense was \$21,746 and \$50,768 for the three and six months ended June 30, 2012, respectively, compared to \$22,006 and \$44,827 in the prior year periods. As a percentage of revenue, general and administrative expense was 19.3% and 23.1% in the three and six months ended June 30, 2012, compared to 15.6% and 16.4% in the prior year periods. Included in general and administrative expense was non-cash stock-based compensation expense of \$5,204 and \$17,186, during the three and six months ended June 30, 2012, respectively, compared to \$5,304 and \$10,623 in the prior year periods. The increase in non-cash stock-based compensation expense during the six months ended June 30, 2012 compared to the prior year period was primarily due to the voluntary surrender of stock options by certain of our officers and directors and the related acceleration of the unrecognized stock-based compensation expense associated with those options during the March 2012 quarter. General and administrative expense, excluding such non-cash expense, was \$16,542 and \$33,582 in the three and six months ended June 30, 2012, respectively, or 14.7% and 15.3% of revenue, compared to \$16,702 and \$34,204, or 11.8% and 12.5% of revenue for the prior year periods. While our general and administrative expenses, excluding non-cash stock-based compensation expense, were slightly lower during the three and six months ended June 30, 2012 compared to the prior year periods, these expenses during the current year represented a higher percentage of revenue due to the 20.3% and 19.5% decreases in revenue, respectively.

Depreciation and Amortization. Depreciation and amortization expense was \$6,713 and \$13,643 for the three and six months ended June 30, 2012, respectively, which was relatively consistent when compared to \$6,724 and \$13,148 in the prior year periods.

Interest Income. Interest income was \$34 and \$45 for the three and six months ended June 30, 2012, respectively, compared to \$51 and \$67 in the same periods last year.

Interest Expense. Interest expense was \$5,832 and \$11,668 for the three and six months ended June 30, 2012, respectively, compared to \$5,833 and \$8,974 in the prior year periods. These amounts included non-cash interest expense of \$1,081 and \$2,163 during the three and six months ended June 30, 2012, respectively, compared to \$1,083 and \$1,599 in the prior year periods. The increase in interest expense during the six months ended June 30, 2012 compared to the prior year period is a result of the 2.50% Notes and 2.25% Notes being outstanding for the full six-month period of 2012, while only being outstanding for a portion of the six-month period of 2011.

Gain on Investments. During the three and six months ended June 30, 2012, we recorded gains of \$0 and \$8,074, respectively, related to changes in the value of our ARS Option, compared to gains of \$1,769 and \$15,829 in the prior year periods. As of March 31, 2012, we no longer hold any remaining positions related to the ARS Option. See “— Introduction — Background Information on Certain Significant Transactions — Auction Rate Securities” for additional information.

Other Expense. Other expense was \$1,097 and \$2,297 for the three and six months ended June 30, 2012, respectively, compared to \$0 and \$53 in the prior year periods. For the six months ended June 30, 2012, other

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expense included cash severance and related expenses due to the resignation of our former Chief Executive Officer as well as expenses incurred in connection with the search and recruitment of our new Chief Executive Officer. For the six months ended June 30, 2011, other expense consisted of \$53 of external legal costs and expenses related to the investigation by the United States Attorney for the District of South Carolina and the SEC and the related insurance coverage litigation.

Income Tax (Benefit) Provision. The income tax benefit was \$2,649 and \$6,402 for the three and six months ended June 30, 2012, respectively, compared to an income tax provision of \$11,003 and \$23,961 in the prior year periods.

Income from Discontinued Operations, Net of Tax . Income from discontinued operations, net of tax, during the three and six months ended June 30, 2012, included a net state tax refund of \$508 that we received in connection with the finalization of a state tax appeal related to the EPS Sale. Income from discontinued operations, net of tax, was \$7,394 during the three and six months ended June 30, 2011 and represents the reversal of the remaining accruals related to the investigation by the United States Attorney for the District of South Carolina and the related Coverage Litigation.

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 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 (loss) income from continuing operations and to net (loss) income.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------------|------------------------------|------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Revenue | | | | |
| Public portal advertising and sponsorship | \$ 93,744 | \$121,108 | \$181,520 | \$231,471 |
| Private portal services | 18,924 | 20,261 | 38,095 | 41,507 |
| | <u>\$112,668</u> | <u>\$141,369</u> | <u>\$219,615</u> | <u>\$272,978</u> |
| Earnings before interest, taxes, non-cash and other items (Adjusted EBITDA) | \$ 14,238 | \$ 45,289 | \$ 25,489 | \$ 83,147 |
| Interest, taxes, non-cash and other items | | | | |
| Interest income | 34 | 51 | 45 | 67 |
| Interest expense | (5,832) | (5,833) | (11,668) | (8,974) |
| Income tax benefit (provision) | 2,649 | (11,003) | 6,402 | (23,961) |
| Depreciation and amortization | (6,713) | (6,724) | (13,643) | (13,148) |
| Non-cash stock-based compensation | (9,381) | (9,348) | (26,281) | (19,161) |
| Gain on investments | — | 1,769 | 8,074 | 15,829 |
| Other expense | (1,097) | — | (2,297) | (53) |
| (Loss) income from continuing operations | (6,102) | 14,201 | (13,879) | 33,746 |
| Income from discontinued operations, net of tax | 508 | 7,394 | 508 | 7,394 |
| Net (loss) income | <u>\$ (5,594)</u> | <u>\$ 21,595</u> | <u>\$ (13,371)</u> | <u>\$ 41,140</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 and six months ended June 30, 2012 and 2011.

Public Portal Advertising and Sponsorship. Public portal advertising and sponsorship revenue was \$93,744 and \$181,520 in the three and six months ended June 30, 2012, respectively, a decrease of \$27,364 and \$49,951, or 22.6% and 21.6% from the prior year periods. We believe that this decrease related primarily to a

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more cautious business outlook by many of our larger customers, and related reductions in their marketing expenditures. For a more detailed discussion, see “— Background Information on Certain Trends and Developments Affecting Our Business — Recent Developments in the Business Outlook for Our Public Portals.” In general, pricing remained relatively stable for our advertising and sponsorship programs and was not a significant source of the revenue decrease.

Private Portal Services. Private portal services revenue was \$18,924 and \$38,095 in the three and six months ended June 30, 2012, respectively, a decrease of \$1,337 and \$3,412, or 6.6% and 8.2% from the prior year periods. The decline in revenue during the 2012 periods compared to the prior year periods was primarily due to the full period impact of customers lost during 2011 and 2012 and a reduction in the level of services purchased by some of our customers during these periods. In general, pricing remained relatively stable for our private portal services and was not a significant source of the revenue decrease. The number of customers using our private portal platform at June 30, 2012 was 118 compared to 120 customers using our private portal platform at June 30, 2011.

Adjusted EBITDA. Adjusted EBITDA decreased to \$14,238 and \$25,489 during the three and six months ended June 30, 2012, respectively, compared to \$45,289 and \$83,147 in the prior year periods. As a percentage of revenue, Adjusted EBITDA was 12.6% and 11.6% for the three and six months ended June 30, 2012, respectively, compared to 32.0% and 30.5% in the prior year periods. This decrease as a percentage of revenue was primarily due to the lower revenue in 2012. Many of our expenses are fixed in nature and do not vary directly with revenue, and accordingly, our Adjusted EBITDA as a percentage of revenue will fluctuate primarily as a result of changes in our revenue.

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, “(loss) income from continuing operations” calculated in accordance with GAAP or “net (loss) income” 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 (loss) income from continuing operations or net (loss) income. 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 (loss) income from continuing operations or net (loss) income, 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 reference.*

Liquidity and Capital Resources

As of June 30, 2012, we had \$964,226 of cash and cash equivalents, and working capital of \$959,752. Our cash and cash equivalents and working capital are affected by the timing of each period end in relation to items such as payments received from customers, payments made to vendors, the timing of interest payments related to our convertible debt, 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 for the six months ended June 30, 2012 was \$25,398, which related to net loss of \$13,371, adjusted for the income from discontinued operations of \$508, the gain on investments of \$8,074, the non-cash income tax benefit of \$6,870 related to deferred income taxes, and other non-cash expenses

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of \$42,087, 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 an increase in cash of \$12,134, due to cash provided by a decrease in accounts receivable of \$24,501 and an increase in deferred revenue of \$1,230 offset by cash used as a result of a decrease in accrued liabilities of \$9,128 and an increase in prepaid expenses and other assets of \$4,469.

Cash provided by operating activities from our continuing operations for the six months ended June 30, 2011 was \$77,100, which related to net income of \$41,140, adjusted for income from discontinued operations of \$7,394, the gain on investments of \$15,829, the non-cash income tax provision of \$4,423 related to deferred income taxes, and other non-cash expenses of \$33,908, 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 \$20,852, due to cash provided by a decrease in accounts receivable of \$19,234 and an increase in accrued liabilities of \$4,765, offset by an increase in prepaid expenses and other assets of \$2,103 and a decrease in deferred revenue of \$1,044.

Cash used in investing activities was \$7,337 in the six months ended June 30, 2012, compared to cash provided by investing activities of \$7,004 in the six months ended June 30, 2011. We received \$9,269 related to our ARS Option in the six months ended June 30, 2012 compared to \$16,561 in the prior year period. We used \$16,606 in connection with purchases of property and equipment in the six months ended June 30, 2012 compared to \$9,557 of purchases of property and equipment in the prior year period. The increase in purchases of property and equipment in the current year period primarily related to the planned end-of-life replacement of servers and disk storage for our public portal data centers as well as planned leasehold improvements for one of our private portal locations.

Cash used in financing activities was \$175,052 in the six months ended June 30, 2012, compared to cash provided by financing activities of \$660,592 in the prior year period. Cash used in financing activities in the six months ended June 30, 2012 principally related to the use of \$150,709 in the tender offer we completed in April 2012 for the repurchase of approximately 5.8 million shares of our Common Stock. We also used \$23,201 to repurchase shares of our Common Stock through our repurchase program. Cash provided by financing activities in the six months ended June 30, 2011 principally related to the issuance of \$400,000 aggregate principal amount of 2.50% Notes and \$400,000 aggregate principal amount of 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. Offsetting this cash inflow in the 2011 period was the use of \$150,417 used for the repurchase of our Common Stock. During the six months ended June 30, 2012 and 2011 we received cash proceeds of \$816 and \$25,053, respectively, related to the exercise of stock options, and used cash of \$1,958 and \$6,632, respectively, for withholding taxes due on stock-based awards. Also included in cash from financing activities during the six months ended June 30, 2011 was an excess tax benefit on stock-based awards of \$17,843.

Included in our consolidated statements of cash flows for the six months ended June 30, 2011 are cash flows related to our discontinued operations which include \$136 in payments made in 2011 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.

Potential future uses of cash include repurchases of our Common Stock and our anticipated capital expenditure requirements for 2012, which we currently estimate to be approximately \$30,000 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

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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.

Recent Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (the “FASB”) issued an update to the existing guidance for goodwill and other intangible assets. The update simplifies how a company tests goodwill for impairment by providing both public and nonpublic entities an option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under that option, an entity would no longer be required to calculate the fair value of a reporting unit unless the entity determines, based on that qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, which for our company was the first quarter of 2012. The adoption of this amendment did not have an impact on our financial condition, results of operations or cash flows.

In June 2011, the FASB issued an amendment to the existing guidance on the presentation of comprehensive income. Under the amended guidance, entities have the option to present the components of net income and other comprehensive income in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Entities no longer have the option of presenting the components of other comprehensive income within the statement of changes in stockholders’ equity. For public entities, the amendment is effective on a retrospective basis for fiscal years, and interim periods within those years, beginning after December 15, 2011, which for our company was the first quarter of 2012. As we did not have any components of other comprehensive income during the periods presented in these accompanying consolidated financial statements, the adoption of this amendment did not have any impact on our consolidated financial statements or related disclosures.

In May 2011, the FASB issued amendments to the existing guidance on fair value measurement. The amendments are intended to create consistency between U.S. generally accepted accounting standards and International Financial Reporting Standards on measuring fair value and disclosing information about fair value measurements. The amendments clarify the application of existing fair value measurement requirements including (i) the application of the highest and best use valuation premise concepts, (ii) measuring the fair value of an instrument classified in a reporting entity’s shareholders’ equity, and (iii) quantitative information required for fair value measurements categorized within Level 3. In addition, the amendments require additional disclosure for Level 3 measurements regarding the sensitivity of fair value to changes in unobservable inputs and any interrelationships between those inputs. For public entities, the amendments are effective for interim and annual periods beginning after December 15, 2011, which for our company was the first quarter of 2012. These changes are required to be applied prospectively. The adoption of this amendment did not have any impact on our financial statements.

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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.

The value of our cash and money market investments, which were approximately \$964 million at June 30, 2012, 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 June 30, 2012. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that WebMD's disclosure controls and procedures were effective as of June 30, 2012.

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 second quarter of 2012 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 8 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 our business. 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 and related 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.

A significant portion of the traffic to *The WebMD Health Network* is directed to us through the algorithmic search results on Internet search engines such as Google. Accordingly, in addition to providing quality health content and tools, we seek to design our Websites to deliver that content and tools in ways that will cause them to rank well in algorithmic search engine results, which makes it more likely that search engine users will visit our Websites. This is commonly referred to as search engine optimization, or SEO. However, there can be no assurance that our SEO efforts will succeed in improving the ranking of our content or, even if they do result in such improvement, that the improved ranking will result in increased numbers of users and page views for our Websites. In addition, search engines frequently change the criteria that determine site rankings in their search results and our SEO efforts will not be successful if we do not respond to those changes appropriately and on a timely basis. Search engine providers may also prioritize search results generated by certain types of queries, including health related queries, based on criteria they select or may otherwise intermediate in the search results generated, which could, in some circumstances, reduce the ranking that would otherwise be provided to our Websites and increase the ranking of other sites. The failure to successfully manage SEO across *The WebMD Health Network* could result in a substantial decrease in traffic to *The WebMD Health Network*.

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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 or functions; other high-traffic Websites that include both healthcare-related and non-healthcare-related content and services, including social media Websites; 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 effectively identify, assess and pursue strategic changes and new business initiatives could adversely affect our company and its prospects

We have stated publicly that, in response to challenges facing our business, we are conducting a strategic review of, among other things, our product and service offerings and how we market them to clients. This includes evaluating, considering and executing changes to our existing ways of doing business as well as new business initiatives, both of which can be difficult. Any such changes and initiatives may be less effective than expected at the time of implementation. In addition, management may not properly assess the risks of any such changes or new business initiatives, and subsequent events may alter the risks that were evaluated at the time

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decisions are made on these matters. In addition, some of the opportunities we may consider could have risks that are different than those associated with our existing products and services and could strain our financial, operational and management resources. Furthermore, there can be no assurance that the financial opportunities from any investments that we may make in pursuing strategic change or new business opportunities will justify the amounts spent. Failure to effectively identify, assess and pursue strategic changes and new business initiatives may adversely affect our company and its prospects.

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.

We have a limited operating history

We have a limited operating history and participate in relatively new markets. These markets, and our business, 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 business will 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 and other key employees. 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.

Our advertising and sponsorship revenue may vary significantly from quarter to quarter and its amount and timing may be subject to factors beyond our control, including regulatory changes affecting advertising and promotion of drugs and medical devices, FDA approvals of specific products, 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, as well as the additional time period before our services are delivered, may be longer than expected, especially for medium-sized and

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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. During 2011, we experienced a lengthening of this internal review process by pharmaceutical and biotechnology companies, which has resulted in delays in contracting as well as delays in recognizing expected revenue under executed contracts and which may continue to cause such delays. 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 and any increase in the number or significance of such approvals;
- the timing of withdrawals of products from the market;
- consolidation of companies in the pharmaceutical and biotechnology industries;
- 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.

Certain of our pharmaceutical company customers experienced patent expirations for highly profitable drugs in 2011 and others expect to do so in 2012 and the next several years. We believe that these patent expirations have also led to, and may continue to lead to, significant overall reductions in marketing and educational expenditures by some of these pharmaceutical companies across their entire product portfolios, as well as delays in their budgeting and purchase decisions. As a result, we have experienced reduced revenues in late 2011 and the first half of 2012. We expect the trends that caused these reductions in our revenue to continue for the remainder of 2012 and into 2013, as we anticipate that many of our customers will continue to reevaluate expenditures in various areas, including marketing expenditures across their entire product portfolios and their educational expenditures, as they deal with both the ongoing and anticipated impact of patent expirations across their businesses as well as greater than expected delays in new product launches as a result of unanticipated delays in FDA approvals.

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

Much of our advertising and sponsorship revenue has, in the past, come from pharmaceutical, biotechnology and medical device companies. We also seek to generate advertising and 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 for promoting their products and services as competing channels, which include traditional media, Internet search engines, social media Internet sites, general purpose consumer sites, and numerous other alternatives. Competition for this business may also result in pressure to reduce prices, which could reduce our profit margins even if we are able to generate revenue. 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. Accordingly, revenues from this portion of our business may be subject to significant quarter-to-quarter variations and we may be unsuccessful in our efforts to develop this portion of our business or maintain its profitability.

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

The number of people who access online content and services through smartphones, tablets and other mobile devices has increased dramatically in the past few years, including the number of physicians and other

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healthcare professionals who do so. Accordingly, the portion of our page views from mobile devices has increased rapidly and is expected to continue to increase. 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.

We do not currently generate meaningful revenue from our mobile health information services, and our ability to do so successfully is unproven. 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. Although we believe that the substantial majority of our mobile users also access and engage with *The WebMD Health Network* on personal computers where we generate advertising and sponsorship revenue, our users could increasingly access our services through mobile devices. If users access our services through mobile devices as a substitute for access through personal computers, and if we are unable to successfully implement monetization strategies for our mobile services, our revenue and financial results may be negatively affected.

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 forecast our financial performance for future periods. In addition, some of our client contracts may permit termination, by the client, prior to the end of the stated contract term, which can also make it more difficult to forecast our future financial performance.

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. 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 Behavior Change 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.

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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. In certain markets outside the United States, 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 United States, we are providing some of our online services in the local language directly to healthcare professionals and, to a lesser extent, consumers. The provision of online services in foreign languages presents additional challenges. Our company has only recently begun this activity and, therefore, has limited experience in this area. Our participation in international markets is subject to certain other risks beyond those applicable to our operations in the United States, such as:

- challenges caused by 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, business intelligence 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, distributed denial-of-service (DDOS) attacks 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.

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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

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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. 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;
- the timing of FDA approvals of generic products that compete with existing brand name products and any increase in the number or significance of such approvals or of withdrawals of brand name products from the market;
- the timing of FDA approvals for new products or few new approved uses for existing products and any decrease in the number or significance of new drugs or medical devices coming to market or new approved uses for existing such products; 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, sponsorship or educational activities by pharmaceutical or medical device companies or that discourage or prohibit their use of online services for some or all such activities.

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.

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Federal health care reform legislation enacted in 2010 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, Congress is considering various proposals to repeal some or all of the Reform Legislation. 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 business 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 business 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 business. Even in areas where we are not subject to healthcare regulation directly, we may become involved in governmental actions or investigations through our relationships with customers that are regulated, and participation in such actions or investigations, even if we are not a party and not the subject of an investigation, may cause us to incur significant expenses. 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 and claims of nutritional supplements. If the Food and Drug Administration (FDA) or the Federal Trade Commission (FTC) finds that any of our products and services or any information on *The WebMD Health Network*, in our mobile applications, or in *WebMD the Magazine* violates applicable

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regulations, they may take regulatory or judicial action against us and/or the advertiser or sponsor of that information. State attorneys general may 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. The Food and Drug Administration Safety and Innovation Act (FDASIA) directs FDA to issue guidance, no later than July 9, 2014, regarding the use of the Internet to promote FDA-regulated medical products. We cannot predict what the FDA's policy towards Internet promotion will be, or what actions the FDA or industry participants may take in the future. Recent private industry initiatives have resulted in voluntary restrictions, which advertisers and sponsors have agreed to follow. Advertising restrictions apply not only to our business in the United States but also to our operations in Europe. Our European Websites belonging to *The WebMD Health Network* must comply with the national laws of the respective countries whose physicians they address. Under these European laws, there are several restrictions regarding advertising of drugs or medical devices, including wide prohibitions on the advertising of prescription drugs to the general public. If the relevant European national competent authorities find that any of our products and services, or any information on our Websites or in our mobile applications, violated applicable regulations, they may take regulatory or judicial action against us and/or our European entities and/or the advertisers or sponsors of that information. Moreover, our competitors, or even competitors of advertisers and sponsors, may take actions against us and/or our European entities and/or advertisers or sponsors of the information. 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 and European countries 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, federal, or foreign 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 and European countries have enacted false claim laws analogous to the Federal False Claims Act, and many of these 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 in circumstances that include allegations that company-sponsored CME was unlawful off label promotion. 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. Similarly, False Claims Act actions and resulting Corporate Integrity Agreements involving our customers may influence their willingness to continue to use our services.
- *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

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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 include 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. State legislation, such as recent legislation in California prohibiting any form of discrimination by businesses based on genetic information, including in housing, public accommodation, and the provision of emergency services, could have additional implications for service we provide in those states. Similar restrictions may also apply in European countries.

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.

In Europe, the respective healthcare advertising laws stipulate several restrictions on advertising of drugs and medical devices to the public. In particular, in several countries, the advertising of prescription drugs to the general public is not allowed. Thus, these European countries require access restrictions for Websites that contain such advertisements, which are only allowed to be addressed to healthcare professionals. This means these Websites of *The WebMD Health Network* that are addressed to physicians in specific European countries (such as the Medscape Germany or France Websites) must be accessible only to healthcare professionals by an appropriate access check. If the respective European competent authority does not acknowledge the respective Website to have appropriate access controls, the authority may require us and/or our European entity to establish stricter access controls or ultimately may take action against us and/or our European entity.

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 the 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

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consumer privacy issues and, in March 2012, the FTC issued a final report setting forth its current views on best practices, to protect the privacy of consumers, to be implemented by companies that collect and use consumer data. Also in March 2012, the White House released a Privacy White Paper that outlined the Obama Administration's proposal for a new American privacy framework based on a Consumer Bill of Privacy Rights and which called for the development of industry-specific voluntary, enforceable privacy codes of conduct through a collaborative multi-stakeholder process. Both the FTC and the White House called for Congress to develop baseline privacy legislation and the FTC also called on industry to accelerate the pace of self-regulation. 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 and data security practices. There is a possibility of legislation, regulation and increased enforcement activities relating to privacy and behavioral advertising. For example, the FTC is now considering amendments to its Children's Online Privacy Protection Act ("COPPA") rule that may broaden its scope. In addition, some bills have been introduced in Congress, and more are expected, that, if passed, could impose substantial new regulations on online behavioral advertising activities.

In Europe, Directive 2009/136/EC of the European Parliament and of the Council requires the user's full information and consent prior to the installation and use of any so-called "cookie" on a user's computer. This Directive has been implemented differently, if at all, in member States of the European Union and national requirements to remain compliant with the respective law may vary. Nevertheless, the provisions of this directive, whether effectively implemented in national laws, are now applicable in all the Member-States of the European Union and enforcement actions are now being considered by local data protection authorities. In addition, in January 2012, the European Commission published a draft General Data Protection Regulation on data protection for the revision of the currently applicable data protection framework. The potential resulting new framework sets out additional requirements for users' consent for offline and online marketing. If enacted, this instrument will further strengthen the already very densely regulated area of Internet privacy in Europe. In addition, this revised European legislation, if adopted, would increase the likelihood of applicability of European law to entities established outside the European Union but processing data of European data subjects.

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, or European data protection authority or competent 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 and abroad. 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.

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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.

In Europe, the current national implementations of the existing general data protection Directive 95/46/EC and of the e-Privacy Directive 2002/58/EC provide for criminal and administrative sanctions in case of violations, even though criminal sanctions are very rarely imposed. For example, France and Germany provide for administrative fines of up to 300,000 Euros (approximately 360,000 USD) in case of illegal collection or processing of personal identifiable information. Under the new draft General Data Protection Regulation on data protection proposed by the European Commission in January 2012, fines of up to 1,000,000 Euros (approximately 1,200,000 USD) or up to 2% of the global turnover of the infringer could be imposed.

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

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renewal or at an earlier time as a result of a failure to comply with existing or additional ACCME standards), it will 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.

This will also apply in other countries. For example, under German law, every CME program must be approved by the State Medical Chamber. Additionally, German CME-related services must be free of commercial/business interests and the provider of CME services must be compliant with German laws and regulations. In France, a new regulatory framework which restricts the organization of CME activities is being completed. These or similar restrictions in other countries may restrict Medscape, LLC's or our European entity's ability to carry out activities related to CME programs and/or refer to drugs or medical devices in such CME programs. Moreover, if Medscape, LLC or our European entity are not able to demonstrate compliance with these regulations, applicable approvals may not be obtained from competent authorities, which may impact our ability to provide CME-related services and which could have an 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. Medscape, LLC and/or the sponsors of the CME activities that Medscape, LLC accredits also could be affected by industry initiatives regarding funding for CME.

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 June 2011, the American Medical Association's House of Delegates approved a report entitled "Financial Relationships with Industry in Continuing Medical Education" that largely adopts the CME ethical principles already espoused by other industry and accreditation organizations, including ACCME, PhRMA, and AdvaMed. Although the report recognizes that industry support of CME may help make CME more accessible and affordable, the report proposes that CME should, when possible, be provided without commercial support and without the participation of individuals who have financial interest in the educational subject matter. It is possible that the recommendations contained in this report, or other voluntary industry guidelines, could negatively influence the availability of commercial support for Medscape CME programs and/or physician participation in Medscape CME programs funded by commercial support.

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.

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Failure to comply with applicable anti-corruption laws could subject us to penalties and other adverse consequences

The United States and other countries have adopted anti-corruption laws that generally prohibit directly or indirectly giving, offering or promising inducements to public officials to elicit an improper commercial advantage. Under applicable U.S. law, this prohibition has been interpreted to apply to doctors and other medical professionals who work in state-run hospitals and state-run healthcare systems outside the United States. Some of these laws also prohibit directly or indirectly giving, offering or promising (and, in some cases, accepting or soliciting) inducements to (or from) private parties to elicit (or grant) an improper commercial advantage.

As our business expands outside the United States, we (and others acting on our behalf) increasingly interact with non-U.S. doctors and other medical professionals, at least some of whom work in state-run hospitals or healthcare systems. Such interactions inherently increase the risk of violating applicable anti-corruption laws. While we believe that we have appropriate compliance policies and procedures in place to mitigate such risk, our personnel and others acting on our behalf might engage in conduct that violates such laws, for which we might be held responsible. Under such circumstances, we could be subject to civil and/or criminal penalties and other consequences that could have a material adverse effect on our business, financial condition and results of operations. In addition, our brand and reputation, our sales activities and the price of our Common Stock and other securities could be adversely affected if we were to become the target of any resulting negative publicity.

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

Our Stockholder Rights Plan, provisions in our organizational documents and Delaware law may inhibit a takeover, which could adversely affect the value of our Common Stock

Our Board of Directors has adopted a Stockholder Rights Plan, which could prevent or delay a takeover of WebMD by causing substantial dilution to a potential acquirer that attempts to acquire beneficial ownership of more than 12% of the outstanding shares of WebMD Common Stock on terms not approved by our Board of Directors. In addition, 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 Section 382 of 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 that existed at the time of the ownership change.

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 rules prescribed by Section 382 of the Code and applicable Treasury regulations. As a result of this ownership change,

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there is an annual limitation imposed on the amount of the NOL carryforwards and federal tax credits existing at the time of the ownership change that we may use to offset income in each tax year following the ownership change.

On April 3, 2012, WebMD completed a modified “Dutch Auction” tender offer through which we purchased \$150 million of WebMD Common Stock at a price of \$26.00 per share (the “Dutch Auction Tender Offer”). Completion of the Dutch Auction Tender Offer may increase the possibility of another ownership change and corresponding annual limitation, which could decrease the existing annual limitation and would apply to all NOL carryforwards and tax credits generated prior to this potential new ownership change.

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.

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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.

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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 June 30, 2012 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

Issuer Purchases of Equity Securities

| Period | Total Number | Average | Total Number of Shares | Approximate Dollar Value of |
|------------------|---------------------------------------|-------------------------|---|---|
| | of Shares Purchased ⁽¹⁾ | Price Paid per Share | Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾⁽³⁾ | Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾ |
| 4/1/12 - 4/30/12 | 5,896,008 | \$ 25.93 | 5,896,008 | \$ 85,801,301 |
| 5/1/12 - 5/31/12 | 915,929 | \$ 21.76 | 915,766 | \$ 65,871,536 |
| 6/1/12 - 6/30/12 | 18,086 | \$ 21.21 | — | \$ 65,871,536 |
| Total | <u>6,830,023</u> | \$ 25.35 | <u>6,811,774</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: 163 in May 2012 and 18,086 in June 2012. The value of these shares was determined based on the closing price of WebMD Common Stock on the date of vesting.

(2) In August 2011, a stock repurchase program (the "Program") was established through which WebMD was authorized to use up to \$75,000,000 to purchase shares of its Common Stock. During October 2011, WebMD's Board of Directors authorized a \$75,000,000 increase to the Program. For additional information see Note 6 to the Consolidated Financial Statements included in this Quarterly Report.

(3) In April 2012, WebMD completed a modified "Dutch auction" tender offer through which it repurchased 5,769,230 shares of its Common Stock at a price of \$26.00 per share. For additional information see Note 6 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.

W E B M D H E A L T H C O R P .

By: /s/ A N T H O N Y V U O L O _____

Anthony Vuolo
*Executive Vice President and
Chief Financial Officer*

Date: August 9, 2012

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)) |
| 3.3 | Certificate of Designations for Series A Junior Preferred Stock (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on November 3, 2011, as amended on November 7, 2011) |
| 4.1 | WebMD Health Corp. Amended and Restated 2005 Long-Term Incentive Plan, as amended effective July 24, 2012* |
| 10.1 | Employment Agreement, dated as of May 29, 2012, between the Registrant and Cavan M. Redmond (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 1, 2012, as amended on June 6, 2012)* |
| 10.2 | Form of Non-Qualified Stock Option Agreement between the Registrant and Cavan M. Redmond (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 1, 2012, as amended on June 6, 2012)* |
| 10.3 | Form of Restricted Stock Agreement between the Registrant and Cavan M. Redmond (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 1, 2012, as amended on June 6, 2012)* |
| 10.4 | Amended and Restated Employment Agreement, dated as of May 16, 2012, between the Registrant and William Pence* |
| 10.5 | Director Appointment Agreement, dated as of June 8, 2012, by and among the Registrant and the Icahn Group (incorporated by reference to Exhibit 1 to Amendment No. 6, filed on June 11, 2012, to the Icahn Group's Schedule 13-D relating to the Common Stock of the Registrant) |
| 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 |
| 100.INS | XBRL Instance Document |
| 100.SCH | XBRL Taxonomy Extension Schema Document |
| 100.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 100.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 100.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 100.DEF | XBRL Taxonomy Extension Definition Linkbase Document |

* Agreement relates to executive compensation.

**WEBMD HEALTH CORP.
AMENDED AND RESTATED
2005 LONG-TERM INCENTIVE PLAN**

(AS AMENDED AND RESTATED ON JULY 24, 2012)

**ARTICLE 1
PURPOSE**

1.1 *General.* The purpose of the WebMD Health Corp. 2005 Long-Term Incentive Plan (as it may be amended from time to time, the “Plan”) is to promote the success, and enhance the value, of WebMD Health Corp., a Delaware Corporation (the “Corporation”), by linking the personal interests of its employees, officers, directors and consultants to those of Corporation shareholders and by providing such persons with an incentive for outstanding performance. The Plan is further intended to provide flexibility to the Corporation in its ability to motivate, attract and retain the services of employees, officers, directors and consultants upon whose judgment, interest and special effort the successful conduct of the Corporation’s operation is largely dependent. Accordingly, the Plan permits the grant of incentive awards from time to time to selected employees and officers, directors and consultants.

**ARTICLE 2
EFFECTIVE DATE**

2.1 *Effective Date.* The Plan became effective on the date upon which it was initially approved by the Board and the shareholders of the Corporation, which was September 26, 2005 (the “Effective Date”). This amendment and restatement of the Plan is effective as of July 24, 2012 and reflects the amendment to the Plan approved by stockholders of the Corporation on July 24, 2012 and all prior amendments.

**ARTICLE 3
DEFINITIONS**

3.1 *Definitions.* When a word or phrase appears in this Plan with the initial letter capitalized, and the word or phrase does not commence a sentence and is not otherwise defined in the Plan, the word or phrase shall generally be given the meaning ascribed to it in this Section. The following words and phrases shall have the following meanings:

- (a) “1933 Act” means the Securities Act of 1933, as amended from time to time.
- (b) “1934 Act” means the Securities Exchange Act of 1934, as amended from time to time.
- (c) “Affiliate” means any Parent or Subsidiary and any person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, the Corporation.
- (d) *[intentionally omitted]*
- (e) “Award” means any Option, Stock Appreciation Right, Restricted Stock Award, Performance Share Award, Dividend Equivalent Award or Other Stock-Based Award, or any other right or interest relating to Stock or cash, granted to a Participant under the Plan.

(f) "Award Agreement" means any written agreement, contract or other instrument or document evidencing an Award.

(g) "Board" means the Board of Directors of the Corporation.

(h) "Cause" as a reason for a Participant's termination of employment or service shall have the meaning assigned such term in the employment agreement, if any, between such Participant and the Corporation or an affiliated company, provided, however, that if there is no such employment agreement in which such term is defined, "Cause" shall mean any of the following acts by the Participant, as determined by the Board: gross neglect of duty, prolonged absence from duty without the consent of the Corporation, intentionally engaging in any activity that is in conflict with or adverse to the business or other interests of the Corporation, or willful misconduct, misfeasance or malfeasance of duty which is reasonably determined to be detrimental to the Corporation.

(i) "Change of Control" means and includes the occurrence of any one of the following events:

(i) individuals who, at the effective date of the Initial Public Offering, constitute the Board (the "Incumbent Directors") cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director after the Effective Date and whose election or nomination for election was approved by a vote of at least a majority of the Incumbent Directors then on the Board (either by a specific vote or by approval of the proxy statement of the Corporation in which such person is named as a nominee for director, without written objection to such nomination) shall be an Incumbent Director; provided, however, that no individual initially elected or nominated as a director of the Corporation as a result of an actual or threatened election contest (as described in Rule 14a-11 under the 1934 Act ("Election Contest")) or other actual or threatened solicitation of proxies or consents by or on behalf of any "person" (as such term is defined in Section 3(a)(9) of the 1934 Act and as used in Section 13(d)(3) and 14(d)(2) of the 1934 Act) other than the Board ("Proxy Contest"), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest, shall be deemed an Incumbent Director;

(ii) any person becomes a "beneficial owner" (as defined in Rule 13d-3 under the 1934 Act), directly or indirectly, of securities of the Corporation representing 50% or more of the combined voting power of the Corporation's then outstanding securities eligible to vote for the election of the Board (the "Corporation Voting Securities"); provided, however, that the event described in this paragraph (ii) shall not be deemed to be a Change of Control of the Corporation by virtue of any of the following acquisitions: (A) any acquisition by a person who is on the Effective Date the beneficial owner of 50% or more of the outstanding Corporation Voting Securities, (B) an acquisition by the Corporation which reduces the number of Corporation Voting Securities outstanding and thereby results in any person acquiring beneficial ownership of more than 50% of the outstanding Corporation Voting Securities, provided that if after such acquisition by the Corporation such person becomes the beneficial owner of additional Corporation Voting Securities that increase the percentage of outstanding Corporation Voting Securities beneficially owned by such person, a Change of Control of the Corporation shall then occur, (C) an acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Corporation or any Parent or Subsidiary, (D) an acquisition by an underwriter temporarily holding securities pursuant to an offering of such securities or (E) an acquisition pursuant to a Non-Qualifying Transaction (as defined in paragraph (iii)); or

(iii) the consummation of a reorganization, merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Corporation that requires the approval of the Corporation's stockholders, whether for such transaction or the issuance of securities in the transaction

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(a “Reorganization”), or the sale or other disposition of all or substantially all of the Corporation’s assets to an entity that is not an affiliate of the Corporation (a “Sale”), unless immediately following such Reorganization or Sale: (A) more than 50% of the total voting power of (x) the corporation resulting from such Reorganization or the corporation which has acquired all or substantially all of the assets of the Corporation (in either case, the “Surviving Corporation”) or (y) if applicable, the ultimate parent corporation that directly or indirectly has beneficial ownership of 100% of the voting securities eligible to elect directors of the Surviving Corporation (the “Parent Corporation”), is represented by the Corporation Voting Securities that were outstanding immediately prior to such Reorganization or Sale (or, if applicable, is represented by shares into which such Corporation Voting Securities were converted pursuant to such Reorganization or Sale), and such voting power among the holders thereof is in substantially the same proportion as the voting power of such Corporation Voting Securities among the holders thereof immediately prior to the Reorganization or Sale, (B) no person (other than (x) the Corporation, (y) any employee benefit plan (or related trust) sponsored or maintained by the Surviving Corporation or the Parent Corporation or (z) a person who immediately prior to the Reorganization or Sale was the beneficial owner of 25% or more of the outstanding Corporation Voting Securities) is the beneficial owner, directly or indirectly, of 25% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation) and (C) at least a majority of the members of the board of directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation) following the consummation of the Reorganization or Sale were Incumbent Directors at the time of the Board’s approval of the execution of the initial agreement providing for such Reorganization or Sale (any Reorganization or Sale which satisfies all of the criteria specified in (A), (B) and (C) above shall be deemed to be a “Non-Qualifying Transaction”).

Notwithstanding the foregoing, with respect to an Award that is subject to Section 409A of the Code, and payment or settlement of such Award is to be accelerated in connection with an event that would otherwise constitute a Change of Control, no event set forth in clause (i), (ii) or (iii) will constitute a Change of Control for purposes of the Plan and any Award Agreement unless such event also constitutes a “change in the ownership”, “change in the effective control” or “change in the ownership of a substantial portion of the assets” of the Corporation as defined under Section 409A of the Code and the Treasury guidance promulgated thereunder.

(j) “Code” means the Internal Revenue Code of 1986, as amended from time to time, and the rulings and regulations promulgated thereunder.

(k) “Committee” means, subject to the last sentence of Section 4.1, the committee of the Board described in Article 4.

(l) “Covered Employee” means a covered employee as defined in Section 162(m)(3) of the Code, provided that no employee shall be a Covered Employee until the deduction limitations of Section 162(m) of the Code are applicable to the Corporation and any reliance period under Treasury Regulation Section 1.162-27(f) has expired.

(m) “Disability” has the meaning ascribed under the long-term disability plan applicable to the Participant. Notwithstanding the above, (i) with respect to an Incentive Stock Option, Disability shall mean Permanent and Total Disability as defined in Section 22(e)(3) of the Code and (ii) to the extent an Award is subject to Section 409A of the Code, and payment or settlement of the Award is to be accelerated solely as a result of the Participant’s Disability, Disability shall have the meaning ascribed thereto under Section 409A of the Code and the Treasury guidance promulgated thereunder.

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- (n) “Dividend Equivalent” means a right granted to a Participant under Article 11.
- (o) “Effective Date” has the meaning assigned such term in Section 2.1.
- (p) “Fair Market Value”, on any date, means (i) if the Stock is listed on a securities exchange or is traded over the Nasdaq National Market, the closing sales price on such exchange or over such system on such date or, in the absence of reported sales on such date, the closing sales price on the immediately preceding date on which sales were reported or (ii) if the Stock is not listed on a securities exchange or traded over the Nasdaq National Market, Fair Market Value will be determined by such other method as the Committee determines in good faith to be reasonable; provided, however, that if the Stock underlying an Award is sold on the same day as the date of exercise or settlement or the date on which the restrictions lapse applicable to Restricted Stock or similar Award through a broker approved by the Corporation, Fair Market Value shall be the actual sale price of the Stock in such transaction or transactions. With respect to awards granted on the effective date of the Corporation’s Initial Public Offering, Fair Market Value shall mean the price at which the Stock is initially offered in the Initial Public Offering.
- (q) “HLTH Corporation” means HLTH Corporation, a Delaware corporation (which was formerly known as Emdeon Corporation).
- (r) “Incentive Stock Option” means an Option that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.
- (s) “Initial Public Offering” means the underwritten initial public offering of equity securities of the Corporation pursuant to an effective registration statement under the 1933 Act.
- (t) “Non-Employee Director” means a member of the Board who is not an employee of the Corporation or any Parent or Affiliate.
- (u) “Non-Qualified Stock Option” means an Option that is not an Incentive Stock Option.
- (v) “Option” means a right granted to a Participant under Article 7 to purchase Stock at a specified price during specified time periods. An Option may be either an Incentive Stock Option or a Non-Qualified Stock Option.
- (w) “Other Stock-Based Award” means a right, granted to a Participant under Article 12, that relates to or is valued by reference to Stock or other Awards relating to Stock.
- (x) “Parent” means a corporation which owns or beneficially owns a majority of the outstanding voting stock or voting power of the Corporation. Notwithstanding the above, with respect to an Incentive Stock Option, Parent shall have the meaning set forth in Section 424 (e) of the Code.
- (y) “Participant” means a person who, as an employee, officer, consultant or director of the Corporation or any Parent, Subsidiary or Affiliate, has been granted an Award under the Plan.
- (z) “Performance Share” means a right granted to a Participant under Article 9, to receive cash, Stock, or other Awards, the payment of which is contingent upon achieving certain performance goals established by the Committee.
- (aa) “Restricted Stock Award” means Stock granted to a Participant under Article 10 that is subject to certain restrictions and to risk of forfeiture.

(bb) “Stock” means the \$.01 par value common stock of the Corporation (which, beginning immediately following the completion of the merger of HLTH Corporation into the Corporation on October 23, 2009, was no longer referred to as “Class A” and, while otherwise unchanged, began being referred to as “\$.01 par value common stock” of the Corporation) and such other securities of the Corporation as may be substituted for Stock pursuant to Article 15.

(cc) “Stock Appreciation Right” or “SAR” means a right granted to a Participant under Article 8 to receive a payment equal to the difference between the Fair Market Value of a share of Stock as of the date of exercise of the SAR over the grant price of the SAR, all as determined pursuant to Article 8.

(dd) “Subsidiary” means any corporation, limited liability company, partnership or other entity of which a majority of the outstanding voting equity securities or voting power is beneficially owned directly or indirectly by the Corporation. Notwithstanding the above, with respect to an Incentive Stock Option, Subsidiary shall have the meaning set forth in Section 424(f) of the Code.

ARTICLE 4 ADMINISTRATION

4.1 *Committee.* The Plan shall be administered by a committee (the “Committee”) appointed by the Board (which Committee shall consist of two or more directors) or, at the discretion of the Board from time to time, the Plan may be administered by the Board. It is intended that the directors appointed to serve on the Committee shall be “non-employee directors” (within the meaning of Rule 16b-3 promulgated under the 1934 Act) and “outside directors” (within the meaning of Section 162(m) of the Code) to the extent that Rule 16b-3 and, if necessary for relief from the limitation under Section 162(m) of the Code and such relief is sought by the Corporation, Section 162(m) of the Code, respectively, are applicable. However, the mere fact that a Committee member shall fail to qualify under either of the foregoing requirements shall not invalidate (a) any Award made by the Committee which Award is otherwise validly made under the Plan or (b) any other action taken by the Committee which action is otherwise validly taken under the Plan. The members of the Committee shall be appointed by, and may be changed at any time and from time to time in the discretion of, the Board. During any time that the Board is acting as administrator of the Plan, it shall have all the powers of the Committee hereunder, and any reference herein to the Committee (other than in this Section 4.1) shall include the Board.

4.2 *Action by the Committee.* For purposes of administering the Plan, the following rules of procedure shall govern the Committee. A majority of the Committee shall constitute a quorum. The acts of a majority of the members present at any meeting at which a quorum is present, and acts approved unanimously in writing by the members of the Committee in lieu of a meeting, shall be deemed the acts of the Committee. Each member of the Committee is entitled to, in good faith, rely or act upon any report or other information furnished to that member by any officer or other employee of the Corporation or any Parent or Affiliate, the Corporation’s independent certified public accountants, or any executive compensation consultant or other professional retained by the Corporation to assist in the administration of the Plan.

4.3 *Authority of Committee.* Except as provided below, the Committee has the exclusive power, authority and discretion to:

- (a) Designate Participants;
- (b) Determine the type or types of Awards to be granted to each Participant;
- (c) Determine the number of Awards to be granted and the number of shares of Stock to which an Award will relate;

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(d) Determine the terms and conditions of any Award granted under the Plan, including, but not limited to, the exercise price, grant price or purchase price, any restrictions or limitations on the Award, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of an Award, and accelerations or waivers thereof, based in each case on such considerations as the Committee in its sole discretion determines; provided, however that any Awards of (i) Restricted Stock or Other Stock-Based Award for which no purchase or exercise price is payable will be scheduled to vest over a period of no less than three years where such vesting is not tied to the attainment of performance goals and (ii) Performance Share Awards, Restricted Stock or Other Stock-Based Awards for which no purchase or exercise price is payable will be scheduled to vest over a period of no less than one year where such vesting is tied to the attainment of performance goals; provided, that, notwithstanding the foregoing, such vesting schedule will not be required for grants of Stock to Non-Employee Directors made to satisfy applicable Board of Director or Committee retainers or fees;

(e) Accelerate the vesting or lapse of restrictions of any outstanding Award, based in each case on such considerations as the Committee in its sole discretion determines;

(f) Determine whether, to what extent, and under what circumstances an Award may be settled in, or the exercise price of an Award may be paid in, cash, Stock, other Awards or other property, or an Award may be canceled, forfeited or surrendered;

(g) Prescribe the form of each Award Agreement, which need not be identical for each Participant, or amend any Award Agreement;

(h) Decide all other matters that must be determined in connection with an Award;

(i) Establish, adopt or revise any rules and regulations as it may deem necessary or advisable to administer the Plan;

(j) Make all other decisions and determinations that may be required under the Plan or as the Committee deems necessary or advisable to administer the Plan; and

(k) Amend the Plan as provided herein.

Notwithstanding the foregoing authority, except as provided in or pursuant to Article 15, the Committee shall not authorize, generally or in specific cases only, for the benefit of any Participant, any adjustment in the exercise price of an Option or the base price of a Stock Appreciation Right, or in the number of shares subject to an Option or Stock Appreciation Right granted hereunder by (i) cancellation of an outstanding Option or Stock Appreciation Right and a subsequent regranting of an Option or Stock Appreciation Right, (ii) amendment to an outstanding Option or Stock Appreciation Right, (iii) substitution of an outstanding Option or Stock Appreciation Right or (iv) any other action that would be deemed to constitute a repricing of such an Award under applicable law, in each case, without prior approval of the Corporation's stockholders.

4.4 Delegation of Authority. To the extent not prohibited by applicable laws, rules and regulations, the Board or the Committee may, from time to time, delegate some or all of its authority under the Plan to a subcommittee or subcommittees thereof or to one or more directors or executive officers of the Corporation as it deems appropriate under such conditions or limitations as it may set at the time of such delegation or thereafter, except that neither the Board nor the Committee may delegate its authority pursuant to Article 16 to amend the Plan. For purposes of the Plan, references to the Committee shall be deemed to refer to any subcommittee, subcommittees, directors or executive officers to whom the Board or the Committee delegates authority pursuant to this Section 4.4.

4.5 Decisions Binding. The Committee's interpretation of the Plan, any Awards granted under the Plan, any Award Agreement and all decisions and determinations by the Committee with respect to the Plan are final, binding and conclusive on all parties.

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ARTICLE 5
SHARES SUBJECT TO THE PLAN

5.1 *Number of Shares.* Subject to adjustment as provided in Article 15, the aggregate number of shares of Stock reserved and available for Awards or which may be used to provide a basis of measurement for or to determine the value of an Award (such as with a Stock Appreciation Right or Performance Share Award) shall be 20,075,000 shares (the "Maximum Number"). Not more than the Maximum Number of shares of Stock shall be granted in the form of Incentive Stock Options. Subject to Section 5.2, (a) not more than 20% of the shares of Stock available for issuance under the Plan on October 21, 2010 were available for the grant of Restricted Stock Awards, Performance Share Awards and similar Awards for which no purchase or exercise price is paid ("Full Value Awards"); and (b) not more than 20% of the 1,875,000 shares of Stock added to the Plan on July 24, 2012 will be available for grant of Full Value Awards (the sum of the amounts remaining available for Full Value Awards under clauses (a) and (b) of this sentence, as of any date after July 24, 2012, being referred to as the "Full Value Award Limit").

5.2 *Lapsed Awards.* To the fullest extent permissible under Section 422 of the Code and any other applicable laws, rules and regulations, (i) if an Award is canceled, terminates, expires, is forfeited or lapses for any reason without having been exercised or settled, any shares of Stock subject to the Award will be added back into the Maximum Number and will again be available for the grant of an Award under the Plan and (ii) shares of Stock subject to SARs or other Awards settled in cash shall be added back into the Maximum Number and will be available for the grant of an Award under the Plan; provided, however, that any shares of Stock underlying Full Value Awards that are added back into the Maximum Number pursuant to this Section 5.2 shall increase the Full Value Award Limit. For the sake of clarity, shares tendered or withheld to satisfy the exercise price or tax withholding obligations arising in connection with the exercise or vesting of an Award (including in connection with a "net exercise" as contemplated by Section 7.1(c)) shall not be added back into the Maximum Number and shall not be available for further grant.

5.3 *Stock Distributed.* Any Stock distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Stock, treasury Stock or Stock purchased on the open market.

5.4 *Limitation on Awards.* Notwithstanding any provision in the Plan to the contrary (but subject to adjustment as provided in Article 15), the maximum number of shares of Stock with respect to one or more Options and/or SARs that may be granted during any one calendar year under the Plan to any one Participant shall be 412,500 (all of which may be granted as Incentive Stock Options); provided, however, that in connection with his or her initial employment with the Corporation, a Participant may be granted Options or SARs with respect to up to an additional 412,500 shares of Stock (all of which may be granted as Incentive Stock Options), which shall not count against the foregoing annual limit. The maximum Fair Market Value (measured as of the date of grant) of any Awards other than Options and SARs that may be received by any one Participant (less any consideration paid by the Participant for such Award) during any one calendar year under the Plan shall be \$5,000,000. The maximum number of shares of Stock that may be subject to one or more Performance Share Awards (or used to provide a basis of measurement for or to determine the value of Performance Share Awards) in any one calendar year to any one Participant (determined on the date of grant) shall be 412,500.

ARTICLE 6
ELIGIBILITY

6.1 *General.* Awards may be granted only to individuals who are employees, officers, directors or consultants of the Corporation or a Parent or an Affiliate. In the discretion of the Committee, Awards may be made to Covered Employees which are intended to constitute qualified performance-based compensation under Section 162(m) of the Code.

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ARTICLE 7
STOCK OPTIONS

7.1 *General.* The Committee is authorized to grant Options to Participants on the following terms and conditions:

(a) *Exercise Price.* The exercise price per share of Stock under an Option shall be determined by the Committee at the time of the grant but in no event shall the exercise price be less than 100% of the Fair Market Value of a share of Stock on the date of grant.

(b) *Time and Conditions of Exercise.* The Committee shall determine the time or times at which an Option may be exercised in whole or in part, subject to Section 7.1(e) and 7.3. The Committee also shall determine the performance or other conditions, if any, that must be satisfied before all or part of an Option may be exercised. The Committee may waive any exercise provisions at any time in whole or in part based upon factors as the Committee may determine in its sole discretion so that the Option becomes exercisable at an earlier date.

(c) *Payment.* Unless otherwise determined by the Committee, the exercise price of an Option may be paid (i) in cash, (ii) by actual delivery or attestation to ownership of freely transferable shares of stock already owned; (iii) by a combination of cash and shares of Stock equal in value to the exercise price or (iv) by such other means as the Committee, in its discretion, may authorize. In accordance with the rules and procedures authorized by the Committee for this purpose, an Option may, if the Committee so determines also be exercised through either or both of the following: (i) a “cashless exercise” procedure authorized by the Committee that permits Participants to exercise Options by delivering a properly executed exercise notice to the Corporation together with a copy of irrevocable instructions to a broker to deliver promptly to the Corporation the amount of sale or loan proceeds necessary to pay the exercise price and the amount of any required tax or other withholding obligations or (ii) a “net exercise” arrangement pursuant to which the Corporation will reduce the number of shares of Stock issued upon exercise by that number of shares of Stock having a Fair Market Value equal to the aggregate exercise price.

(d) *Evidence of Grant.* All Options shall be evidenced by a written Award Agreement between the Corporation and the Participant. The Award Agreement shall include such provisions not inconsistent with the Plan as may be specified by the Committee.

(e) *Exercise Term.* In no event may any Option be exercisable for more than ten years from the date of its grant.

7.2 *Incentive Stock Options.* The terms of any Incentive Stock Options granted under the Plan must comply with the following additional rules:

(a) *Lapse of Option.* An Incentive Stock Option shall lapse under the earliest of the following circumstances; provided, however, that the Committee may, prior to the lapse of the Incentive Stock Option under the circumstances described in paragraphs (3), (4) and (5) below, provide in writing that the Option will extend until a later date, but if an Option is exercised after the dates specified in paragraphs (3), (4) and (5) below, it will automatically become a Non-Qualified Stock Option:

- (1) The Incentive Stock Option shall lapse as of the option expiration date set forth in the Award Agreement.
- (2) The Incentive Stock Option shall lapse ten years after it is granted, unless an earlier time is set in the Award Agreement.

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(3) If the Participant terminates employment for any reason other than as provided in paragraph (4) or (5) below, the Incentive Stock Option shall lapse, unless it is previously exercised, three months after the Participant's termination of employment; provided, however, that if the Participant's employment is terminated by the Corporation for Cause, the Incentive Stock Option shall (to the extent not previously exercised) lapse immediately.

(4) If the Participant terminates employment by reason of his Disability, the Incentive Stock Option shall lapse, unless it is previously exercised, one year after the Participant's termination of employment.

(5) If the Participant dies while employed, or during the three-month period described in paragraph (3) or during the one-year period described in paragraph (4) and before the Option otherwise lapses, the Option shall lapse one year after the Participant's death. Upon the Participant's death, any exercisable Incentive Stock Options may be exercised by the Participant's beneficiary, determined in accordance with Section 14.5.

Unless the exercisability of the Incentive Stock Option is accelerated as provided in Article 14, if a Participant exercises an Option after termination of employment, the Option may be exercised only with respect to the shares that were otherwise vested on the Participant's termination of employment.

(b) *Individual Dollar Limitation.* The aggregate Fair Market Value (determined as of the time an Award is made) of all shares of Stock with respect to which Incentive Stock Options are first exercisable by a Participant in any calendar year may not exceed \$100,000.00.

(c) *Ten Percent Owners.* No Incentive Stock Option shall be granted to any individual who, at the date of grant, owns stock possessing more than ten percent of the total combined voting power of all classes of stock of the Corporation or any Parent or Affiliate unless the exercise price per share of such Option is at least 110% of the Fair Market Value per share of Stock at the date of grant and the Option expires no later than five years after the date of grant.

(d) *Expiration of Incentive Stock Options.* No Award of an Incentive Stock Option may be made pursuant to the Plan after the day immediately prior to the tenth anniversary of the Effective Date.

(e) *Right to Exercise.* During a Participant's lifetime, an Incentive Stock Option may be exercised only by the Participant or, in the case of the Participant's Disability, by the Participant's guardian or legal representative.

(f) *Directors.* The Committee may not grant an Incentive Stock Option to a non-employee director. The Committee may grant an Incentive Stock Option to a director who is also an employee of the Corporation or any Parent or Affiliate but only in that individual's position as an employee and not as a director.

7.3 *Options Granted to Non-Employee Directors.* Notwithstanding the foregoing, Options granted to Non-Employee Directors under this Article 7 shall be subject to the following additional terms and conditions:

(a) *Lapse of Option.* An Option granted to a Non-Employee Director under this Article 7 shall lapse under the earliest of the following circumstances:

(1) The Option shall lapse as of the option expiration date set forth in the Award Agreement.

(2) If the Participant ceases to serve as a member of the Board for any reason other than as provided in the proviso to this paragraph (2), the Option shall lapse, unless it is previously exercised,

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three years after the Participant's termination as a member of the Board; provided, however, that if the Participant is removed for cause (determined in accordance with the Corporation's bylaws, as amended from time to time), the Option shall (to the extent not previously exercised) lapse immediately. If the Participant dies during the post termination exercise period specified above and before the Option otherwise lapses, the Option shall lapse one year after the Participant's death, if later than the end of the three year period. Upon the Participant's death, any exercisable Options may be exercised by the Participant's beneficiary, determined in accordance with Section 14.5.

If a Participant exercises Options after termination of his service on the Board, he may exercise the Options only with respect to the shares that were otherwise exercisable on the date of termination of his service on the Board. Such exercise otherwise shall be subject to the terms and conditions of this Article 7.

(b) *Acceleration Upon Change of Control.* Notwithstanding Section 7.1(b), in the event of a Change of Control, each Option granted to a Non-Employee Director under this Article 7 that is then outstanding immediately prior to such Change of Control shall become immediately vested and exercisable in full on the date of such Change of Control.

ARTICLE 8

STOCK APPRECIATION RIGHTS

8.1 *Grant of Stock Appreciation Rights.* The Committee is authorized to grant Stock Appreciation Rights to Participants on the following terms and conditions:

(a) *Right to Payment.* Upon the exercise of a Stock Appreciation Right, the Participant to whom it is granted has the right to receive the excess, if any, of:

(1) The Fair Market Value of one share of Stock on the date of exercise; over

(2) The grant price of the Stock Appreciation Right as determined by the Committee, which shall not be less than the Fair Market Value of one share of Stock on the date of grant.

(b) *Other Terms.* All awards of Stock Appreciation Rights shall be evidenced by an Award Agreement. The terms, methods of exercise, methods of settlement, form of consideration payable in settlement, and any other terms and conditions of any Stock Appreciation Right shall be determined by the Committee at the time of the grant of the Award and shall be reflected in the Award Agreement.

ARTICLE 9

PERFORMANCE SHARES

9.1 *Grant of Performance Shares.* The Committee is authorized to grant Performance Shares to Participants on such terms and conditions as may be selected by the Committee, subject to Section 4.3(d). The Committee shall have the complete discretion to determine the number of Performance Shares granted to each Participant, subject to Section 5.4. All Awards of Performance Shares shall be evidenced by an Award Agreement.

9.2 *Right to Payment.* A grant of Performance Shares gives the Participant rights, valued as determined by the Committee, and payable to, or exercisable by, the Participant to whom the Performance Shares are granted, in whole or in part, as the Committee shall establish at grant or thereafter. The Committee shall set performance goals and other terms or conditions to payment of the Performance Shares in its discretion which, depending on the extent to which they are met, will determine the number and value of Performance Shares that will be paid to the Participant.

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9.3 *Other Terms.* Performance Shares may be payable in cash, Stock or other property, and have such other terms and conditions as determined by the Committee and reflected in the Award Agreement.

ARTICLE 10
RESTRICTED STOCK AWARDS

10.1 *Grant of Restricted Stock.* The Committee is authorized to make Awards of Restricted Stock to Participants in such amounts and subject to such terms and conditions as may be selected by the Committee, subject to Section 4.3(d). All Awards of Restricted Stock shall be evidenced by a Restricted Stock Award Agreement.

10.2 *Issuance and Restrictions.* Restricted Stock shall be subject to such restrictions on transferability and other restrictions as the Committee may impose (including, without limitation, limitations on the right to vote Restricted Stock or the right to receive dividends on the Restricted Stock). These restrictions may lapse separately or in combination at such times, under such circumstances, in such installments, upon the satisfaction of performance goals or otherwise, as the Committee determines at the time of the grant of the Award or thereafter.

10.3 *Forfeiture.* Except as otherwise determined by the Committee at the time of the grant of the Award or thereafter, upon termination of employment during the applicable restriction period or upon failure to satisfy a performance goal during the applicable restriction period, Restricted Stock that is at that time subject to restrictions shall be forfeited and reacquired by the Corporation; provided, however, that the Committee may provide in any Award Agreement that restrictions or forfeiture conditions relating to Restricted Stock will be waived in whole or in part in the event of terminations resulting from specified causes, and the Committee may in other cases waive in whole or in part restrictions or forfeiture conditions relating to Restricted Stock.

10.4 *Certificates for Restricted Stock.* Restricted Stock granted under the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing shares of Restricted Stock are registered in the name of the Participant, certificates must bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Restricted Stock.

ARTICLE 11
DIVIDEND EQUIVALENTS

11.1 *Grant of Dividend Equivalents.* The Committee is authorized to grant Dividend Equivalents to Participants subject to such terms and conditions as may be selected by the Committee. Dividend Equivalents shall entitle the Participant to receive payments (in cash, Stock or other property) equal to dividends with respect to all or a portion of the number of shares of Stock subject to an Award, as determined by the Committee. The Committee may provide that Dividend Equivalents be paid or distributed when accrued, or be deemed to have been reinvested in additional shares of Stock or otherwise reinvested. The terms of any reinvestment of Dividend Equivalents shall comply with Section 409A of the Code.

ARTICLE 12
OTHER STOCK-BASED AWARDS

12.1 *Grant of Other Stock-based Awards.* The Committee is authorized, subject to limitations under applicable law and Section 4.3(d), to grant to Participants such other Awards that are payable in, valued in whole

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or in part by reference to, or otherwise based on or related to shares of Stock, as deemed by the Committee to be consistent with the purposes of the Plan, including, without limitation, shares of Stock awarded purely as a “bonus” and not subject to any restrictions or conditions, convertible or exchangeable debt securities, other rights convertible or exchangeable into shares of Stock, stock units, phantom stock and other Awards valued by reference to book value of shares of Stock or the value of securities of or the performance of specified Parents or Subsidiaries. The Committee shall determine the terms and conditions of such Awards.

ARTICLE 13
ANNUAL AWARDS TO NON-EMPLOYEE DIRECTORS

13.1 *Grant of Options.* Each Non-Employee Director who is serving in such capacity as of January 1 of each year that the Plan is in effect shall be granted a Non-Qualified Option to purchase 13,200 shares of Stock, subject to adjustment as provided in Article 15. In addition, each Non-Employee Director who is serving in such capacity as of the effective date of the Initial Public Offering shall be granted a Non-Qualified Stock Option to purchase 13,200 shares of Stock on such date. Each such date that Options are to be granted under this Article 13 is referred to hereinafter as a “Grant Date”. In addition, the Committee may, in its sole discretion, permit or require each Non-Employee Director to receive all or any portion of his or her compensation for services as a director in the form of an Award under the Plan with such term and conditions as may be determined by the Committee in its sole discretion.

If on any Grant Date, shares of Stock are not available under the Plan to grant to Non-Employee Directors the full amount of a grant contemplated by the immediately preceding paragraph, then each Non-Employee Director shall receive an Option (a “Reduced Grant”) to purchase shares of Stock in an amount equal to the number of shares of Stock then available under the Plan divided by the number of Non-Employee Directors as of the applicable Grant Date. Fractional shares shall be ignored and not granted.

If a Reduced Grant has been made and, thereafter, during the term of the Plan, additional shares of Stock become available for grant, then each person who was a Non-Employee Director both on the Grant Date on which the Reduced Grant was made and on the date additional shares of Stock become available (a “Continuing Non-Employee Director”) shall receive an additional Option to purchase shares of Stock. The number of newly available shares shall be divided equally among the Options granted to the Continuing Non-Employee Directors; provided, however, that the aggregate number of shares of Stock subject to a Continuing Non-Employee Director’s additional Option plus any prior Reduced Grant to the Continuing Non-Employee Director on the applicable Grant Date shall not exceed 13,200 shares (subject to adjustment pursuant to Article 15). If more than one Reduced Grant has been made, available Options shall be granted beginning with the earliest such Grant Date.

13.2 *Option Price.* The option price for each Option granted under this Article 13 shall be the Fair Market Value on the date of grant of the Option.

13.3 *Term.* Each Option granted under this Article 13 shall, to the extent not previously exercised, terminate and expire on the date ten (10) years after the date of grant of the Option, unless earlier terminated as provided in Section 13.4.

13.4 *Lapse of Option.* An Option granted under this Article 13 shall not automatically lapse by reason of the Participant ceasing to qualify as a Non-Employee Director but remaining as a member of the Board. An Option granted under this Article 13 shall lapse under the earliest of the following circumstances:

- (1) The Option shall lapse ten years after it is granted.

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(2) If the Participant ceases to serve as a member of the Board for any reason other than as provided in the proviso to this paragraph (2), the Option shall lapse, unless it is previously exercised, three years after the Participant's termination as a member of the Board; provided, however, that if the Participant is removed for cause (determined in accordance with the Corporation's bylaws, as amended from time to time), the Option shall (to the extent not previously exercised) lapse immediately. If the Participant dies during the post termination exercise period specified above and before the Option otherwise lapses, the Option shall lapse one year after the Participant's death, if later than the end of the three year period. Upon the Participant's death, any exercisable Options may be exercised by the Participant's beneficiary, determined in accordance with Section 14.5.

If a Participant exercises Options after termination of his or her service on the Board, he or she may exercise the Options only with respect to the shares that were otherwise exercisable on the date of termination of his service on the Board. Such exercise otherwise shall be subject to the terms and conditions of this Article 13.

13.5 *Cancellation of Options.* Upon a Participant's termination of service for any reason other than death or Disability, all Options that have not vested in accordance with the Plan shall be cancelled immediately.

13.6 *Exercisability.* Subject to Section 13.7, each Option grant under this Article 13 shall be exercisable as to twenty-five percent (25%) of the Option shares on each of the first, second, third and fourth anniversaries of the Grant Date, such that the Options will be fully exercisable after four years from the Grant Date.

13.7 *Acceleration Upon Change of Control.* Notwithstanding Section 13.6, in the event of a Change of Control, each Option granted under this Article 13 that is then outstanding immediately prior to such Change of Control shall become immediately exercisable in full on the date of such Change in Control.

13.8 *Termination of Article 13.* No Options shall be granted under this Article 13 after January 1, 2015.

13.9 *Non-exclusivity.* Nothing in this Article 13 shall prohibit the Committee from making discretionary Awards to Non-Employee Directors pursuant to the other provisions of the Plan before or after January 1, 2015. Options granted pursuant to this Article 13 shall be governed by the provisions of this Article 13 and by other provisions of the Plan to the extent not inconsistent with the provisions of this Article 13.

ARTICLE 14

PROVISIONS APPLICABLE TO AWARDS

14.1 *Stand-alone, Tandem, and Substitute Awards.* Awards granted under the Plan may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, (subject to the last sentence of Section 4.3) or in substitution for, any other Award granted under the Plan. If an Award is granted in substitution for another Award, the Committee may require the surrender of such other Award in consideration of the grant of the new Award. Awards granted in addition to or in tandem with other Awards may be granted either at the same time as or at a different time from the grant of such other Awards.

14.2 *Term of Award.* The term of each Award shall be for the period as determined by the Committee, provided that in no event shall the term of any Incentive Stock Option or a Stock Appreciation Right granted in tandem with the Incentive Stock Option exceed a period of ten years from the date of its grant (or, if Section 7.2(c) applies, five years from the date of its grant).

14.3 *Form of Payment for Awards.* Subject to the terms of the Plan and any applicable law or Award Agreement, payments or transfers to be made by the Corporation or a Parent or Affiliate on the grant or exercise

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of an Award may be made in such form as the Committee determines at or after the time of grant, including, without limitation, cash, Stock, other Awards or other property, or any combination thereof, and may be made in a single payment or transfer, in installments or on a deferred basis, in each case determined in accordance with rules adopted by, and at the discretion of, the Committee.

14.4 *Limits on Transfer.* No right or interest of a Participant in any unexercised or restricted Award may be pledged, encumbered or hypothecated to or in favor of any party other than the Corporation or a Parent or Affiliate, or shall be subject to any lien, obligation, or liability of such Participant to any other party other than the Corporation or a Parent or Affiliate. No unexercised or restricted Award shall be assignable or transferable by a Participant other than by will or the laws of descent and distribution or, except in the case of an Incentive Stock Option, pursuant to a domestic relations order that would satisfy Section 414(p)(1)(A) of the Code if such Section applied to an Award under the Plan; provided, however, that the Committee may (but need not) permit other transfers where the Committee concludes that such transferability (i) does not result in accelerated taxation or other adverse tax consequences, (ii) does not cause any Option intended to be an Incentive Stock Option to fail to be described in Section 422(b) of the Code, and (iii) is otherwise appropriate and desirable, taking into account any factors deemed relevant, including, without limitation, state or federal tax or securities laws applicable to transferable Awards. In furtherance of the foregoing, with the consent of the Committee or its designee, a Participant may transfer Awards to such Participant's family members or trusts or other entities in which the Participant or his or her family members hold 50% or more of the voting or beneficial ownership interest in such trust or entity for estate planning or other tax purpose. Any such permitted transfer shall be subject to such conditions as the Committee or its designee may impose and compliance with applicable federal and state securities laws.

14.5 *Beneficiaries.* Notwithstanding Section 14.4, a Participant may, in the manner determined by the Committee, designate a beneficiary to exercise the rights of the Participant and to receive any distribution with respect to any Award upon the Participant's death. A beneficiary, legal guardian, legal representative or other person claiming any rights under the Plan is subject to all terms and conditions of the Plan and any Award Agreement applicable to the Participant, except to the extent the Plan and such Award Agreement otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Committee. If no beneficiary has been designated or survives the Participant, payment shall be made to the Participant's estate. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Participant at any time, provided the change or revocation is filed with the Committee.

14.6 *Stock Certificates.* All Stock issuable under the Plan is subject to any stop-transfer orders and other restrictions as the Committee deems necessary or advisable to comply with federal or state securities laws, rules and regulations and the rules of any national securities exchange or automated quotation system on which the Stock is listed, quoted or traded. The Committee may place legends on any Stock certificate or issue instructions to the transfer agent to reference restrictions applicable to the Stock.

14.7 *Acceleration Upon Death or Disability.* Unless otherwise set forth in an Award Agreement, upon the Participant's death or Disability during his employment or service as a director, all outstanding Options, Stock Appreciation Rights, Restricted Stock Awards and other Awards in the nature of rights that may be exercised shall become fully exercisable and all restrictions on outstanding Awards shall lapse. Any Option or Stock Appreciation Rights Awards shall thereafter continue or lapse in accordance with the other provisions of the Plan and the Award Agreement. To the extent that this provision causes Incentive Stock Options to exceed the dollar limitation set forth in Section 7.2(b), the excess Options shall be deemed to be Non-Qualified Stock Options.

14.8 *Acceleration of Vesting and Lapse of Restrictions.* Subject to Sections 7.3(b) and 13.7, the Committee may, in its sole discretion, at any time (including, without limitation, prior to, coincident with or subsequent to a Change of Control) determine that (a) all or a portion of a Participant's Options, Stock

Appreciation Rights and other Awards in the nature of rights that may be exercised shall become fully or partially exercisable, and/or (b) all or a part of the restrictions on all or a portion of the outstanding Awards shall lapse, in each case, as of such date as the Committee may, in its sole discretion, declare; provided, however, that, with respect to Awards that are subject to Section 409A of the Code, the Committee shall not have the authority to accelerate or postpone the timing of payment or settlement of an Award in a manner that would cause such Award to become subject to the interest and penalty provisions under Section 409A of the Code. The Committee may discriminate among Participants and among Awards granted to a Participant in exercising its discretion pursuant to this Section 14.8. All Awards made to Non-Employee Directors shall become fully vested and, in the case of Options, Stock Appreciation Rights and other Awards in the nature of rights that may be exercised, fully exercisable in the event of the occurrence of a Change of Control as of the date of such Change of Control.

14.9 *Other Adjustments.* If (i) an Award is accelerated under Sections 7.3(b), 13.7 and/or 14.8 or (ii) a Change of Control occurs (regardless of whether acceleration under Sections 7.3(b), 13.7 and/or 14.8 occurs), the Committee may, in its sole discretion, provide (a) that the Award will expire after a designated period of time after such acceleration or Change of Control, as applicable, to the extent not then exercised, (b) that the Award will be settled in cash rather than Stock, (c) that the Award will be assumed by another party to a transaction giving rise to the acceleration or a party to the Change of Control, (d) that the Award will otherwise be equitably converted or adjusted in connection with such transaction or Change of Control, or (e) any combination of the foregoing. The Committee's determination need not be uniform and may be different for different Participants whether or not such Participants are similarly situated; provided, however, that, with respect to Awards that are subject to Section 409A of the Code, the Committee shall not have the authority to accelerate or postpone the timing of payment or settlement of an Award in a manner that would cause such Award to become subject to the interest and penalty provisions under Section 409A of the Code.

14.10 *Performance Goals.* In order to preserve the deductibility of an Award under Section 162(m) of the Code, the Committee may determine that any Award granted pursuant to this Plan to a Participant that is or is expected to become a Covered Employee shall be determined solely on the basis of (a) the achievement by the Corporation or Subsidiary of a specified target return, or target growth in return, on equity or assets, (b) the Corporation's stock price, (c) the Corporation's total shareholder return (stock price appreciation plus reinvested dividends) relative to a defined comparison group or target over a specific performance period, (d) the achievement by the Corporation or a Parent or Subsidiary, or a business unit of any such entity, of a specified target, or target growth in, net income, revenues, earnings per share, earnings before income and taxes, and earnings before income, taxes, depreciation and amortization, or (e) any combination of the goals set forth in (a) through (d) above. If an Award is made on such basis, the Committee shall establish goals prior to the beginning of the period for which such performance goal relates (or such later date as may be permitted under Section 162(m) of the Code), and the Committee has the right for any reason to reduce (but not increase) the Award, notwithstanding the achievement of a specified goal. Any payment of an Award granted with performance goals shall be conditioned on the written certification of the Committee in each case that the performance goals and any other material conditions were satisfied.

14.11 *Termination of Employment.* Whether military, government or other service or other leave of absence shall constitute a termination of employment shall be determined in each case by the Committee at its discretion, and any determination by the Committee shall be final and conclusive. A termination of employment shall not occur (i) in a circumstance in which a Participant transfers from the Corporation to one of its Parents or Subsidiaries, transfers from a Parent or Affiliate to the Corporation, or transfers from one Parent or Affiliate to another Parent or Affiliate, or (ii) in the discretion of the Committee as specified at or prior to such occurrence, in the case of a split-off, spin-off, sale or other disposition of the Participant's employer from the Corporation or any Parent or Affiliate. To the extent that this provision causes Incentive Stock Options to extend beyond three months from the date a Participant is deemed to be an employee of the Corporation, a Parent or Affiliate for purposes of Section 424(f) of the Code, the Options held by such Participant shall be deemed to be Non-Qualified Stock Options.

ARTICLE 15
CHANGES IN CAPITAL STRUCTURE

15.1 *General.* Upon or in contemplation of (a) any reclassification, recapitalization, stock split (including a stock split in the form of a stock dividend) or reverse stock split, (b) any merger, combination, consolidation, or other reorganization, (c) any spin-off, split-up, or similar extraordinary dividend distribution in respect of the Stock (whether in the form of securities or property), (d) any exchange of Stock or other securities of the Corporation, or any similar, unusual or extraordinary corporate transaction in respect of the Stock, or (e) a sale of all or substantially all the business or assets of the Corporation as an entirety, then the Committee shall, in such manner, to such extent (if any) and at such time as it deems appropriate and equitable in the circumstances in order to preserve, but not increase, the benefits or potential benefits intended to be made available under the Plan or an outstanding Award:

(i) proportionately adjust any or all of (A) the number and type of shares of Stock (or other securities) that thereafter may be made the subject of Awards (including the specific share limits, maximums and numbers of shares set forth elsewhere in this Plan), (B) the number, amount and type of shares of Stock (or other securities or property) subject to any or all outstanding Awards, (C) the grant, purchase, or exercise price (which term includes the base price of any SAR or similar right) of any or all outstanding Awards, (D) the securities, cash or other property deliverable upon exercise or payment of any outstanding Awards, or (E) the performance standards applicable to any outstanding Awards, or

(ii) make provision for a cash payment or for the assumption, substitution or exchange of any or all outstanding share-based Awards or the cash, securities or property deliverable to the holder of any or all outstanding share-based Awards, based upon the distribution or consideration payable to holders of the Stock upon or in respect of such event.

The Committee may adopt such valuation methodologies for outstanding Awards as it deems reasonable in the event of a cash or property settlement and, in the case of Options, SARs or similar rights, but without limitation on other methodologies, may base such settlement solely upon the excess if any of the per share amount payable upon or in respect of such event over the exercise or base price of the Award. With respect to any Award of an Incentive Stock Option, the Committee may make such an adjustment that causes the option to cease to qualify as an Incentive Stock Option without the consent of the affected Participant. Notwithstanding the foregoing, to the extent possible, all adjustments shall be made in a manner to avoid: (i) an Award that is not already subject to Section 409A of the Code from becoming subject to Section 409A of the Code; and (ii) the imposition of penalties pursuant to Section 409A of the Code.

In any of such events, the Committee may take such action prior to such event to the extent that the Committee deems the action necessary to permit the Participant to realize the benefits intended to be conveyed with respect to the underlying shares in the same manner as is or will be available to stockholders generally. In the case of any stock split or reverse stock split, if no action is taken by the Committee, the proportionate adjustments contemplated by clause (i) above shall nevertheless be made.

ARTICLE 16
AMENDMENT, MODIFICATION AND TERMINATION

16.1 *Amendment, Modification and Termination.* The Board or the Committee may, at any time and from time to time, amend, modify or terminate the Plan; provided, however, that the Board or the Committee may condition any amendment or modification on the approval of shareholders of the Corporation if such approval is necessary or deemed advisable with respect to tax, securities or other applicable laws, policies or regulations.

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16.2 *Awards Previously Granted.* At any time and from time to time, but subject to Section 4.3, the Committee may amend, modify or terminate any outstanding Award or Award Agreement without approval of the Participant; provided, however, that, subject to the terms of the applicable Award Agreement, such amendment, modification or termination shall not, without the Participant's consent, reduce or diminish the value of such Award determined as if the Award had been exercised, vested, cashed in or otherwise settled on the date of such amendment or termination; provided further, however, that the original term of any Option may not be extended. No termination, amendment, or modification of the Plan shall adversely affect any Award previously granted under the Plan, without the written consent of the Participant. Notwithstanding any provision herein to the contrary, the Committee shall have broad authority to amend the Plan or any outstanding Award under the Plan without approval of the Participant to the extent necessary or desirable (i) to comply with, or take into account changes in or interpretations of, applicable tax laws, securities laws, accounting rules and other applicable laws, rules and regulations or (ii) to ensure that an Award is not subject to interest and penalties under Section 409A of the Code.

ARTICLE 17

GENERAL PROVISIONS

17.1 *No Rights to Awards.* No Participant or any eligible participant shall have any claim to be granted any Award under the Plan, and neither the Corporation nor the Committee is obligated to treat Participants or eligible participants uniformly.

17.2 *No Stockholder Rights.* No Award gives the Participant any of the rights of a shareholder of the Corporation unless and until shares of Stock are in fact issued to such person in connection with the exercise, payment or settlement of such Award.

17.3 *Withholding.* The Corporation or any Subsidiary, Parent or Affiliate shall have the authority and the right to deduct or withhold, or require a Participant to remit to the Corporation, an amount sufficient to satisfy federal, state, local and other taxes (including the Participant's FICA obligation) required by law to be withheld with respect to any taxable event arising as a result of the Plan. With respect to withholding required upon any taxable event under the Plan, the Committee may, at the time the Award is granted or thereafter, require or permit that any such withholding requirement be satisfied, in whole or in part, by (i) withholding from the Award shares of Stock or (ii) delivering shares of Stock that are already owned, having a Fair Market Value on the date of withholding equal to the minimum amount (and not any greater amount) required to be withheld for tax purposes, all in accordance with such procedures as the Committee establishes. The Corporation or any Subsidiary, Parent or Affiliate, as appropriate, shall also have the right to deduct from all cash payments made to a Participant (whether or not such payment is made in connection with an Award) any applicable taxes required to be withheld with respect to such payments.

17.4 *No Right to Continued Service.* Nothing in the Plan or any Award Agreement shall interfere with or limit in any way the right of the Corporation or any Parent or Affiliate to terminate any Participant's employment or status as an officer, director or consultant at any time, nor confer upon any Participant any right to continue as an employee, officer, director or consultant of the Corporation or any Parent or Affiliate. In its sole discretion, the Board or the Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver shares of Stock with respect to awards hereunder.

17.5 *Unfunded Status of Awards.* The Plan is intended to be an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Award Agreement shall give the Participant any rights that are greater than those of a general creditor of the Corporation or any Parent or Affiliate.

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17.6 *Indemnification.* To the extent allowable under applicable law, each member of the Committee shall be indemnified and held harmless by the Corporation from any loss, cost, liability or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit or proceeding to which such member may be a party or in which he may be involved by reason of any action or failure to act under the Plan and against and from any and all amounts paid by such member in satisfaction of judgment in such action, suit or proceeding against him; provided such member shall give the Corporation an opportunity, at its own expense, to handle and defend the same before such member undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Corporation's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Corporation may have to indemnify them or hold such persons harmless.

17.7 *Relationship to Other Benefits.* No Award shall constitute salary, recurrent compensation or contractual compensation for the year of grant, any later year or any other period of time. No payment under the Plan shall be taken into account in determining any benefits under any pension, retirement, savings, profit sharing, group insurance, welfare or other benefit plan of the Corporation or any Parent or Affiliate unless provided otherwise in such other plan.

17.8 *Expenses; Application of Funds.* The expenses of administering the Plan shall be borne by the Corporation and its Parents or Subsidiaries. The proceeds received by the Corporation from the sale of shares of Stock pursuant to Awards will be used for general corporate purposes.

17.9 *Titles and Headings.* The titles and headings of the Sections in the Plan are for convenience of reference only, and in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

17.10 *Gender and Number.* Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.

17.11 *Fractional Shares.* No fractional shares of Stock shall be issued and the Committee shall determine, in its discretion, whether cash shall be given in lieu of fractional shares or whether such fractional shares shall be eliminated by rounding up or down.

17.12 *Government and Other Regulations.* The obligation of the Corporation to make payment of awards in Stock or otherwise shall be subject to all applicable laws, rules and regulations, and to such approvals by government agencies as may be required. To the extent that Awards under the Plan are awarded to individuals who are domiciled or resident outside of the United States or to persons who are domiciled or resident in the United States but who are subject to the tax laws of a jurisdiction outside of the United States, the Committee may adjust the terms of the Awards granted hereunder to such person (i) to comply with the laws of such jurisdiction and (ii) to avoid adverse tax consequences relating to an Award. The authority granted under the previous sentence shall include the discretion for the Committee to adopt, on behalf of the Corporation, one or more sub-plans applicable to separate classes of Participants who are subject to the laws of jurisdictions outside of the United States.

17.13 *Securities Law Restrictions.* An Award may not be exercised or settled and no shares of Stock may be issued in connection with an Award unless the issuance of such shares of Stock has been registered under the 1933 Act and qualified under applicable state "blue sky" laws and any applicable foreign securities laws, or the Corporation has determined that an exemption from registration and from qualification under such state "blue sky" laws is available. The Corporation shall be under no obligation to register under the 1933 Act, or any state

securities act, any of the shares of Stock issued in connection with the Plan. The shares issued in connection with the Plan may in certain circumstances be exempt from registration under the 1933 Act, and the Corporation may restrict the transfer of such shares in such manner as it deems advisable to ensure the availability of any such exemption. The Committee may require each Participant purchasing or acquiring shares of Stock pursuant to an Award under the Plan to represent to and agree with the Corporation in writing that such Participant is acquiring the shares of Stock for investment purposes and not with a view to the distribution thereof. All certificates for shares of Stock delivered under the Plan shall be subject to such stock-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any exchange upon which the Stock is then listed, and any applicable securities law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

17.14 *Satisfaction of Obligations.* Subject to applicable law, the Corporation may apply any cash, shares of Stock, securities or other consideration received upon exercise or settlement of an Award to any obligations a Participant owes to the Corporation and its Parents, Subsidiaries or Affiliates in connection with the Plan or otherwise, including, without limitation, any tax obligations or obligations under a currency facility established in connection with the Plan.

17.15 *Section 409A of the Code.* Notwithstanding any contrary provisions of the Plan or an Award Agreement, if any provision of the Plan or an Award Agreement contravenes the requirements of any regulations or Treasury guidance promulgated under Section 409A of the Code or could cause an Award to be subject to additional taxes, accelerated taxation, interest and/or penalties under Section 409A of the Code, such provision of the Plan or any Award Agreement shall be modified to maintain, to the maximum extent practicable, the original intent of the applicable provision without violating the provisions of Section 409A of the Code. Moreover, any discretionary authority that the Board or the Committee may have pursuant to the Plan shall not be applicable to an Award that is subject to Section 409A of the Code to the extent such discretionary authority will contravene Section 409A of the Code or the Treasury guidance promulgated thereunder.

17.16 *Governing Law.* To the extent not governed by federal law, the Plan and all Award Agreements shall be construed in accordance with and governed by the laws of the State of Delaware.

17.17 *Additional Provisions.* Each Award Agreement may contain such other terms and conditions as the Board or the Committee may determine, provided that such other terms and conditions are not inconsistent with the provisions of this Plan. In the event of any conflict or inconsistency between the Plan and an Award Agreement, the Plan shall govern and the Award Agreement shall be interpreted to minimize or eliminate such conflict or inconsistency. Nothing contained in the Plan shall be construed: (a) to prevent the Company or any Subsidiary from taking any corporate action, whether or not it would have an adverse effect on any Awards made under the Plan; or (b) to provide any rights, not otherwise provided under applicable law, to any participant, beneficiary or other person with respect to the taking of any corporate action by the Company or any Subsidiary.

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As Amended and Restated on July 24, 2012

WebMD Health Corp.
111 Eighth Avenue
New York, NY 10001

Amended and Restated
As of May 16, 2012

October 1, 2007

William E. Pence
[*address on file with Registrant*]

Dear Mr. Pence:

This letter (“Letter Agreement”) amends and restates the terms of your employment with WebMD Health Corp. (the “Company” or “WebMD Health”), effective as of May 16, 2012 (“Amendment and Restatement Effective Date”).

1. Position and Responsibilities. The first day of your employment with the Company was November 1, 2007 (the the “Employment Commencement Date”). Commencing on the Amendment and Restatement Effective Date, May 16, 2012, you will serve in the position of Executive Vice President-Chief Operating Officer. You will report to the Chief Executive Officer or President of WebMD Health and will assume and discharge such responsibilities as are commensurate with such position as such person may direct. During your employment with the Company, you will devote your full business time to your duties and responsibilities and will perform them faithfully and diligently in accordance with the terms of this Agreement, subject to permitted absence in accordance with the Company’s vacation policy. In addition, you will comply with and be bound by the operating policies, procedures and practices of the Company including, without limitation, the Code of Conduct, in effect from time to time during your employment. You will report to the Company’s headquarters located in New York, NY. You acknowledge that you will be required to travel in connection with the performance of your duties but you will not be required to relocate outside the New York metropolitan area without your consent.

2. Compensation.

(a) In consideration of your services, effective March 12, 2012, you will be paid a base salary (“Base Salary”) at the annual rate of \$425,000, payable in accordance with the Company’s prevailing payroll practices.

(b) Commencing with the year ending December 31, 2012, you will be eligible to receive an annual bonus, the target of which is 60% of Base Salary, so long as you are employed by the Company on the applicable payment date, except as set forth below. The determination as

to the amount of such bonus shall be made by the WebMD Health Compensation Committee in its sole discretion. Subject to Section 5 below, if your employment is terminated following the end of any fiscal year by the Company without Cause or by you for Good Reason (as defined below), then you will still be entitled to receive any bonus otherwise payable to you for such year, even if you are not employed on the bonus payment date and such bonus will be paid at the time that bonuses are paid to other executives of the Company.

3. Other Benefits. You will continue to be entitled to receive the standard employee benefits made available by the Company to its employees to the full extent of your eligibility. You will be entitled to vacation consistent with the Company's vacation policy, but in no event less than 4 weeks annually. During your employment, you will be permitted, to the extent eligible, to participate in any group medical, dental, life insurance and disability insurance plans, or similar benefit plan of the Company that is available to employees generally. Participation in any such plan will be consistent with your rate of compensation to the extent that compensation is a determinative factor with respect to coverage under any such plan. The Company will reimburse you for all reasonable expenses actually incurred or paid by you in the performance of your services on behalf of the Company, upon prior authorization and approval in accordance with the Company's expense reimbursement policy as from time to time in effect. Commencing on the Amendment and Restatement Effective Date, you will receive a monthly car allowance in the amount of \$1000.

4. WebMD Health Equity.

(a) 2007 Options. On the Employment Commencement Date, Executive was granted a nonqualified option (the "2007 Options") to purchase 150,000 shares of common stock of WebMD Health under the WebMD Health Corp. 2005 Long Term Incentive Plan, as amended, (the "Equity Plan"). The per share exercise price was equal to the closing price of the common stock on the Employment Commencement Date. Pursuant to the agreement dated as of February 23, 2012, the 2007 Options have been forfeited.

(b) 2007 Restricted Stock. On the Employment Commencement Date, Executive was granted 25,000 shares of restricted stock of WebMD Health Corp. (the "2007 Restricted Stock") under the Equity Plan. The shares of 2007 Restricted Stock have fully vested prior to the Amendment and Restatement Effective Date and the restrictions have lapsed thereon. The 2007 Restricted Stock is subject to the terms of a stock plan and a restricted stock agreement entered into between you and the Company, which agreement is in substantially the same form provided by the Company to its employees generally.

(c) 2008 Options. On December 10, 2008, Executive was granted a nonqualified option (the "2008 Options") to purchase 150,000 shares of common stock of WebMD Health under the Equity Plan. The per share exercise price is equal to the closing price of the Company's common stock on the date of grant and the 2008 Options vest subject to your continued employment on the applicable vesting dates (except as set forth in the following sentences) in equal annual installments of 25% commencing on March 31, 2010 (full vesting on March 31, 2013). In the event of a termination of your employment by the Company without Cause or by you for Good Reason, the 2008 Options will remain outstanding and continue to vest until the next vesting date and if such termination occurs within 12 months following a

Change of Control of the Company (as defined in the Equity Plan), the 2008 Options would remain outstanding through the next two vesting dates, subject to your execution of a release of claims in a form approved by the Company and continued compliance with the Trade Secret and Proprietary Information Agreement. The 2008 Options have a term of ten years, subject to earlier expiration in the event of termination of employment in accordance with the Equity Plan. Subject to the terms of this Section, the 2008 Options are evidenced by the Company's standard form of option agreement.

(d) 2008 Restricted Stock. On December 10, 2008, Executive was granted 12,500 shares of restricted stock of WebMD Health (the "2008 Restricted Stock") under the Equity Plan. The 2008 Restricted Stock vests and the restrictions thereon lapse in the same manner as the 2008 Options subject to your continued employment on the applicable vesting date. The 2008 Restricted Stock is evidenced by the Company's standard form of restricted stock agreement.

(e) 2010 Options. On June 28, 2010, Executive was granted a non-qualified option (the "2010 Options") to purchase 75,000 shares of common stock of WebMD Health under the Equity Plan. The per share exercise price of the Option was equal to the closing price of the common stock on June 28, 2010. Pursuant to the agreement dated as of February 23, 2012, the 2010 Options have been forfeited.

(f) 2010 Restricted Stock. On June 28, 2010, Executive was granted 10,000 shares of restricted stock of WebMD Health (the "2010 Restricted Stock") under the terms of the Equity Plan. The 2010 Restricted Stock vests and the restrictions thereon lapse, subject to your continued employment on the applicable dates as follows: 25% of the shares of the 2010 Restricted Stock on each of the first, second, third and fourth anniversaries of the date of grant (full vesting occurring on the fourth anniversary of the Date of Grant). The 2010 Restricted Stock is evidenced by and subject to the terms of the Company's form restricted stock agreement.

(g) 2011 Options. On July 23, 2011, Executive was granted a non-qualified option (the "2011 Options") to purchase 75,000 shares of common stock of WebMD Health under the Equity Plan. The per share exercise price of the Option was equal to the closing price of the common stock on July 22, 2011.

(h) 2011 Restricted Stock. On July 23, 2011, Executive was granted 12,000 shares of restricted stock of WebMD Health (the "2011 Restricted Stock") under the terms of the Equity Plan. The 2011 Restricted Stock vests and the restrictions thereon lapse, subject to your continued employment on the applicable dates as follows: 25% of the shares of the 2011 Restricted Stock on each of the first, second, third and fourth anniversaries of the date of grant (full vesting occurring on the fourth anniversary of the Date of Grant). The 2011 Restricted Stock is evidenced by and subject to the terms of the Company's form restricted stock agreement.

5. Termination of Employment. (a) In the event of the termination of your employment by the Company without Cause or by you for Good Reason (as such terms are defined on Annex A attached hereto), subject to Section 5(b) below and your continued compliance with the Trade Secret & Proprietary Information Agreement, you will be entitled (i) to continue to receive, as severance, the Base Salary in effect on the date hereof for a period of one year (the "Severance Period") payable as set forth in Section 5(c) below, (ii) if such termination occurs after the end of a calendar year but before the payment of bonuses for such prior year, you shall be entitled to the bonus that you would have received for such year at the time that bonuses are paid to other executive officers of the Company, but in no event later than December 31 of the year in which your employment terminates and (iii) if you timely elect to continue your health coverage through COBRA, the Company will pay that portion of the COBRA premium that it would pay if you were an active employee with the same type of coverage through the Severance Period or, if earlier, until you are eligible for comparable coverage with a subsequent employer. In the event of the termination of your employment by the Company without Cause or by you for Good Reason, in either case within twelve (12) months following a Change of Control of the Company, any of your option grants to purchase shares of WebMD Health Corp. (whether outstanding on the date hereof or that may be granted in the future), which remain outstanding at the time of such termination, to the extent unvested, shall remain outstanding and continue to vest as if you remained in the employ of the Company until the first anniversary of such date of termination. In the event of termination of your employment for any other reason, you will receive compensation earned through the date of termination and your rights with respect to options and restricted stock will be as specified in the applicable option or restricted stock agreements.

(b) In order to receive any of the benefits described in Section 5(a) under this Letter Agreement (the "Severance Benefits"), you must (i) execute and deliver to the Company a release of claims satisfactory to the Company (but which will not require release of any Company payments due to you that are otherwise payable at the date of termination of this Letter Agreement) within the time prescribed therein but in no event later than fifty (50) days of the date of your termination of employment and (ii) not revoke such release pursuant to any revocations rights afforded by law. The Company shall provide to you the form of release no later than three (3) days following your termination of employment. If you do not timely execute and deliver to the Company such release, or if you execute such release but revoke it, no Severance Benefits shall be paid.

(c) The Severance Benefits described in Section 5(a)(i) above shall be paid, minus applicable deductions, including deductions for tax withholding, in equal payments on the regular payroll dates during the one-year period following your termination of employment. Commencement of payments of the Severance Benefits described in Section 5 (a)(i) shall begin on the first payroll date that occurs in the month that begins at least 60 days after the date of your termination of employment, but which may be accelerated by no more than 30 days (the "Starting Date") provided that you have satisfied the requirements of Section 5(b) of this Letter Agreement. The first payment on the payment Starting Date shall include those payments that would have previously been paid if the payments of the Severance Benefits described in Section 5(a)(i) had begun on the first payroll date following your termination of employment. This timing of the commencement of benefits is subject to Section 6 below.

(d) For purposes of this Letter Agreement, “termination of employment” shall mean a “separation of service” as defined in Section 409A of the Internal Revenue Code of 1986, as amended, (the “Code”) and Treasury Regulations Section 1.409A-I(h) without regard to the optional alternative definitions available thereunder.

(e) All Severance Benefits shall be completed by, and no further Severance Benefits shall be payable after, December 31 of the second taxable year following the year in which your termination of employment occurs.

(f) Your entitlement to the payments of the Severance Benefits described in Section 5(a)(i) shall be treated as the entitlement to a series of separate payments for purposes of Section 409A of the Code.

6. Section 409A .

(a) Potential Six-Month Delay . Notwithstanding any other provisions of the Letter Agreement, any payment of the Severance Benefits under this Letter Agreement that the Company reasonably determines is subject to Section 409A(a)(2)(B)(i) of the Code shall not be paid or payment commenced until the later of (i) six (6) months after the date of your termination of employment (or, if earlier, your death) and (ii) the Starting Date. On the earliest date on which such payments can be commenced without violating the requirements of Section 409A(a)(2)(B)(i) of the Code, you shall be paid, in a single cash lump sum, an amount equal to the aggregate amount of all payments delayed pursuant to the preceding sentence.

(b) Savings Clause . It is intended that any amounts payable under this Letter Agreement shall either be exempt from or comply with Section 409A of the Code (including Treasury regulations and other published guidance related thereto) so as not to subject you to payment of any additional tax, penalty or interest imposed under Section 409A of the Code. The provisions of this Letter Agreement shall be construed and interpreted to avoid the imputation of any such additional tax, penalty or interest under Section 409A of the Code yet preserve (to the nearest extent reasonably possible) the intended benefit payable to you. Notwithstanding the foregoing, the Company makes no representation or warranty and shall have no liability to you or to any other person if any of the provisions of this Letter Agreement are determined to constitute deferred compensation subject to Section 409A, but that do not satisfy an exemption from, or the conditions of, that section.

7. Restrictive Covenants. You hereby agree that the Trade Secret & Proprietary Information Agreement that you previously signed (attached hereto) remains in full force and effect and is hereby ratified in all respects.

8. Conflicting Employment . You agree that, during your employment with the Company, you will not engage in any other employment, occupation, consulting or other business activity directly related to the business in which the Company is now involved or becomes involved during your employment, nor will you engage in any other activities that conflict with your obligations to the Company. With the prior written approval of the Company, which will not be unreasonably withheld, you may serve on the Board of Directors of other

companies, and provided that such service does not affect the services to be provided under this Agreement.

9. At-Will Employment. You acknowledge that your employment with the Company is for an unspecified duration that constitutes at-will employment, and that either you or the Company can terminate this relationship at any time, with or without Cause and with or without notice (subject to the consequences set forth in this agreement).

10. General Provisions.

- (a) You will be covered by the Company's director and officer insurance policy to the same extent as other similarly situated employees of the Company.
- (b) This Letter Agreement and the terms of your employment will be governed by the laws of New York, applicable to agreements made and to be performed entirely within such state and the courts sitting in New York, New York shall have exclusive jurisdiction for the purposes of adjudicating any disputes under this Agreement.
- (c) This Letter Agreement together with the equity plans and agreements referred to herein and the Trade Secret and Proprietary Agreement attached hereto dated October 1, 2007 sets forth the entire agreement and understanding between the Company and you relating to your employment and supersedes all prior verbal discussions between us, including without limitation the October 1, 2007 letter agreement as it had been amended.
- (d) This Letter Agreement will be binding upon your heirs, executors, administrators and other legal representatives and will be for the benefit of the Company and its permitted successors and assigns
- (e) All payments pursuant to this Letter Agreement will be subject to applicable withholding taxes.
- (f) This Letter Agreement may not be assigned by the Company without your prior written consent; provided however that this agreement may be assigned by the Company without your prior written consent to any successor to the business of the Company, by operation of law, merger or otherwise or to any affiliate of the Company.

Please acknowledge and confirm your acceptance of this amendment and restatement of your offer letter by signing and returning one copy of this letter agreement and the Trade Secret & Proprietary Information Agreement to Douglas W. Wamsley, Executive Vice President, General Counsel, WebMD Health Corp., 111 Eighth Avenue, New York, NY 10001.

WebMD Health Corp.

By /s/ Douglas W. Wamsley
Douglas W. Wamsley
Executive Vice President

ACCEPTANCE:

I accept the revised terms of my employment with WebMD Health Corp. as set forth herein. I understand that this letter agreement does not constitute a contract of employment for any specified period of time, and that either party, with or without Cause and with or without notice, may terminate my employment relationship (subject to the consequences set forth above).

/s/ William E. Pence
William E. Pence

5/16/12
Date Signed

ANNEX A

“Cause” will mean any of the following:

- (i) your willful failure to perform your duties following written notice from the Company detailing the specific acts and a thirty (30) day period of time to remedy such failure;
- (ii) any willful misconduct, violence or threat of violence that is injurious to the Company in a material respect or any misconduct relating to your business affairs, at any time, which will demonstrably reflect negatively upon the Company or otherwise impair or impede its operations or reputation in any material respect;
- (iii) your breach of a material Company policy, which breach is not remedied (if susceptible to remedy) following written notice by the Company detailing the specific breach and a thirty (30) day period of time to remedy such breach;
- (iv) any material breach by you of this Agreement or the Trade Secret and Proprietary Information Agreement, which breach is not remedied (if susceptible to remedy) following written notice by the Company or its designee detailing the specific breach and a thirty (30) day period of time to remedy such breach;
- (v) your conviction of a felony in respect of a dishonest or fraudulent act or other crime of moral turpitude.

“A termination of employment by you for “Good Reason” means your resignation of employment within one year of the occurrence (without your written consent) of any of the following conditions or events: (i) any material reduction in your base salary, (ii) a material reduction in your authority with the Company, (iii) any material breach by the Company of this Letter Agreement; provided, however, that none of the foregoing conditions or events shall constitute Good Reason unless (A) you shall have provided written notice to the Company within ninety (90) days after the occurrence of such condition or event describing the condition or event claimed to constitute Good Reason and (B) the Company shall have failed to remedy the condition or event within thirty (30) days of its receipt of such written notice.

ANNEX B

TRADE SECRET AND PROPRIETARY INFORMATION AGREEMENT

In consideration of WebMD Health Corp. (hereinafter referred to as the "Company") entering into the Letter Agreement dated October 1, 2007, I hereby agree as follows:

1. Confidentiality.

(a) Trade Secret and Proprietary Information. I understand and acknowledge that, during the course of my employment arrangement with the Company and as a result of my having executed this Trade Secret and Proprietary Information Agreement, I will be granted access to valuable information relating to the Company's Business (as defined below) that provides the Company with a competitive advantage, which is not generally known by, nor easily learned or determined by, persons outside the Company (collectively "Trade Secret and Proprietary Information"). The term Trade Secret and Proprietary Information will include, but will not be limited to: (a) specifications, manuals, software in various stages of development; (b) customer and prospect lists, and details of agreements and communications with customers and prospects; (c) sales plans and projections, product pricing information, acquisition, expansion, marketing, financial and other business information and existing and future products and business plans of the Company; (d) sales proposals, demonstrations systems, sales material; (e) research and development; (f) computer programs, (g) sources of supply; (h) identity of specialized consultants and contractors and Trade Secret and Proprietary Information developed by them for the Company; (i) purchasing, operating and other cost data; (j) special customer needs, cost and pricing data; (k) patient information; including without limitation Protected Health Information as defined in 45 C.F.R. 164.501 and (l) employee information (including, but not limited to, personnel, payroll, compensation and benefit data and plans), including all such information recorded in manuals, memoranda, projections, reports, minutes, plans, drawings, sketches, designs, formula books, data, specifications, software programs and records, whether or not legended or otherwise identified by the Company as Trade Secret and Proprietary Information, as well as such information that is the subject of meetings and discussions and not recorded. Trade Secret and Proprietary Information will not include such information that I can demonstrate (i) is generally available to the public (other than as a result of a disclosure by me), (ii) was disclosed to me by a third party under no obligation to keep such information confidential or (iii) was known by me prior to, and not as a result of, my employment or anticipated employment with the Company or any of its Affiliates.

(b) Duty of Confidentiality. I agree at all times, both during and after my employment with the Company, to hold all of the Company's Trade Secret and Proprietary Information in a fiduciary capacity for the benefit of the Company and to safeguard all such Trade Secret and Proprietary Information. I also agree that I will not directly or indirectly disclose or use any such Trade Secret and Proprietary Information to any third person or entity outside the Company, except as may be necessary in the good faith performance of my duties for the Company. I further agree that, in addition to enforcing this restriction, the Company may have other rights and remedies under the common law or applicable statutory laws relating to the

protection of trade secrets. Notwithstanding anything in this Agreement to the contrary, I understand that I may disclose the Company's Trade Secret and Proprietary Information to the extent required by applicable laws or governmental regulations or judicial or regulatory process, provided that I give the Company prompt notice of any and all such requests for disclosure so that it has ample opportunity to take all necessary or desired action, to avoid disclosure.

(c) Unfair Competition. I acknowledge that the Company has a compelling business interest in preventing unfair competition stemming from the intentional or inadvertent use or disclosure of the Company's Trade Secret and Proprietary Information and Company Property.

(d) Intellectual Property and Inventions. I acknowledge that all developments, including, without limitation, the creation of new products, conferences, training/seminars, publications, programs, methods of organizing information, inventions, discoveries, concepts, ideas, improvements, patents, trademarks, trade names, copyrights, trade secrets, designs, works, reports, computer software, flow charts, diagrams, procedures, data, documentation, and writings and applications thereof relating to the past, present, or future business of the Company that I, alone or jointly with others, may have discovered, conceived, created, made, developed, reduced to practice, or acquired during my employment with the Company (collectively, "Developments") are works made for hire and will remain the sole and exclusive property of the Company, and I hereby assign to the Company all of my rights, titles, and interest in and to all such Developments, if any. I agree to disclose to the Company promptly and fully all future Developments and, at any time upon request and at the expense of the Company, to execute, acknowledge, and deliver to the Company all instruments that the Company will prepare, to give evidence, and to take any and all other actions that are necessary or desirable in the reasonable opinion of the Company to enable the Company to file and prosecute applications for, and to acquire, maintain, and enforce, all letters patent, trademark registrations, or copyrights covering the Developments in all countries in which the same are deemed necessary by the Company. All data, memoranda, notes, lists, drawings, records, files, investor and client/customer lists, supplier lists, and other documentation (and all copies thereof) made or compiled by me or made available to me concerning the Developments or otherwise concerning the past, present, or planned business of the Company are the property of the Company, and will be delivered to the Company immediately upon the termination of my employment with the Company.

(e) Competitive Business. For purposes of this Agreement "Competitive Business" will mean: (i) any enterprise engaged in developing, selling or providing a consumer or physician Internet healthcare portal or interactive online personal health management products; and (ii) any enterprise engaged in any other type of business in which the Company or one of its Affiliates is also engaged, or plans to be engaged, so long as I am directly involved in such business or planned business on behalf of the Company or one of its Affiliates.

2. Non-Solicitation of Employees, Customers. In order to protect the Company's Trade Secret and Proprietary Information;

(i) during my employment with the Company and for a period of one year after the termination of such employment for any reason (the "Restricted Period"), I will not, without the Company's express written permission, directly or indirectly solicit, induce, hire, engage, or

attempt to hire or engage any employee or independent contractor of the Company, or in any other way interfere with the Company's employment or contractual relations with any of its employees or independent contractors, nor will I solicit, induce, hire, engage or attempt to hire or engage any individual who was an employee of the Company at any time during the one year period immediately prior to the termination of my employment with the Company

(ii) during the Restricted Period, I will not, without the Company's express written permission, directly or indirectly contact, call upon or solicit, on behalf of a Competitive Business, any existing or prospective client, or customer of the Company who I serviced, or otherwise developed a relationship with, as a result of my employment with the Company, nor will I attempt to divert or take away from the Company the business of any such client or customer.

3. Restrictions on Competitive Employment. In order to protect the Company's Trade Secret and Proprietary Information, during the Restricted Period, I will not (as principal, agent, employee, consultant, director or otherwise), anywhere in the United States and Canada, directly or indirectly, without the prior written approval of the Company, engage in, or perform any services for, a Competitive Business. Notwithstanding the foregoing, I understand that I may have an interest consisting of publicly traded securities constituting less than 1 percent of any class of publicly traded securities in any public company engaged in a Competitive Business so long as I am not employed by and do not consult with, or become a director of or otherwise engage in any activities for, such company. The Restricted Period will be extended by the length of any period during which I am in breach of the terms of this paragraph.

4. Injunctive Remedies. I acknowledge and agree that the restrictions contained in this Agreement are reasonably necessary to protect the legitimate business interests of the Company, and that any violation of any of the restrictions will result in immediate and irreparable injury to the Company for which monetary damages will not be an adequate remedy. I further acknowledge and agree that if any such restriction is violated, the Company will be entitled to immediate relief enjoining such violation (including, without limitation, temporary and permanent injunctions, a decree for specific performance, and an equitable accounting of earnings, profits, and other benefits arising from such violation) in any court having jurisdiction over such claim, without the necessity of showing any actual damage or posting any bond or furnishing any other security, and that the specific enforcement of the provisions of this Agreement will not diminish my ability to earn a livelihood or create or impose upon me any undue hardship. I also agree that any request for such relief by the Company will be in addition to, and without prejudice to, any claim for monetary damages that the Company may elect to assert.

5. Severability Provision. I acknowledge and agree that the restrictions imposed upon me by the terms, conditions, and provisions of this Agreement are fair, reasonable, and reasonably required for the protection of the Company. In the event that any part of this Agreement is deemed invalid, illegal, or unenforceable, all other terms, conditions, and provisions of this Agreement will nevertheless remain in full force and effect. In the event that the provisions of any of Sections 1, 2, or 3 of this Agreement relating to the geographic area of restriction, the length of restriction or the scope of restriction will be deemed to exceed the

maximum area, length or scope that a court of competent jurisdiction would deem enforceable, said area, length or scope will, for purposes of this Agreement, be deemed to be the maximum area, length of time or scope that such court would deem valid and enforceable, and that such court has the authority under this Agreement to rewrite (or “blue-pencil”) the restriction(s) at-issue to achieve this intent.

6. Non-Waiver. Any waiver by the Company of my breach of any term, condition, or provision of this Agreement will not operate or be construed as a waiver of the Company’s rights upon any subsequent breach.

7. Waiver of Jury Trial. **TO THE MAXIMUM EXTENT PERMITTED BY LAW, I HEREBY KNOWINGLY, VOLUNTARILY, AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN CONNECTION WITH ANY LITIGATION ARISING OUT OF, UNDER, IN CONNECTION WITH, OR IN ANY WAY RELATED TO THIS AGREEMENT. THIS INCLUDES, WITHOUT LIMITATION, ANY LITIGATION CONCERNING ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENT (WHETHER VERBAL OR WRITTEN), OR ACTION OF THE COMPANY OR ME, OR ANY EXERCISE BY THE COMPANY OR ME OF OUR RESPECTIVE RIGHTS UNDER THIS AGREEMENT OR IN ANY WAY RELATING TO THIS AGREEMENT. I FURTHER ACKNOWLEDGE THAT THIS WAIVER IS A MATERIAL INDUCEMENT FOR THE COMPANY TO ISSUE AND ACCEPT THIS AGREEMENT.**

8. Continuation of Employment. This Agreement does not constitute a contract of employment or an implied promise to continue my employment or status with the Company; nor does this agreement affect my rights or the rights of the Company to terminate my employment status at any time with or without cause (subject to the consequences set forth in the Agreement to which this Annex is attached).

9. Governing Law. This Agreement will be construed in accordance with and governed for all purposes by the laws and public policy of the State of New York, without regard to principles of conflict of laws.

/s/ William E. Pence

William E. Pence

5/16/12

Date

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

I, Cavan M. Redmond, 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: August 9, 2012

/s/ Cavan M. Redmond
Cavan M. Redmond
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: August 9, 2012

/s/ Anthony Vuolo

Anthony Vuolo

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 June 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Cavan M. Redmond, 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: August 9, 2012

/s/ Cavan M. Redmond

Cavan M. Redmond
Chief Executive Officer

The foregoing certification is being furnished to accompany WebMD's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012 (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 June 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anthony Vuolo, 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: August 9, 2012

/s/ Anthony Vuolo

Anthony Vuolo
Chief Financial Officer

The foregoing certification is being furnished to accompany WebMD's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012 (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: income or loss from continuing operations calculated in accordance with GAAP (referred to below as “income from continuing operations”); or net income or loss calculated in accordance with GAAP (referred to below as “net income”). 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 income from continuing operations or net income. In addition, we may use Adjusted EBITDA in the incentive compensation programs applicable to some 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 income from continuing operations or net income, 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 income from continuing operations or to net income 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 income from continuing operations or to net income, 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 income from continuing operations or net income. 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 income from continuing operations and net income:

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

and will contribute to future revenue generation and should also note that such expense will recur in future periods.

- **Stock-Based Compensation Expense** . Stock-based compensation expense is a non-cash expense arising from the grant of stock-based awards to employees. We believe that excluding the effect of stock-based compensation from Adjusted EBITDA assists management and investors in making period-to-period comparisons in our company's 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 company's 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 income from continuing operations and net income. In recent periods, these other items have included, but were not limited to, (i) legal expenses relating to the Department of Justice investigation, (ii) a reduction of certain sales and use tax contingencies resulting from the expiration of certain applicable statutes of limitations, (iii) gain or loss on investments, and (iv) legal fees and other expenses incurred in connection with the process conducted by our Board of Directors to explore strategic alternatives for our company. 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.