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## **WebMD Reports Fourth Quarter and Full Year 2016 Financial Results**

### **WebMD Issues 2017 Financial Guidance**

### **WebMD Announces Exploration of Strategic Alternatives**

**New York, NY** (February 16, 2017) - WebMD Health Corp. (NASDAQ: WBMD), the leading source of health information, today announced fourth quarter and full year financial results for 2016.

"We are pleased to report fourth quarter and full year results near the high end of our expectations," said Steve Zatz, Chief Executive Officer, WebMD. "The future of health care is undeniably tied to digital interactions and, as the leading online service for physicians and consumers, we believe that WebMD will be a vital force in shaping that future."

#### **Financial Highlights**

For the three months ended December 31, 2016:

- Revenue was \$207.5 million, compared to \$192.1 million in the prior year period, an increase of 8%. Advertising and sponsorship revenue was \$171.0 million compared to \$158.3 million in the prior year period. Health services revenue, which we previously reported as private portal services revenue, was \$28.8 million compared to \$27.2 million in the prior year period. Information services revenue was \$7.7 million compared to \$6.6 million in the prior year period.
- Net income increased 32% to \$36.2 million, or \$0.73 per diluted share, compared to \$27.5 million, or \$0.60 per diluted share, in the prior year period.
- Earnings before interest, taxes, non-cash and other items ("Adjusted EBITDA") increased 16% to \$78.1 million, or 38% of revenue, compared to \$67.4 million, or 35% of revenue, in the prior year period.

For the year ended December 31, 2016:

- Revenue was \$705.0 million compared to \$636.4 million in the prior year, an increase of 11%. Advertising and sponsorship revenue was \$561.3 million compared to \$499.0 million in the prior year, an increase of 12%. Health services revenue, which we previously reported as private portal services revenue, was \$113.9 million compared to \$110.4 million in the prior year, an increase of 3%. Information services revenue was \$29.8 million compared to \$26.9 million in the prior year, an increase of 11%.

- Net income increased 43% to \$91.3 million, or \$1.97 per diluted share, compared to \$64.0 million, or \$1.48 per diluted share, in the prior year.
- Adjusted EBITDA increased 19% to \$230.6 million, or 33% of revenue, compared to \$193.2 million, or 30% of revenue, in the prior year.

### **Balance Sheet Highlights**

As of December 31, 2016, WebMD had: approximately \$991 million in investments and cash and cash equivalents; \$1.06 billion in aggregate principal amount of convertible notes outstanding; and approximately 37.6 million shares of its common stock outstanding (including approximately 900 thousand unvested shares of restricted stock).

During the fourth quarter, the company utilized \$110 million of cash to purchase 2.0 million shares of its common stock in a tender offer. The Company also utilized \$1.2 million of cash to purchase approximately 24 thousand shares of its common stock under its stock repurchase program. As of December 31, 2016, approximately \$45.6 million remained available for repurchases under WebMD's stock repurchase program. Under its stock repurchase program, WebMD may repurchase shares from time to time in the open market, through block trades or in private transactions, depending on market conditions and other factors.

### **Traffic Highlights**

Traffic to the WebMD Health Network during the fourth quarter of 2016 averaged 179.5 million unique users per month, generating 3.63 billion page views for the quarter, representing decreases of 11% and 9% in users and page views, respectively, when compared to the prior year period.

### **Financial Guidance**

Today WebMD issued financial guidance for the first quarter and full year 2017. For the full year ending December 31, 2017, WebMD expects:

- Revenue to be approximately \$710 million to \$730 million, an increase of 1% to 4% from the prior year.
  - \$580 million to \$598 million of revenue is expected to be from advertising and sponsorship, an increase of 3% to 7% from the prior year. Advertising and sponsorship from biopharma customers is expected to grow 2% to 5%. Advertising and sponsorship from OTC, CPG and other customers is expected to grow 8% to 11%.
  - \$99 million to \$100 million of revenue is expected to be from health services revenue, compared to \$113.9 million in 2016.
  - \$31 million to \$32 million of revenue is expected to be from information services, compared to \$29.8 million in 2016.
- Net income to be approximately \$89.0 million to \$98.0 million, or \$1.97 to \$2.10 per diluted share, compared to \$91.3 million, or \$1.97 per diluted share, in 2016.
- Adjusted EBITDA to be approximately \$233 million to \$243 million, an increase of 1% to 5% from the prior year. Adjusted EBITDA, as a percentage of revenue, to be approximately 32.8% to 33.3%, compared to 32.7% in the prior year.

Mr. Zatz continued, "Our financial outlook for this year reflects ongoing uncertainty in the healthcare landscape. While we are not satisfied with the growth we are projecting at the present

time for 2017, we remain positive about the longer term opportunity and believe that, as demand for digital health services continues to grow, WebMD and Medscape are uniquely positioned as the market leaders with strong brands, unparalleled engagement of consumer health and physician audiences, and a proven ability to demonstrate value to our customers.”

Based on the expected timing of delivery for customer programs, WebMD expects advertising and sponsorship revenue to be flat to slightly down in the first quarter of 2017 with growth occurring over the balance of 2017.

For the first quarter of 2017, WebMD expects:

- Revenue to be approximately \$151 million to \$154 million, a decrease of 3% to 5% from the prior year period.
- Net income to be approximately \$9.8 million to \$11.5 million, a decrease of approximately 27% to 38% from the prior year period.
- Adjusted EBITDA to be approximately \$38.0 million to \$40.0 million, a decrease of approximately 15% to 19% from the prior year period.

A schedule summarizing the Company’s financial guidance is attached to this press release.

#### **Exploration of Strategic Alternatives**

In a separate release issued today, WebMD announced that its Board of Directors, working together with its management team and legal and financial advisors, has commenced a process to explore and evaluate potential strategic alternatives focused on maximizing shareholder value. These alternatives could include, among other things, the sale of part or all of the Company, a merger with another party or other strategic transaction or continuing to execute on WebMD’s business plan.

J.P. Morgan Securities LLC is acting as financial advisor to the Company. Shearman & Sterling LLP is acting as legal advisor.

#### **Analyst and Investor Conference Call**

WebMD will hold a conference call with investors and analysts at 4:45 p.m. (Eastern) today. The call can be accessed at [www.wbmd.com](http://www.wbmd.com) (in the Investor Relations section). A replay of the audio webcast will be available at the same web address.

#### **About WebMD**

WebMD Health Corp. (NASDAQ: WBMD) is the leading provider of health information services, serving consumers, physicians, healthcare professionals, employers, and health plans through our public and private online portals, mobile platforms and health-focused publications.

The WebMD Health Network includes WebMD.com, Medscape.com, MedicineNet.com, eMedicineHealth.com, RxList.com, OnHealth.com, Medscape Education (Medscape.org) and other WebMD owned sites and apps.

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*All statements contained in this press release and the related analyst and investor conference call, other than statements of historical fact, are forward-looking statements, including those regarding: explorations of possible transactions and other strategic alternatives; guidance on our future financial results and other projections or measures of our future performance; market opportunities or momentum and our ability to*

capitalize on them; and the benefits expected from new or expected contracts with customers, from new or updated products or services and from other potential sources of additional revenue. These statements speak only as of the date of this press release, are based on our current plans and expectations, and involve risks and uncertainties that could cause actual future events or results to be different than those described in or implied by such forward-looking statements. These risks and uncertainties include those relating to: the nature and timing of any possible transaction or other strategic alternative or of any potential benefits from any such transaction or other alternative; market acceptance of our products and services; our relationships with customers and other factors affecting their use of our services and the timing of entry into and implementation of specific contracts with customers, including regulatory matters affecting their products and services; our ability to deploy new or updated services and to create new or enhanced revenue streams from those services; our ability to attract and retain qualified personnel; and changes in economic, political or regulatory conditions or other trends affecting the healthcare, Internet and information technology industries. Further information about these matters can be found in our Securities and Exchange Commission filings and this press release is intended to be read in conjunction with information contained in those filings. Except as required by applicable law or regulation, we do not undertake any obligation to update our forward-looking statements to reflect future events or circumstances.

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

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

	Three Months Ended		Years Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
Revenue	\$ 207,472	\$ 192,129	\$ 705,046	\$ 636,399
Cost of operations	72,895	69,475	266,654	247,311
Sales and marketing	41,328	40,129	145,962	138,025
General and administrative	23,397	24,183	91,141	91,580
Depreciation and amortization	7,721	7,418	30,792	30,521
Interest income	938	15	2,545	51
Interest expense	7,066	5,099	24,496	23,123
Loss on convertible notes	-	-	-	2,058
Gain on investments	-	-	-	139
Other expense	-	-	1,712	4,100
	<u>56,003</u>	<u>45,840</u>	<u>146,834</u>	<u>99,871</u>
Income before income tax provision				
Income tax provision	19,815	18,379	55,530	35,847
Net income	<u>\$ 36,188</u>	<u>\$ 27,461</u>	<u>\$ 91,304</u>	<u>\$ 64,024</u>
Net income per common share:				
Basic	<u>\$ 0.95</u>	<u>\$ 0.75</u>	<u>\$ 2.41</u>	<u>\$ 1.75</u>
Diluted	<u>\$ 0.73</u>	<u>\$ 0.60</u>	<u>\$ 1.97</u>	<u>\$ 1.48</u>
Weighted-average shares outstanding used in computing income per common share:				
Basic	<u>38,006</u>	<u>36,583</u>	<u>37,854</u>	<u>36,600</u>
Diluted	<u>55,211</u>	<u>51,338</u>	<u>54,179</u>	<u>52,653</u>

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

	Three Months Ended December 31,		Years Ended December 31,	
	2016	2015	2016	2015
Revenue				
Advertising and sponsorship				
Biopharma and medical device	\$ 132,166	\$ 119,528	\$ 428,519	\$ 371,220
OTC, CPG and other	38,847	38,758	132,754	127,805
	<u>171,013</u>	<u>158,286</u>	<u>561,273</u>	<u>499,025</u>
Health services	28,803	27,218	113,937	110,441
Information services	7,656	6,625	29,836	26,933
	<u>\$ 207,472</u>	<u>\$ 192,129</u>	<u>\$ 705,046</u>	<u>\$ 636,399</u>
Net income	<u>\$ 36,188</u>	<u>\$ 27,461</u>	<u>\$ 91,304</u>	<u>\$ 64,024</u>
Interest, taxes, non-cash and other items (a)				
Interest income	(938)	(15)	(2,545)	(51)
Interest expense	7,066	5,099	24,496	23,123
Income tax provision	19,815	18,379	55,530	35,847
Depreciation and amortization	7,721	7,418	30,792	30,521
Non-cash stock-based compensation	8,291	9,012	29,329	33,743
Loss on convertible notes	-	-	-	2,058
Gain on investments	-	-	-	(139)
Other expense	-	-	1,712	4,100
	<u>78,143</u>	<u>67,354</u>	<u>230,618</u>	<u>193,226</u>
Earnings before interest, taxes, non-cash and other items ("Adjusted EBITDA") (b)	<u>\$ 78,143</u>	<u>\$ 67,354</u>	<u>\$ 230,618</u>	<u>\$ 193,226</u>

(a) Reconciliation of net income to Adjusted EBITDA.

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

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

	December 31,	
	2016 (unaudited)	2015
<b><u>Assets</u></b>		
Cash and cash equivalents	\$ 492,424	\$ 641,165
Accounts receivable, net	179,454	174,313
Investments	498,500	-
Prepaid expenses and other current assets	15,294	18,998
Total current assets	1,185,672	834,476
Property and equipment, net	83,296	81,027
Goodwill	202,980	202,980
Intangible assets, net	7,774	10,894
Deferred tax assets, net	14,544	15,694
Other assets	6,920	10,852
Total Assets	\$ 1,501,186	\$ 1,155,923
<b><u>Liabilities and Stockholders' Equity</u></b>		
Accrued expenses	\$ 78,597	\$ 80,664
Deferred revenue	105,310	102,715
2.25% convertible notes due 2016, net	-	102,523
Total current liabilities	183,907	285,902
2.50% convertible notes due 2018, net	398,066	396,281
1.50% convertible notes due 2020, net	295,432	294,266
2.625% convertible notes due 2023, net	351,190	-
Other long-term liabilities	28,731	23,246
Stockholders' equity	243,860	156,228
Total Liabilities and Stockholders' Equity	\$ 1,501,186	\$ 1,155,923

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

	Years Ended December 31,	
	2016	2015
<b>Cash flows from operating activities:</b>		
Net income	\$ 91,304	\$ 64,024
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	30,792	30,521
Non-cash interest, net	3,906	4,172
Non-cash stock-based compensation	29,329	33,743
Deferred income taxes	1,083	(7,713)
Loss on convertible notes	-	2,058
Gain on investments	-	(139)
Changes in operating assets and liabilities:		
Accounts receivable	(5,141)	(37,507)
Prepaid expenses and other, net	4,039	(4,132)
Accrued expenses and other long-term liabilities	3,246	9,606
Deferred revenue	2,595	12,930
Net cash provided by operating activities	161,153	107,563
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(29,785)	(48,372)
Purchases of investments	(1,446,410)	-
Maturity of investments	948,078	139
Partial redemption of cost-method investment	2,599	-
Net cash used in investing activities	(525,518)	(48,233)
<b>Cash flows from financing activities:</b>		
Proceeds from exercise of stock options	65,309	21,939
Cash used for withholding taxes due on stock-based awards	(17,599)	(6,438)
Net proceeds from issuance of convertible notes	350,394	-
Maturity of convertible notes	(102,682)	(151,038)
Repurchase of shares through tender offers	(110,413)	-
Purchases of treasury stock	(23,643)	(28,406)
Excess tax benefit on stock-based awards	54,258	39,002
Net cash provided by (used in) financing activities	215,624	(124,941)
Net decrease in cash and cash equivalents	(148,741)	(65,611)
Cash and cash equivalents at beginning of period	641,165	706,776
Cash and cash equivalents at end of period	\$ 492,424	\$ 641,165



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

	Three Months Ended		Years Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
<b>Numerator:</b>				
Net income – Basic	\$ 36,188	\$ 27,461	\$ 91,304	\$ 64,024
Interest expense on 1.50% convertible notes, net of tax	878	864	3,513	3,456
Interest expense on 2.50% convertible notes, net of tax	1,827	1,797	7,307	7,189
Interest expense on 2.25% convertible notes, net of tax	-	449	457	3,460
Interest expense on 2.625% convertible notes, net of tax	1,676	-	3,911	-
Net income – Diluted	<u>\$ 40,569</u>	<u>\$ 30,571</u>	<u>\$ 106,492</u>	<u>\$ 78,129</u>
<b>Denominator:</b>				
Weighted-average shares – Basic	38,006	36,583	37,854	36,600
Stock options and restricted stock	1,158	1,427	1,658	1,412
1.50% convertible notes	5,699	5,694	5,695	5,694
2.50% convertible notes	6,210	6,205	6,206	6,205
2.25% convertible notes	-	1,429	353	2,742
2.625% convertible notes	4,138	-	2,413	-
Adjusted weighted-average shares after assumed conversions – Diluted	<u>55,211</u>	<u>51,338</u>	<u>54,179</u>	<u>52,653</u>
<b>Net income per common share:</b>				
Basic	<u>\$ 0.95</u>	<u>\$ 0.75</u>	<u>\$ 2.41</u>	<u>\$ 1.75</u>
Diluted	<u>\$ 0.73</u>	<u>\$ 0.60</u>	<u>\$ 1.97</u>	<u>\$ 1.48</u>

WEBMD HEALTH CORP.  
FINANCIAL GUIDANCE FOR THE YEAR ENDING DECEMBER 31, 2017  
(In millions, except per share amounts)

	Guidance Range	
Revenue		
Advertising and sponsorship		
Biopharma and medical device	\$ 437.0	\$ 450.0
OTC, CPG and other	143.0	148.0
	580.0	598.0
Health services	99.0	100.0
Information services	31.0	32.0
	\$ 710.0	\$ 730.0
Net income	\$ 89.0	\$ 98.0
Interest, taxes, non-cash and other items (a)		
Interest expense, net	21.0	21.0
Income tax provision (d)	54.0	60.0
Depreciation and amortization	32.0	30.0
Non-cash stock-based compensation	37.0	34.0
Earnings before interest, taxes, non-cash and other items ("Adjusted EBITDA") (b)	\$ 233.0	\$ 243.0
Income per share:		
Basic	\$ 2.41	\$ 2.61
Diluted (c)	\$ 1.97	\$ 2.10
Calculation of income per share:		
Net income (numerator for basic income per share)	\$ 89.0	\$ 98.0
Add-back of interest expense, net of tax, related to:		
1.50% convertible notes	3.5	3.5
2.50% convertible notes	7.3	7.3
2.625% convertible notes	6.7	6.7
Numerator for diluted income per share	\$ 106.5	\$ 115.5
Weighted average shares outstanding (denominator for basic income per share)	37.0	37.5
Stock options and restricted stock	1.0	1.5
Weighted average shares issuable upon conversion of:		
1.50% convertible notes	5.7	5.7
2.50% convertible notes	6.2	6.2
2.625% convertible notes	4.2	4.2
Denominator for diluted income per share	54.1	55.1

(a) Reconciliation of net income to Adjusted EBITDA.

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

(c) See Supplemental 2017 Guidance for Income Per Share Calculation below.

(d) Effective January 1, 2017, the Company will adopt a new accounting standard which requires excess tax benefits or deficiencies resulting from stock award activity to be included within the income tax provision. The income tax provision included in the 2017 financial guidance (including the Q1 2017 guidance provided below) excludes any adjustments related to this new accounting standard because the adjustments will be based on actual exercise or settlement activity, which cannot be estimated at this time.

Additional information regarding forecast for the quarter ending March 31, 2017:

- Revenue is forecasted to be between \$151 million to \$154 million.
- Revenue distribution is forecasted to be: approximately 58.5% from Advertising and sponsorship - Biopharma and medical device; 21% from Advertising and sponsorship - OTC, CPG and other; 15.5% from health services; and 5% from information services.
- Net income is forecasted to be between \$9.8 million to \$11.5 million.
- Adjusted EBITDA is forecasted to be between \$38 million to \$40 million.
- In calculating Adjusted EBITDA, the Company excluded the following expense items that are included in the calculation of Net Income: interest expense, net of \$5.3 million; depreciation and amortization of \$7.4 to \$7.0 million; non-cash stock-based compensation of \$9.3 to \$8.9 million; and income tax provision of \$6.2 to \$7.3 million. See Annex A - Explanation of Non-GAAP Financial Measures.

The above guidance does not include the impact, if any, of future deployment of capital for items such as share repurchases, convertible note repurchases or acquisitions, gains or losses from discontinued operations, and other non-recurring, one-time or unusual items (including the strategic review announced in the accompanying press release).

WEBMD HEALTH CORP.  
SUPPLEMENTAL 2017 GUIDANCE FOR INCOME PER SHARE CALCULATION

Based on the Company's Financial Guidance for the Year Ending December 31, 2017, the 1.50% convertible notes, the 2.50% convertible notes and the 2.625% convertible notes are expected to be dilutive to net income on both the low end and high end of the full year guidance range. Additionally, the 1.50% convertible notes, the 2.50% convertible notes and the 2.625% convertible notes may be dilutive in certain future quarters, depending on the amount of net income for such quarter. The following table contains the approximate level of net income for an individual future quarter and for the full year 2017 at which each of the series of convertible notes would become dilutive to income per share. To the extent this net income is exceeded for any such period, the table also includes the amounts by which the numerator and denominator should each be adjusted for purposes of the diluted income per share calculation.

	Quarterly Amounts			Annual Amounts		
	1.50% Convertible Notes	2.50% Convertible Notes	2.625% Convertible Notes	1.50% Convertible Notes	2.50% Convertible Notes	2.625% Convertible Notes
<i>All amounts in millions</i>						
Approximate net income at which convertible notes become dilutive (a)	\$ 5.8	\$ 11.9	\$ 17.5	\$ 23.3	\$ 47.7	\$ 69.8
Interest expense, net of tax to add-back to net income (numerator)	\$ 0.9	\$ 1.8	\$ 1.7	\$ 3.5	\$ 7.3	\$ 6.7
Additional shares to include in weighted-average diluted share count (denominator)	5.7	6.2	4.2	5.7	6.2	4.2

(a) These net income amounts assume a weighted-average diluted share count of 38.0 million shares attributable to common shares, stock options and restricted stock (prior to the effect of convertible notes) and are subject to change as such weighted-average share count changes for a given quarter or annual period.

## ANNEX A

### Explanation of Non-GAAP Financial Measures

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

Adjusted EBITDA is used by our management as an additional measure of our company’s performance for purposes of business decision-making, including developing budgets, managing expenditures, and evaluating potential acquisitions or divestitures. Period-to-period comparisons of Adjusted EBITDA help our management identify additional trends in our company’s financial results that may not be shown solely by period-to-period comparisons of net income. 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 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 net income that accompany our press releases and disclosure documents containing non-GAAP financial measures, including the reconciliations contained in the accompanying press release attachments.

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

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

- ***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. Stock-based compensation expenses included in the Consolidated Statement of Operations are summarized as follows:

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	2016	2015
Non-cash stock-based compensation included in:				
Cost of operations	\$ 1,509	\$ 1,426	\$ 5,216	\$ 5,217
Sales and marketing	\$ 1,647	\$ 2,191	\$ 5,942	\$ 7,290
General and administrative	\$ 5,135	\$ 5,395	\$ 18,171	\$ 21,236

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

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	2016	2015
Non-cash interest expense				
2.25% Convertible Notes	\$ —	\$ 159	\$ 159	\$ 1,221
2.50% Convertible Notes	\$ 446	\$ 446	\$ 1,785	\$ 1,785
1.50% Convertible Notes	\$ 291	\$ 291	\$ 1,166	\$ 1,166
2.625% Convertible Notes	\$ 342	\$ —	\$ 796	\$ —
Cash interest expense				
2.25% Convertible Notes	\$ —	\$ 578	\$ 577	\$ 4,451
2.50% Convertible Notes	\$ 2,500	\$ 2,500	\$ 10,000	\$ 10,000
1.50% Convertible Notes	\$ 1,125	\$ 1,125	\$ 4,500	\$ 4,500
2.625% Convertible Notes	\$ 2,362	\$ —	\$ 5,513	\$ —

- ***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 adjusted through the statement of operations or additional paid-in capital. The timing of such adjustments has not been consistent and as a result, our income tax expense can fluctuate significantly from period to period in a manner not directly related to our operating performance. We exclude the income tax provision (benefit) from Adjusted EBITDA (i) because we believe that the income tax provision (benefit) is not directly attributable to the underlying performance of our business operations and, accordingly, its exclusion assists management and investors in making period-to-period comparisons of operating performance and (ii) to assist management and investors in making comparisons to companies with different tax attributes. Investors should note that income tax provision (benefit) will recur in future periods.
- ***Other Items.*** We engage in other activities and transactions that can impact our net income. In recent periods, these other items included, but were not limited to: (i) gain on investments; (ii) settlements of litigation or claims; (iii) loss on repurchases of our convertible notes; and (iv) severance expense. 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.