

# WEBMD HEALTH CORP.

## FORM 10-Q (Quarterly Report)

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Address	395 HUDSON STREET NEW YORK, NY 10014
Telephone	212-624-3700
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Industry	Internet Services
Sector	Technology
Fiscal Year	12/31

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

**Form 10-Q**

(Mark One)

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

For the quarterly period ended **March 31, 2017**

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 or other jurisdiction of incorporation or organization)

**395 Hudson Street  
New York, New York**

(Address of principal executive offices)

**20-2783228**

(I.R.S. Employer Identification No.)

**10014**

(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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes  No

As of May 2, 2017, the Registrant had 37,817,524 shares of Common Stock outstanding (including unvested shares of restricted Common Stock).

**WEBMD HEALTH CORP.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**For the period ended March 31, 2017**  
**TABLE OF CONTENTS**

	<b>Page Number</b>
<a href="#">Forward-Looking Statements</a>	iii
PART I	1
Item 1.	1
<a href="#">Financial Information</a>	1
<a href="#">Financial Statements</a>	1
<a href="#">Consolidated Balance Sheets as of March 31, 2017 (unaudited) and December 31, 2016</a>	2
<a href="#">Consolidated Statements of Operations for the three months ended March 31, 2017 and 2016 (unaudited)</a>	3
<a href="#">Consolidated Statements of Comprehensive Income for the three months ended March 31, 2017 and 2016 (unaudited)</a>	4
<a href="#">Consolidated Statements of Cash Flows for the three months ended March 31, 2017 and 2016 (unaudited)</a>	5
<a href="#">Notes to Consolidated Financial Statements</a>	23
Item 2.	40
Item 3.	40
Item 4.	40
PART II	41
Item 1.	41
Item 1A.	41
Item 2.	64
Item 6.	64
<a href="#">Signatures</a>	65
<a href="#">Exhibit Index</a>	E-1

WebMD<sup>®</sup>, Medscape<sup>®</sup>, CME Circle<sup>®</sup>, Medpulse<sup>®</sup>, eMedicine<sup>®</sup>, MedicineNet<sup>®</sup>, theheart.org<sup>®</sup> and RxList<sup>®</sup> are among the trademarks of WebMD Health Corp. or its subsidiaries.

## 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 attract sufficient audiences of consumers and healthcare professionals to the areas of *The WebMD Health Network* of interest to our advertising and sponsorship clients;
- failure to achieve sufficient levels of usage of our *WebMD Health Services* platform and related services;
- the inability to successfully deploy new or updated applications or services for *The WebMD Health Network* and our *WebMD Health Services* platform or, if deployed, the failure to create new or enhanced revenue streams from those applications or services;
- competition for advertisers and sponsors for our Websites and mobile applications and for employer and health insurer clients of our *WebMD Health Services* platform;
- reductions in promotional and educational spending by pharmaceutical and biotechnology companies, whether resulting from the number and timing of regulatory approvals of new products or indications, from the number and timing of regulatory approvals of generic products that compete with existing brand name products or from other factors affecting the relevant markets;
- failure to preserve and enhance the "WebMD" and "Medscape" brands and our other brands;
- the inability to provide health coaching and condition management services that meet the needs of clients and potential clients of our *WebMD Health Services* platform or the failure to do so with sufficient efficiency to make those services profitable for us;
- the inability to attract and retain qualified personnel;
- risks relating to the exploration of strategic alternatives that we announced on February 16, 2017;
- 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 Risk Factors 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 factors, including unknown or unpredictable ones, also could have material adverse effects on our future results. The information in this Quarterly Report should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2016 and our other filings with the Securities and Exchange Commission since that filing.

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

**PART I**  
**FINANCIAL INFORMATION**

**ITEM 1. Financial Statements**

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

	<u>March 31,</u> <u>2017</u> <u>(unaudited)</u>	<u>December 31,</u> <u>2016</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 88,567	\$ 492,424
Accounts receivable, net of allowance for doubtful accounts of \$1,730 at March 31, 2017 and \$1,532 at December 31, 2016	158,228	179,454
Investments	945,885	498,500
Prepaid expenses and other current assets	21,381	15,294
Total current assets	<u>1,214,061</u>	<u>1,185,672</u>
Property and equipment, net	81,870	83,296
Goodwill	202,980	202,980
Intangible assets, net	7,124	7,774
Deferred tax assets, net	212,690	14,544
Other assets	7,382	6,920
<b>TOTAL ASSETS</b>	<u><b>\$ 1,726,107</b></u>	<u><b>\$ 1,501,186</b></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accrued expenses	\$ 56,082	\$ 78,597
Deferred revenue	123,411	105,310
2.50% convertible notes due 2018, net	398,512	—
Total current liabilities	<u>578,005</u>	<u>183,907</u>
2.50% convertible notes due 2018, net	—	398,066
1.50% convertible notes due 2020, net	295,724	295,432
2.625% convertible notes due 2023, net	351,531	351,190
Other long-term liabilities	28,067	28,731
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; 57,437,992 shares issued at March 31, 2017 and December 31, 2016	574	574
Additional paid-in capital	9,310,838	9,303,783
Treasury stock, at cost; 20,411,171 shares at March 31, 2017 and 20,698,568 shares at December 31, 2016	(739,715)	(747,225)
Accumulated other comprehensive (loss) income	(4)	502
Accumulated deficit	<u>(8,098,913)</u>	<u>(8,313,774)</u>
Stockholders' equity	<u>472,780</u>	<u>243,860</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u><b>\$ 1,726,107</b></u>	<u><b>\$ 1,501,186</b></u>

See accompanying notes.

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
Revenue	\$ 154,058	\$ 158,553
Cost of operations	63,501	62,513
Sales and marketing	36,008	33,756
General and administrative	22,619	23,756
Depreciation and amortization	7,061	7,487
Interest income	1,953	206
Interest expense	7,066	5,100
Other expense	262	—
Income before income tax provision	19,494	26,147
Income tax provision	7,161	10,429
Net income	<u>\$ 12,333</u>	<u>\$ 15,718</u>
Net income per common share:		
Basic	<u>\$ 0.33</u>	<u>\$ 0.42</u>
Diluted	<u>\$ 0.30</u>	<u>\$ 0.36</u>
Weighted-average shares outstanding used in computing per share amounts:		
Basic	<u>36,866</u>	<u>37,267</u>
Diluted	<u>49,828</u>	<u>52,335</u>

See accompanying notes.

**WEBMD HEALTH CORP.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(In thousands, unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
Net income	\$12,333	\$ 15,718
Other comprehensive loss, net of tax:		
Unrealized losses, net of tax	(506)	(99)
Total other comprehensive loss, net of tax	(506)	(99)
Comprehensive income	<u>\$11,827</u>	<u>\$ 15,619</u>

See accompanying notes.

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 12,333	\$ 15,718
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,061	7,487
Non-cash interest, net	1,079	897
Non-cash stock-based compensation	9,023	8,528
Deferred income taxes	6,621	9,074
Changes in operating assets and liabilities:		
Accounts receivable	21,226	(3,070)
Prepaid expenses and other, net	(7,850)	1,731
Accrued expenses and other long-term liabilities	(22,722)	(20,147)
Deferred revenue	18,101	13,598
Net cash provided by operating activities	44,872	33,816
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(5,427)	(9,229)
Purchases of investments	(446,042)	—
Partial redemption of cost-method investment	—	526
Net cash used in investing activities	(451,469)	(8,703)
<b>Cash flows from financing activities:</b>		
Proceeds from exercise of stock options	6,604	30,165
Cash used for withholding taxes due on stock-based awards	(3,864)	(890)
Maturity of convertible notes	—	(102,682)
Net cash provided by (used in) financing activities	2,740	(73,407)
Net decrease in cash and cash equivalents	(403,857)	(48,294)
Cash and cash equivalents at beginning of period	492,424	641,165
Cash and cash equivalents at end of period	<u>\$ 88,567</u>	<u>\$ 592,871</u>

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. The Company’s Common Stock trades under the symbol “WBMD” on the Nasdaq Global Select Market. The Company generates revenue from the advertising and sponsorship services of *The WebMD Health Network* and related operations, from the services it markets to employers and health plans under the *WebMD Health Services* brand and from certain information services, each of which is described below and discussed further under “Presentation of Segment Information” in this Note 1.

*Advertising and Sponsorship* . *The WebMD Health Network* includes: [www.WebMD.com](http://www.WebMD.com) , the Company’s primary Website for consumers and related mobile apps; [www.Medscape.com](http://www.Medscape.com) , the Company’s primary Website for physicians and other healthcare professionals and related mobile apps; and other sites and apps through which the Company provides branded health and wellness content, tools and services. The Company’s services for consumers enable them to obtain information on health and wellness topics or on a particular disease or condition, to assess their personal health status, to use online trackers, tools and quizzes, to locate physicians, to receive periodic e-mailed newsletters and alerts on topics of individual interest, and to participate in online communities with peers and experts. The Company’s services 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 does not charge any usage, membership or download fees for access to Websites or mobile apps included in *The WebMD Health Network* . The Company generates revenue from *The WebMD Health Network* and mobile platforms primarily through the sale of various types of advertising and sponsorship programs to its clients, which include: pharmaceutical, biotechnology and medical device companies; hospitals, clinics and other healthcare services companies; health insurance providers; consumer products companies whose products or services relate to health, wellness, diet, fitness, lifestyle, safety and illness prevention; and various other businesses, organizations and governmental entities. Advertisers and sponsors use the Company’s services to reach, educate and inform target audiences of consumers, physicians and other healthcare professionals. The Company also generates revenue from advertising sold in *WebMD Magazine* , a consumer magazine distributed to physician office waiting rooms.

*Health Services* . Under the *WebMD Health Services* brand, the Company markets wellness services and solutions that help employers and health plans improve the health of their employee and plan participant populations. These services help the Company’s clients’ employees and plan participants make informed decisions about health risks and lifestyle choices. The Company hosts its *WebMD Health Services* platform for its employer and health plan clients, and its cloud-based online services can be accessed by their employees and plan participants using a computer, a tablet or a smartphone. The Company’s *WebMD Health Services* solutions start with an assessment of individual health and well-being and then work to provide personalized paths for improving or maintaining health. The Company also offers clients the ability to design team-based and individual wellness challenges that help foster a culture of wellness in the workplace. In addition, the Company’s health and wellness coaching programs, available onsite and telephonically and focusing on lifestyle, condition management, weight management and tobacco cessation, help participants make healthier choices to achieve their health and well-being goals. The *WebMD Digital Health Assistant* <sup>SM</sup> offers online, self-directed health coaching which enables participants to set and track wellness goals and follow self-paced personal action plans. The Company generates revenue from employer and health plan subscriptions to its *WebMD Health Services* platform, either directly or through its distributor relationships. In addition, clients are charged on a per-participant basis for its health and wellness coaching programs.

**WEBMD HEALTH CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

*Information Services.* The Company also generates revenue from the sale of certain information products and services on a stand-alone basis using de-identified data that it licenses from a small number of third-party data sources, of which the principal source is a license retained by HLTH Corporation (“HLTH”), the Company’s former parent company, in connection with the sale of its Emdeon Business Services (“EBS”) business. As the successor to HLTH, the Company received this license which provides the Company the rights to certain de-identified data from the operation of the EBS business (which is now known as Change Healthcare) through early February 2018 for use in the development and commercialization of various information products and services. Customers include data services, informatics and consulting companies. The Company pays a royalty to Change Healthcare in connection with the data it receives through its license with Change Healthcare. The Company’s Information Services revenue is recognized net of this royalty amount. As described in Note 6 below, Change Healthcare filed a lawsuit in April 2017 challenging the Company’s rights under the license agreement to continue to use the data delivered to the Company during the term of the agreement, after the agreement’s termination in early February 2018.

**Interim Financial Statements**

The unaudited consolidated financial statements of the Company have been prepared by management and reflect all adjustments (consisting of only normal recurring adjustments) that, in the opinion of management, are necessary for a fair presentation of the interim periods presented. The results of operations for the three months ended March 31, 2017 are not necessarily indicative of the operating results to be expected for any subsequent period or for the entire year ending December 31, 2017. 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, 2016, which are included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission.

**Seasonality**

The timing of the Company’s revenue is affected by seasonal factors. The Company’s advertising and sponsorship revenue is seasonal, primarily due to the annual spending patterns of the Company’s advertising and sponsorship clients. 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. Additionally, 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 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 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

## WEBMD HEALTH CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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, the value of foreign currency forward contracts, 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 revenue in four groups, as set forth in the table below. The first group is "Advertising and Sponsorship – Biopharma and Medical Device" and consists of advertising and sponsorship revenue from pharmaceutical, biotechnology and medical device clients relating to prescription pharmaceutical products or other regulated devices or products or for sponsoring educational programs. The second category is "Advertising and Sponsorship – OTC, CPG and Other" and consists of advertising and sponsorship revenue relating to non-Rx or over-the-counter medications and other healthcare products, food and beverages, beauty products and other consumer products, as well as revenue from clients such as retailers, pharmacies, hospitals, health insurance companies and government agencies and market research companies where the Company provides physician recruitment services. The combined revenue of the first two groups is sometimes referred to as "Advertising and Sponsorship" revenue. The third group is "Health Services" (which the Company previously referred to as "Private Portal Services") and consists of revenue from employers and health plans for subscriptions to the Company's *WebMD Health Services* platform and for related services, including health coaching and condition management services. The change in the name of this group to "Health Services" began in the Company's reporting on the quarter ended June 30, 2016 and did not reflect any change in the source of the revenue included in this group from prior periods. The fourth group is "Information Services" and consists of revenue from the sale of stand-alone information and data products. Discrete financial information related to a measure of profit or loss for these four revenue groups 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 segment.

The following table presents the revenues recognized from the four revenue groups described above during the three months ended March 31, 2017 and 2016:

	Three Months Ended	
	March 31,	
	2017	2016
Advertising and sponsorship		
Biopharma and medical device	\$ 89,480	\$ 88,685
OTC, CPG and other	31,998	33,754
	<u>121,478</u>	<u>122,439</u>
Health services	24,539	28,255
Information services	8,041	7,859
	<u>\$ 154,058</u>	<u>\$ 158,553</u>

## WEBMD HEALTH CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## Net Income Per Common Share

Basic income per common share has been computed using the weighted-average number of shares of Common Stock outstanding during the periods presented. Diluted 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 March 31,	
	2017	2016
<b>Numerator:</b>		
Net income – Basic	\$ 12,333	\$ 15,718
Interest expense on 1.50% Notes, net of tax	878	878
Interest expense on 2.50% Notes, net of tax	1,827	1,827
Interest expense on 2.25% Notes, net of tax	—	457
Net income – Diluted	<u>\$ 15,038</u>	<u>\$ 18,880</u>
<b>Denominator:</b>		
Weighted-average shares – Basic	36,866	37,267
Stock options and restricted stock	1,007	1,755
1.50% Notes	5,721	5,694
2.50% Notes	6,234	6,205
2.25% Notes	—	1,414
Adjusted weighted-average shares after assumed conversions – Diluted	<u>49,828</u>	<u>52,335</u>
Net income per common share:		
Basic	<u>\$ 0.33</u>	<u>\$ 0.42</u>
Diluted	<u>\$ 0.30</u>	<u>\$ 0.36</u>

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

	Three Months Ended March 31,	
	2017	2016
Options and restricted stock	2,846	1,000
2.625% Notes	4,154	—
	<u>7,000</u>	<u>1,000</u>

WEBMD HEALTH CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Reclassifications**

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

**Recent Accounting Pronouncements**

*Accounting Pronouncements Adopted During 2017*

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which addresses, among other items, accounting for income taxes, forfeitures, and cash flow presentation of share-based compensation. The Company adopted ASU No. 2016-09 effective January 1, 2017.

The adoption of ASU No. 2016-09 primarily resulted in the following:

- Net operating losses related to excess tax benefits on stock-based awards are now recognized as deferred tax assets on the balance sheet and are subject to a valuation allowance if the asset is not realizable. Effective January 1, 2017, the Company recorded a net cumulative-effect adjustment to increase retained earnings and increase deferred tax assets by \$204,475 related to the recognition of the previously unrecognized tax benefits.
- On a prospective basis, excess tax benefits and deficiencies generated when stock awards vest or settle are no longer recognized in equity but are instead recognized as a reduction or increase to the income tax provision, subject to a valuation allowance if the deduction is not realizable. During the three months ended March 31, 2017, the Company recorded a decrease to its income tax provision of \$267 reflecting the recognition of excess tax benefits for stock-based awards that vested or were settled during the period.
- Excess tax benefits on stock-based awards are now presented as an operating activity rather than as a financing activity within the consolidated statements of cash flows. The Company elected to retrospectively adopt the classification change in the statements of cash flows. Accordingly, \$7,897 in excess tax benefits on stock-based awards for the three months ended March 31, 2016 were reclassified from financing activities to operating activities to conform with the current year presentation.
- The Company has elected to account for forfeitures of stock-based awards as they occur, rather than estimate expected forfeitures. Effective January 1, 2017, the Company recorded a net cumulative-effect adjustment to decrease retained earnings and increase additional paid-in capital by \$1,947, reflecting the previously unrecognized compensation expense due to estimated forfeitures.

*Accounting Pronouncements to be Adopted in the Future*

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to achieve a consistent application of revenue recognition within the U.S., resulting in a single revenue model to be applied by reporting companies under GAAP. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the revised guidance requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which delays the effective date of ASU No. 2014-09 by one year. As a result, the revised guidance is effective for the Company beginning in the quarter ending March 31, 2018. Early adoption is permitted, but not before the original effective date of the guidance. The revised guidance is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. In

**WEBMD HEALTH CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

March, April, May and December 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, and ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, respectively. ASU No. 2016-08, ASU No. 2016-10, ASU No. 2016-12 and ASU No. 2016-20 provide supplemental adoption guidance and clarification to ASU No. 2014-09, and must be adopted concurrently with the adoption of ASU No. 2014-09. The Company expects that it will adopt the revised guidance under the modified retrospective method; however, the Company has not yet determined the impact the revised guidance will have on its consolidated financial statements in periods following adoption.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which revises the classification and measurement of investments in certain equity investments and the presentation of certain fair value changes for certain financial liabilities measured at fair value. ASU No. 2016-01 also requires the change in fair value of many equity investments to be recognized in net income. The revised guidance is effective for the Company beginning in the quarter ending March 31, 2018. The Company has not yet determined the impact the revised guidance will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The revised guidance must be applied on a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The revised guidance is effective for the Company beginning in the quarter ending March 31, 2019. The Company has not yet determined the impact the revised guidance will have on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which revises the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. The revised guidance is effective for the Company beginning in the quarter ending March 31, 2020 and must be adopted using a modified retrospective transition approach. The Company has not yet determined the impact the revised guidance will have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The revised guidance is effective for the Company beginning in the quarter ending March 31, 2018 with early adoption permitted and must be applied retrospectively to all periods presented. The Company has not yet determined the impact the revised guidance will have on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. The revised guidance must be applied using a retrospective transition method to each period presented and is effective for the Company beginning in the quarter ending March 31, 2018. The Company has not yet determined the impact the revised guidance will have on its consolidated financial statements.

WEBMD HEALTH CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which clarifies the definition of a business by providing a more robust framework to use in determining when a set of assets and activities is a business. The revised guidance is effective for the Company beginning in the quarter ending March 31, 2018. The Company has not yet determined the impact the revised guidance will have on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminates step 2 from the goodwill impairment test. The revised guidance must be applied on a prospective basis and is effective for the Company beginning in the quarter ending March 31, 2020, with early adoption permitted on January 1, 2017. The Company has not yet determined the impact the revised guidance will have on its consolidated financial statements.

**2. Convertible Notes**

**2.50% Convertible Notes due 2018**

On January 11, 2011, the Company issued \$400,000 aggregate principal amount of its 2.50% Convertible Notes due 2018 (the “2.50% Notes”) in a private offering. Unless previously converted, the 2.50% Notes will mature on January 31, 2018. Net proceeds from the sale of the 2.50% Notes were approximately \$387,345, after deducting the related offering expenses of \$12,655. Approximately \$100,000 from the net proceeds 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, the conversion rate was adjusted to 15.3223 shares of Common Stock per thousand dollars principal amount of the 2.50% Notes. This was equivalent to an adjusted conversion price of approximately \$65.26 per share of Common Stock. In the aggregate, the 2.50% Notes were convertible into 6,128,920 shares of Common Stock following the April 4, 2012 adjustment.

Effective September 11, 2013, after giving effect to an adjustment resulting from a tender offer for the Company’s Common Stock that the Company completed on September 10, 2013, the conversion rate was adjusted to 15.4764 shares of Common Stock per thousand dollars principal amount of the 2.50% Notes. This was equivalent to an adjusted conversion price of approximately \$64.61 per share of Common Stock. In the aggregate, the 2.50% Notes were convertible into 6,190,560 shares of Common Stock following the September 11, 2013 adjustment.

Effective September 10, 2014, after giving effect to an adjustment resulting from a tender offer for the Company’s Common Stock that the Company completed on September 9, 2014, the conversion rate was adjusted to 15.5118 shares of Common Stock per thousand dollars principal amount of the 2.50% Notes. This was equivalent to an adjusted conversion price of approximately \$64.47 per share of Common Stock. In the aggregate, the 2.50% Notes were convertible into 6,204,720 shares of Common Stock following the September 10, 2014 adjustment.

**WEBMD HEALTH CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Effective December 16, 2016, after giving effect to an adjustment resulting from a tender offer for the Company's Common Stock that the Company completed on December 15, 2016, the conversion rate was adjusted to 15.5854 shares of Common Stock per thousand dollars principal amount of the 2.50% Notes. This is equivalent to an adjusted conversion price of approximately \$64.16 per share of Common Stock. In the aggregate, the 2.50% Notes are convertible into 6,234,160 shares of Common Stock following the December 16, 2016 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% Convertible Notes due 2016 (the "2.25% Notes") in a private offering. Net proceeds from the sale of the 2.25% Notes were approximately \$387,400, after deducting the related offering expenses of \$12,595. Approximately \$50,000 from the net proceeds 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 was 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 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, the conversion rate was adjusted to 13.7502 shares of Common Stock per thousand dollars principal amount of the 2.25% Notes. This was equivalent to an adjusted conversion price of approximately \$72.73 per share of Common Stock. In the aggregate, the 2.25% Notes were convertible into 5,500,080 shares of Common Stock following the April 4, 2012 adjustment.

Effective September 11, 2013, after giving effect to an adjustment resulting from a tender offer for the Company's Common Stock that the Company completed on September 10, 2013, the conversion rate was adjusted to 13.8884 shares of Common Stock per thousand dollars principal amount of the 2.25% Notes. This was equivalent to an adjusted conversion price of approximately \$72.00 per share of Common Stock. In the aggregate, the 2.25% Notes were convertible into 5,555,360 shares of Common Stock following the September 11, 2013 adjustment.

During the year ended December 31, 2013, the Company repurchased \$100,000 principal amount of its 2.25% Notes for \$101,750 in cash in a privately negotiated transaction. Also during the year ended December 31, 2013, the Company repurchased \$47,768 principal amount of its 2.25% Notes for \$48,604 in cash in the open market. The Company recognized a pre-tax loss of \$4,871 in 2013 related to these repurchases. The loss included



**WEBMD HEALTH CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

the expensing of the remaining deferred issuance costs outstanding related to the repurchased notes. After these repurchases in 2013, the remaining principal amount of the 2.25% Notes outstanding was \$252,232, which, in the aggregate, was convertible into 3,503,099 shares of Common Stock.

Effective September 10, 2014, after giving effect to an adjustment resulting from a tender offer for the Company's Common Stock that the Company completed on September 9, 2014, the conversion rate was adjusted to 13.9202 shares of Common Stock per thousand dollars principal amount of the 2.25% Notes. This was equivalent to an adjusted conversion price of approximately \$71.84 per share of Common Stock. In the aggregate, the 2.25% Notes were convertible into 3,511,120 shares of Common Stock following the September 10, 2014 adjustment.

During the year ended December 31, 2015, the Company repurchased \$149,550 principal amount of its 2.25% Notes for \$151,038 in cash in privately negotiated transactions. The Company recognized a pre-tax loss of \$2,058 in 2015 related to these repurchases. The loss included the expensing of the deferred issuance costs outstanding related to the repurchased notes. After these repurchases, the remaining principal amount of the 2.25% Notes outstanding was \$102,682, which, in the aggregate, was convertible into 1,429,354 shares of Common Stock. The 2.25% Notes matured on March 31, 2016 and the remaining principal amount of \$102,682 was repaid to the holders of the 2.25% Notes.

**1.50% Convertible Notes due 2020**

On November 26, 2013, the Company issued \$300,000 aggregate principal amount of its 1.50% Convertible Notes due 2020 (the "1.50% Notes") in a private offering. Unless previously converted, the 1.50% Notes will mature on December 1, 2020. Net proceeds from the sale of the 1.50% Notes were approximately \$291,823, after deducting the related offering expenses of \$8,177. Interest on the 1.50% Notes is payable semi-annually on June 1 and December 1 of each year, commencing June 1, 2014. Under the terms of the 1.50% Notes, holders were able to surrender their 1.50% Notes for conversion into the Company's Common Stock at an initial conversion rate of 18.9362 shares of Common Stock per thousand dollars principal amount of the 1.50% Notes. This was equivalent to an initial conversion price of approximately \$52.81 per share of Common Stock. In the aggregate, the 1.50% Notes were convertible into 5,680,860 shares of the Company's Common Stock. The conversion rate may be adjusted under certain circumstances.

Effective September 10, 2014, after giving effect to an adjustment resulting from a tender offer for the Company's Common Stock that the Company completed on September 9, 2014, the conversion rate was adjusted to 18.9795 shares of Common Stock per thousand dollars principal amount of the 1.50% Notes. This was equivalent to an adjusted conversion price of approximately \$52.69 per share of Common Stock. In the aggregate, the 1.50% Notes were convertible into 5,693,850 shares of Common Stock following the September 10, 2014 adjustment.

Effective December 16, 2016, after giving effect to an adjustment resulting from a tender offer for the Company's Common Stock that the Company completed on December 15, 2016, the conversion rate was adjusted to 19.0695 shares of Common Stock per thousand dollars principal amount of the 1.50% Notes. This is equivalent to an adjusted conversion price of approximately \$52.44 per share of Common Stock. In the aggregate, the 1.50% Notes are convertible into 5,720,850 shares of Common Stock following the December 16, 2016 adjustment.

Under the terms of the 1.50% Notes, if the Company undergoes certain change of control or other fundamental change transactions prior to the maturity date of the 1.50% Notes, holders of the 1.50% Notes will have the right, at their option, to require the Company to repurchase some or all of their 1.50% Notes at a repurchase price equal to 100% of the principal amount of the 1.50% Notes being repurchased, plus accrued and

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

unpaid interest to, but excluding, the repurchase date. However, the repurchase option will not apply in the case of certain change of control or other fundamental change transactions in which the Company is acquired by a public company, and (a) not less than 90% of the consideration received or to be received by holders of WebMD Common Stock, excluding cash payments for fractional shares, consists of acquirer common stock and (b) as a result of the transaction, the 1.50% Notes become convertible into the same consideration.

**2.625% Convertible Notes due 2023**

On June 1, 2016, the Company issued \$360,000 aggregate principal amount of its 2.625% Convertible Notes due 2023 (the “2.625% Notes”) in a private offering. Unless previously converted, the 2.625% Notes will mature on June 15, 2023. Net proceeds from the sale of the 2.625% Notes were approximately \$350,394, after deducting the related offering expenses of \$9,606. Interest on the 2.625% Notes is payable semi-annually on June 15 and December 15 of each year, commencing December 15, 2016. Under the terms of the 2.625% Notes, holders were able to surrender their 2.625% Notes for conversion into the Company’s Common Stock at an initial conversion rate of 11.4845 shares of Common Stock per thousand dollars principal amount of the 2.625% Notes. This was equivalent to an initial conversion price of approximately \$87.07 per share of Common Stock. In the aggregate, the 2.625% Notes were convertible into 4,134,420 shares of the Company’s Common Stock.

Effective December 16, 2016, after giving effect to an adjustment resulting from a tender offer for the Company’s Common Stock that the Company completed on December 15, 2016, the conversion rate was adjusted to 11.5389 shares of Common Stock per thousand dollars principal amount of the 2.625% Notes. This is equivalent to an adjusted conversion price of approximately \$86.66 per share of Common Stock. In the aggregate, the 2.625% Notes are convertible into 4,154,004 shares of Common Stock following the December 16, 2016 adjustment.

Under the terms of the 2.625% Notes, if the Company undergoes certain change of control or other fundamental change transactions prior to the maturity date of the 2.625% Notes, holders of the 2.625% Notes will have the right, at their option, to require the Company to repurchase some or all of their 2.625% Notes at a repurchase price equal to 100% of the principal amount of the 2.625% Notes being repurchased, plus accrued and unpaid interest up to, but excluding, the repurchase date. However, the repurchase option will not apply in the case of certain change of control or other fundamental change transactions in which the Company is acquired by a public company, and (a) not less than 90% of the consideration received or to be received by holders of WebMD Common Stock, excluding cash payments for fractional shares, consists of acquirer common stock and (b) as a result of the transaction, the 2.625% Notes become convertible into the same consideration.

The balances of the Company’s convertible notes as of March 31, 2017 and December 31, 2016 consisted of the following:

	<u>March 31, 2017</u>			<u>December 31, 2016</u>		
	<u>Principal Amount</u>	<u>Less Unamortized Debt Issuance Costs</u>	<u>Net Carrying Amount</u>	<u>Principal Amount</u>	<u>Less Unamortized Debt Issuance Costs</u>	<u>Net Carrying Amount</u>
2.50% Notes	\$400,000	\$ (1,488)	\$ 398,512	\$400,000	\$ (1,934)	\$ 398,066
1.50% Notes	\$300,000	\$ (4,276)	\$ 295,724	\$300,000	\$ (4,568)	\$ 295,432
2.625% Notes	\$360,000	\$ (8,469)	\$ 351,531	\$360,000	\$ (8,810)	\$ 351,190

## WEBMD HEALTH CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**3. Fair Value of Financial Instruments**

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.

**Cash and Marketable Securities**

The following table sets forth the Company's Level 1 financial assets that were measured and recorded at fair value on a recurring basis as of March 31, 2017 and December 31, 2016:

	Fair Value Estimate Using:	March 31, 2017			December 31, 2016		
		Amortized Cost Basis	Fair Value	Gross Unrealized Gains (Losses)	Amortized Cost Basis	Fair Value	Gross Unrealized Gains
Cash and cash equivalents	Level 1	\$ 88,567	\$ 88,567	\$ —	\$ 492,424	\$ 492,424	\$ —
U.S. Treasury securities	Level 1	\$ 946,192	\$ 945,885	\$ (307)	\$ 498,359	\$ 498,500	\$ 141
Equity security	Level 1	\$ —	\$ 177	\$ 177	\$ —	\$ 278	\$ 278

In December 2016, the Company invested \$498,332 in U.S. Treasury securities that have a maturity date of June 29, 2017. In January 2017, the Company invested \$446,042 in U.S. Treasury securities that have a maturity date of January 4, 2018. These securities are reflected within Investments on the accompanying consolidated balance sheets as of March 31, 2017 and December 31, 2016.

The Company's Level 1 equity security consists of an equity investment in a publicly traded company that completed its initial public offering in December 2014.

The unrealized gains (losses) related to these investments, net of tax, are included within accumulated other comprehensive (loss) income in the accompanying consolidated balance sheets as of March 31, 2017 and December 31, 2016.

**Foreign Currency Forward Contracts**

The Company is exposed to fluctuations in foreign currencies related to contracts with certain of the Company's customers that are denominated in foreign currencies, principally the British Pound and the Euro. In order to manage this risk, the Company has hedged portions of its foreign currency denominated customer contracts with foreign currency forward contracts. At March 31, 2017 and December 31, 2016, the Company had foreign currency forward contracts with U.S. dollar equivalent notional amounts of \$15,818 and \$15,401, respectively, all of which were designated as and qualified as cash flow hedges. These forward contracts are intended to fix the amount of these foreign currency obligations in terms of the Company's functional currency, the U.S. dollar. All of the Company's derivative instruments are utilized for risk management purposes, and the Company does not use derivatives for speculative trading purposes.

**WEBMD HEALTH CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The Company recognizes the fair value of its foreign currency forward contracts as either assets or liabilities on the consolidated balance sheets. Changes in the fair value of hedging instruments are recorded each period in accumulated other comprehensive (loss) income as unrealized gains and losses until the forecasted underlying transaction occurs. Realized gains and losses for the effective portion of such contracts are recognized in cost of operations in the consolidated statements of operations in the period when the forecasted underlying transaction occurs. The Company classifies the cash flows from hedging instruments in the same category as the cash flows from the hedged items.

The Company assesses, both at inception and on an ongoing basis, whether the foreign currency forward contracts used in hedging transactions are highly effective in offsetting the changes in cash flows of the hedged items. The Company also assesses hedge ineffectiveness quarterly and, if determined to be ineffective, records the gain or loss related to the ineffective portion in its consolidated statements of operations. Gains and losses related to hedge ineffectiveness were not material during the periods presented.

The following table sets forth the fair values of foreign currency forward contracts, which are valued using Level 2 inputs, and the balance sheet lines in which they are recorded:

	<b>Fair Value Asset (Liability)</b>	
	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Prepaid expenses and other current assets	\$ 532	\$ 806
Other assets	\$ 160	\$ 256
Accrued expenses	\$ (97)	\$ (163)
Other long-term liabilities	\$ (42)	\$ (9)

The impact on accumulated other comprehensive (loss) income (“AOCI”) and net income from foreign currency forward contracts were as follows:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
Loss recognized in AOCI	\$ 120	\$ —
Gain reclassified from AOCI to cost of operations	\$ 130	\$ —

**Other**

For disclosure purposes, the Company is required to measure the outstanding value of its debt on a recurring basis. The following table presents the principal amount and estimated fair value (based on Level 2 market price data) of the Company’s convertible notes as of March 31, 2017 and December 31, 2016:

	<b>March 31, 2017</b>		<b>December 31, 2016</b>	
	<b>Principal Amount</b>	<b>Fair Value</b>	<b>Principal Amount</b>	<b>Fair Value</b>
2.50% Notes	\$ 400,000	\$ 408,000	\$ 400,000	\$ 409,000
1.50% Notes	\$ 300,000	\$ 357,540	\$ 300,000	\$ 338,565
2.625% Notes	\$ 360,000	\$ 343,339	\$ 360,000	\$ 341,928

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 the Company’s investment in this privately held company was \$3,872 as of March 31, 2017 and December 31, 2016. During the three months ended March 31, 2016, a portion of this investment was redeemed for \$526 in cash. Since the Company

## WEBMD HEALTH CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

does not have the ability to exercise significant influence over this company, the investment is accounted for under the cost method and it is included in other assets on the accompanying consolidated balance sheets as of March 31, 2017 and December 31, 2016.

**4. Equity****Treasury Stock**

Repurchased shares are recorded under the cost method and are reflected as treasury stock in the accompanying consolidated balance sheets, unless the shares are cancelled and retired.

***Tender Offers***

On December 15, 2016, the Company completed a tender offer (the “2016 Tender Offer”) through which it repurchased 2,000,000 shares of its Common Stock at a price of \$55.00 per share for total consideration of \$110,413, which includes \$413 of costs directly attributable to the purchase. The shares repurchased through the 2016 Tender Offer are reflected as treasury stock in the accompanying consolidated balance sheets.

***Stock Repurchase Program***

In August 2011, the Board of Directors established a stock repurchase program (the “Program”) through which the Company was authorized to use up to \$75,000 to purchase shares of WebMD Common Stock, from time to time, in the open market through block trades or in private transactions, depending on market conditions and other factors. In October 2011, February 2014, March 2014, April 2014, November 2014, September 2015 and September 2016, the Company’s Board of Directors authorized increases to the Program of \$75,000, \$50,000, \$40,000, \$30,000, \$23,895, \$27,451 and \$35,198, respectively. The Company did not repurchase any shares of its Common Stock during the three months ended March 31, 2017 or during the three months ended March 31, 2016. As of March 31, 2017, \$45,611 remained available for repurchases under the Program.

**Accumulated Other Comprehensive (Loss) Income**

The following table summarizes the Company’s changes in AOCI:

	Unrealized Gains (Losses) on Marketable Securities, net of tax	Unrealized Gains (Losses) on Foreign Currency Forward Contracts, net of tax	Total
Balance at December 31, 2015	\$ 357	\$ —	\$ 357
Unrealized loss before reclassifications	(99)	—	(99)
Net current period other comprehensive loss	(99)	—	(99)
Balance at March 31, 2016	<u>\$ 258</u>	<u>\$ —</u>	<u>\$ 258</u>
Balance at December 31, 2016	\$ 261	\$ 241	\$ 502
Unrealized loss before reclassifications	(352)	(74)	(426)
Amounts reclassified from AOCI to cost of operations	—	(80)	(80)
Net current period other comprehensive loss	(352)	(154)	(506)
Balance at March 31, 2017	<u>\$ (91)</u>	<u>\$ 87</u>	<u>\$ (4)</u>

WEBMD HEALTH CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

5. Intangible Assets

Intangible assets consist of the following:

	March 31, 2017				December 31, 2016			
	Gross Carrying Amount	Accumulated Amortization	Net	Weighted Average Remaining Useful Life <sup>(a)</sup>	Gross Carrying Amount	Accumulated Amortization	Net	Weighted Average Remaining Useful Life <sup>(a)</sup>
Content	\$ 15,954	\$ (15,954)	\$ —	—	\$ 15,954	\$ (15,954)	\$ —	—
Customer relationships	34,057	(31,660)	2,397	1.6	34,057	(31,274)	2,783	1.9
Technology and patents	17,882	(17,619)	263	0.3	17,882	(17,355)	527	0.5
Trade names-definite lives	2,530	(2,530)	—	—	2,530	(2,530)	—	—
Trade names-indefinite lives	4,464	—	4,464	n/a	4,464	—	4,464	n/a
Total	\$ 74,887	\$ (67,763)	\$ 7,124		\$ 74,887	\$ (67,113)	\$ 7,774	

(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 \$650 and \$780 during the three months ended March 31, 2017 and 2016, respectively. Future amortization expense for intangible assets is estimated to be:

Year Ending December 31:	
2017 (April 1st to December 31st)	\$ 1,394
2018	\$ 1,266

6. Commitments and Contingencies

Legal Proceedings

*Dual Diagnosis Treatment Center, et al. v. Blue Cross of California, et al.*

On May 8, 2015, six providers of substance abuse and/or mental health treatment services located in the States of California, Arizona and Florida filed an action in the United States District Court for the Central District of California (the “Action”) initially against twenty-eight (28) Blue Cross and Blue Shield companies (collectively “Blue Cross”), as well as at least forty-one (41) health and benefit plans, including the WebMD Health and Welfare Plan (the “Health Plan”). Additional defendants have since been added. Horizon Blue Cross Blue Shield of New Jersey, one of the Blue Cross companies named as a defendant, serves as third-party claims administrator for the Health Plan, a welfare plan sponsored by the Company under the applicable provisions of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). The Company self-insures (up to the deductible amount under the Company’s stop loss insurance policy) the group health plan component of the Health Plan. The Company serves as “plan administrator” for the Health Plan under ERISA. The plaintiffs, “out-of-network” providers to Blue Cross, claim that Blue Cross improperly ignored assignments of benefits received by the plaintiffs from the individual plan participants and sent payments directly to such individual participants who then failed to remit those payments to the providers. Plaintiffs claim that defendants’ failures to honor the assignments violate ERISA and state law and they seek recovery for benefit claims in unspecified amounts that they claim have been paid to the wrong party together with attorney fees, as well as removal of all fiduciaries who are found to have breached ERISA-imposed duties under the relevant health and benefit plans on account of such conduct, and injunctive relief to enjoin Blue Cross from alleged unlawful practices regarding assignments of benefits. The Company (on behalf of the Health Plan) has not yet filed an answer to the

**WEBMD HEALTH CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

complaint. On September 14, 2015, most of the named defendants, including the Health Plan, filed an omnibus motion to dismiss the complaint for failure to state a claim. Thereafter, the plaintiffs amended the complaint and added new parties. Defendants received an extension of time to respond to the amended complaint and on January 25, 2016, 184 defendants, including the Health Plan, renewed the omnibus motion to dismiss after all new parties were served and appeared in the Action. Opposition papers were filed on the motion on March 21, 2016, and reply papers were filed by the moving defendants on April 4, 2016. Oral argument on the motion was held on May 31, 2016, after which the parties filed additional submissions at the Court's direction. The motion was granted on November 22, 2016, with leave to amend to the extent there were additional allegations that could overcome the deficiencies of the dismissed complaint. On December 23, 2016, the plaintiffs filed a second amended complaint which included a claim against the Health Plan. On March 1, 2017, the defendants remaining in the case, including the Company (on behalf of the Health Plan), filed a joint motion to dismiss the second amended complaint. On May 8, 2017, the plaintiffs filed their opposition to the motion, and the moving defendants have until May 30, 2017 to file their reply. The Company is unable to predict the outcome of this action or to reasonably estimate the possible loss or range of loss, if any, arising from the claims asserted therein.

***Change Healthcare v. WebMD***

On April 4, 2017, Change Healthcare Operations, LLC ("Change Healthcare") filed an action in Supreme Court of the State of New York, Commercial Division, against WebMD in connection with the Amended and Restated Data License Agreement dated as of February 8, 2008 between the parties (the "Data Agreement"). Change Healthcare is seeking a declaratory judgment that de-identified data licensed by Change Healthcare to WebMD and delivered to WebMD prior to the termination of the Data Agreement on February 8, 2018, cannot be licensed by WebMD to third parties after the February 8, 2018 termination date. The lawsuit also claims damages for breach of contract, tortious interference with prospective business relations and unfair competition as a result of WebMD's activities in licensing this data to its customers for periods after February 8, 2018. WebMD intends to vigorously defend the action.

***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 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.

**7. Stock-Based Compensation**

The Company has various stock-based compensation plans (collectively, the "Plans") that provide for the grant of stock options, restricted stock, 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 subject to awards under the 2005 Plan was 24,975,000 as of March 31, 2017, subject to adjustment in accordance with the terms of the 2005 Plan. The Company had an aggregate of 605,282 shares of Common Stock available for future grants under the 2005 Plan at March 31, 2017, of which 244,700 shares are available for grant only to individuals who are not executive officers of the Company (other than in the case of a new hire who joins the Company as an executive officer) or members of the Company's Board of Directors.

**Stock Options**

Generally, options under the Plans vest and become exercisable ratably over periods ranging from three to four years based on their individual grant dates, subject to continued employment on the applicable vesting dates,

WEBMD HEALTH CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

and 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 (a)
Outstanding at January 1, 2017	6,118,824	\$ 41.55		
Granted	149,800	50.01		
Exercised	(298,195)	35.43		
Cancelled	(138,634)	45.22		
Outstanding at March 31, 2017	<u>5,831,795</u>	\$ 41.99	7.5	\$ 63,634
Vested and exercisable at the end of the period	<u>2,484,471</u>	\$ 35.93	5.8	\$ 41,662

(a) The aggregate intrinsic value is based on the market price of the Company's Common Stock on March 31, 2017, which was \$52.68, less the applicable exercise price of the underlying option. This aggregate intrinsic value represents the amount that would have been realized if all the option holders had exercised their options on March 31, 2017.

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.

	Three Months Ended March 31,	
	2017	2016
Expected dividend yield	0.0%	0.0%
Expected volatility	0.34 - 0.35	0.41 - 0.44
Risk-free interest rate	1.62% - 1.92%	1.01% - 1.71%
Expected term (years)	3.9 - 4.7	4.1 - 4.8
Weighted-average fair value of options granted during the period	\$ 15.84	\$ 17.93

**Restricted Stock**

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 grants vest ratably over periods ranging from three to four years from their individual award dates subject to continued employment on the applicable vesting dates. The following table summarizes the activity of the Company's Restricted Stock:

	Shares	Weighted Average Grant Date Fair Value
Balance at January 1, 2017	880,026	\$ 45.97
Vested	(124,473)	43.23
Forfeited	(8,709)	42.18
Balance at March 31, 2017	<u>746,844</u>	\$ 46.47



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

During November 2016, the Compensation Committee of the Board of Directors granted a total of 55,000 shares of performance-based Restricted Stock to two senior executives that will vest and be earned so long as the executive is employed at the end of the performance period, which is December 31, 2019, and only to the extent that the Committee determines that the performance criteria have been satisfied; provided, however, that the conditions to vesting and performance criteria may be deemed to have been met in certain circumstances, including in connection with a change in control of the Company. The performance criteria are based on Average Adjusted EBITDA during the performance period of January 1, 2016 through December 31, 2019. The 55,000 shares of performance-based Restricted Stock are included in the above table.

Proceeds received from the exercise of options to purchase shares of the Company's Common Stock were \$6,604 and \$30,165 during the three months ended March 31, 2017 and 2016, respectively. Additionally, in connection with the exercise of certain stock options and the vesting of restricted stock, the Company made payments of \$3,864 and \$890 during the three months ended March 31, 2017 and 2016, 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 \$10,881 and \$22,234 for the three months ended March 31, 2017 and 2016, respectively.

**Other**

Each year, the Company issues shares of its Common Stock, under the 2005 Plan, to non-employee members of its Board of Directors with a value equal to their annual Board and committee retainers. The Company recorded \$117 of stock-based compensation expense for both of the three months ended March 31, 2017 and 2016, in connection with these issuances.

**Summary of Stock-Based Compensation Expense**

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

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Stock options	\$ 5,474	\$ 5,250
Restricted stock	3,432	3,161
Other	117	117
Total stock-based compensation expense	<u>\$ 9,023</u>	<u>\$ 8,528</u>
Included in:		
Cost of operations	\$ 1,576	\$ 1,290
Sales and marketing	1,777	1,562
General and administrative	5,670	5,676
Total stock-based compensation expense	<u>\$ 9,023</u>	<u>\$ 8,528</u>

As of March 31, 2017, approximately \$70,500 of unrecognized stock-based compensation expense related to unvested awards (excluding any estimate for forfeitures) is expected to be recognized over a weighted-average period of approximately 2.8 years, related to the Plans.

**WEBMD HEALTH CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Tax benefits attributable to stock-based compensation represented 38% of stock-based compensation expense for both of the three months ended March 31, 2017 and 2016.

**8. Other Expense**

Other expense for the three months ended March 31, 2017 includes \$695 of transaction expenses, primarily professional services fees, incurred in connection with the process being conducted by the Board of Directors to explore strategic alternatives for the Company, which was partially offset by an adjustment of \$433 to finalize severance and related expenses in connection with the September 2016 departure of the former Chief Executive Officer of the Company.

## 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, 2016 filed with the Securities and Exchange Commission (which we refer to as the SEC).
- **Results of Operations and Supplemental Financial and Operating Information.** These sections provide our analysis and outlook for the significant line items on our statements of operations, as well as other information that we deem meaningful to understand our results of operations on a consolidated basis.
- **Liquidity and Capital Resources.** This section provides an analysis of our liquidity and cash flows, as well as a discussion of our commitments that existed as of March 31, 2017.
- **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 generate revenue from the advertising and sponsorship services of *The WebMD Health Network* and related operations, from the services we market to employers and health plans under the *WebMD Health Services* brand and from certain information services, each of which is described below and discussed further under "Supplemental Financial and Operating Information" below.

**Advertising and Sponsorship.** *The WebMD Health Network* includes: [www.WebMD.com](http://www.WebMD.com), our primary Website for consumers and related mobile apps; [www.Medscape.com](http://www.Medscape.com), our primary Website for physicians and other healthcare professionals and related mobile apps; and other sites and apps through which we provide our

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## [Table of Contents](#)

branded health and wellness content, tools and services. Our services for consumers enable them to obtain information on health and wellness topics or on a particular disease or condition, to assess their personal health status, to use online trackers, tools and quizzes, to locate physicians, to receive periodic e-mailed newsletters and alerts on topics of individual interest, and to participate in online communities with peers and experts. Our services 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 do not charge any usage, membership or download fees for access to the Websites and mobile apps included in *The WebMD Health Network*. We generate revenue from *The WebMD Health Network* primarily through the sale of various types of advertising and sponsorship programs to our clients, which include: pharmaceutical, biotechnology and medical device companies; hospitals, clinics and other healthcare services companies; health insurance providers; consumer products companies whose products or services relate to health, wellness, diet, fitness, lifestyle, safety and illness prevention; and various other businesses, organizations and governmental entities. Advertisers and sponsors use our services to reach, educate and inform target audiences of consumers, physicians and other healthcare professionals. We also generate revenue from advertising sold in *WebMD Magazine*, a consumer magazine distributed to physician office waiting rooms.

*Health Services.* Under the *WebMD Health Services* brand, we market wellness services and solutions that help employers and health plans improve the health and well-being of their employee and plan participant populations. We host our *WebMD Health Services* platform for our employer and health plan clients. Our cloud-based online services can be accessed by their employees and plan participants using a computer, a tablet or a smartphone. Our flexible architecture allows us to integrate with the client's existing programs, websites and intranets. Our services help our clients' employees and plan participants make informed decisions about health risks and lifestyle choices. Our solutions start with an assessment of individual health and well-being and then work to provide personalized paths for improving or maintaining health. We also offer clients the ability to design team-based and individual wellness challenges that help foster a culture of wellness in the workplace. In addition, our health and wellness coaching programs, available onsite and telephonically and focusing on lifestyle, condition management, weight management and tobacco cessation, help participants make healthier choices to achieve their health and well-being goals. Our *WebMD Digital Health Assistant* <sup>SM</sup> offers online, self-directed health coaching which enables participants to set and track wellness goals and follow self-paced personal action plans. We generate Health Services revenue from employer and health plan subscriptions to our *WebMD Health Services* platform, either directly or through distributor relationships. In addition, clients are charged on a per participant basis for our health and wellness coaching programs.

*Information Services.* We generate revenue from the sale of certain information products and services on a stand-alone basis using de-identified data that we license from a small number of third-party data sources, of which the principal source is a license from Change Healthcare to HLTH Corporation (or HLTH), our former parent company. As the successor to HLTH, this license provides us the rights to certain de-identified data from Change Healthcare through early February 2018 for use in the development and commercialization of various information products and services. Customers for these information services include data services, informatics and consulting companies. Our revenue from the products and services that utilize data under the current Change Healthcare license is highly profitable and is reported net of the royalties and commissions that we pay to Change Healthcare or others. We do not expect that the current license agreement with Change Healthcare will continue after February 2018, and expect that if such agreement is replaced with new third-party data sources, the terms of any such replacement license would not be as favorable to us as those in the current agreement. Discussions around extending our agreement with Change Healthcare have stalled. In addition, as described in Note 6 to the consolidated financial statements included in this Quarterly Report, Change Healthcare filed a lawsuit in April 2017 challenging WebMD's rights under the license agreement to continue to use the data delivered to WebMD during the term of the agreement, after the agreement's termination in early February 2018. We are exploring other sources of third-party data and uses of our first party data to generate additional revenue streams, but we are early in that process. Accordingly, we expect that the sales of, and the profits generated by, our information services business will be materially adversely affected by the termination, in early February 2018, of our license agreement with Change Healthcare.

**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:

- *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 represented approximately 76% of our advertising and sponsorship revenue in 2016, are aware of the effectiveness of the Internet relative to traditional media in providing health, clinical and product-related information to consumers and physicians. 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 we are well-positioned to provide advertising solutions for pharmaceutical products that are currently being marketed as well as those in the pipeline for Food and Drug Administration (FDA) approval. Many of these pharmaceutical products are expensive therapies that treat complex conditions affecting relatively small patient populations, for which we believe that our online services provide an efficient way to reach target audiences.
  - However, notwithstanding our general expectation for increased future demand, we cannot predict the extent or the pace of any shift by pharmaceutical, biotechnology and medical device companies of their marketing expenditures to online services or to what extent they will choose WebMD to provide such services. In addition, some of our pharmaceutical company customers have experienced patent expirations for certain of their products in the past several years and some are expected to experience patent expirations over the next several years. In the pharmaceutical industry, patent expirations allow for competition from lower-priced generic versions of the patented drugs and generally result in the termination of marketing efforts for the drug and, in certain instances, have resulted in reductions in the overall online advertising budgets for some of our customers.
- *Trends Affecting the Pharmaceutical Industry.* The pharmaceutical industry is highly regulated and is subject to changing political, legislative, regulatory and other influences. The expectations of pharmaceutical companies regarding pending or potential industry developments may affect their budgeting processes and spending plans with respect to services of the types we provide. Since 2016, there has been increasing scrutiny regarding pricing and profitability for pharmaceutical products, which could lead to additional regulation of such pricing or other changes in how those products are distributed and the roles played by various industry participants in that distribution, including significant changes in how drugs are procured for government-funded programs, such as Medicare and Medicaid. Our pharmaceutical company customers are assessing the implications of potential changes for their businesses and we believe that some may, in light of the uncertainty regarding the nature and timing of any such changes, be delaying or deferring deployment of their marketing budgets. We cannot predict the effect that any resulting changes may have on the marketing plans of our customers in future periods or their future use of our services. For additional discussion, see “–Healthcare Reform” below.
- *Healthcare Reform.* Political, economic, regulatory and enforcement influences are subjecting the healthcare industry in the U.S. to fundamental changes. There have been, and we expect there will continue to be, legislative and regulatory proposals to change the healthcare system in ways that could impact the various healthcare entities with which we do business. In particular, we anticipate that the U.S. Executive Branch, U.S. Congress, state legislatures and the private sector will continue to consider and may adopt healthcare policies intended to curb rising healthcare costs, particularly given the ongoing scrutiny regarding healthcare pricing in the U.S. generally, and prescription drug pricing specifically. Such policies could limit the prices our advertisers and sponsors charge for their healthcare-related products or services, limit the commercial opportunities of our advertisers and sponsors and negatively impact revenues collected by our advertisers and sponsors. However, the nature and timing of any

specific changes is uncertain. Our advertisers and sponsors may, in response to any such changes or the uncertainty regarding potential changes, reduce their expenditures or postpone expenditure decisions, including expenditures for our services, which could have a material adverse effect on our business.

One law with a significant impact on the healthcare industry is 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 Affordable Care Act). The Affordable Care Act made extensive changes to the system of healthcare insurance and benefits in the U.S. While we do not currently anticipate any significant adverse effects as a direct result of the application of the Affordable Care Act, as currently enacted or as it may be amended, to our business or on our company in its capacity as an employer, we are unable to predict what the indirect impacts 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 *The WebMD Health Network* and employers and health plans that license our *WebMD Health Services* platform. Healthcare industry participants may respond to uncertainties created by the potential statutory and regulatory changes to the Affordable Care Act by reducing their expenditures or postponing expenditure decisions, including expenditures for our services.

- *Factors That May Cause Our Advertising and Sponsorship Revenue to Vary from Quarter to Quarter* . Our advertising and sponsorship revenue may vary significantly from quarter to quarter due to a number of other factors, many of which are outside our control, including economic and regulatory conditions generally and those specifically affecting healthcare industry participants, as well as the following:
  - The majority of our advertising and sponsorship commitments are for terms of approximately four to twelve months. We have relatively few longer term advertising and sponsorship commitments.
  - The time between the date of initial contact with a potential advertiser or sponsor regarding a specific program and the execution of a contractual commitment 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. We have experienced, from time to time in the past, 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 we cannot predict whether similar delays may occur in future periods.

Additional 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 for *The WebMD Health Network* ; 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.

- *Other Factors Affecting the Demand for Our Advertising and Sponsorship Services* . Advertiser and sponsor clients of *The WebMD Health Network* also include companies that provide over-the-counter drugs and other healthcare products, food and beverages, beauty products and other consumer products, particularly for products and services that relate to health, wellness, diet, fitness, lifestyle, safety and illness prevention, as well as clients such as retailers, pharmacies, hospitals, health insurance companies

and government agencies. Revenues from these clients are more likely to reflect trends in general economic conditions than revenues from pharmaceutical, biotechnology and medical device companies. Accordingly, revenues from these clients may be subject to significant quarter-to-quarter variations and we may not be able to forecast those variations accurately. Our advertising and sponsorship services are subject to competition from numerous alternatives, including other Internet sites that focus on health-related content, Internet search engines, social media Internet sites, general interest consumer sites and traditional media. Such competition may result in smaller customer commitments or pressure to reduce prices, both of which could reduce our revenues and profit margins.

- *Considerations Regarding Traffic to The WebMD Health Network* . Traffic to Medscape properties from physicians worldwide averaged approximately 8.7 million physician sessions per month in first quarter of 2017, an increase of approximately 13% over the prior year period. Physicians generally come directly to Medscape properties, rather than through search. During the first quarter of 2017, an average of approximately 403,000 U.S. physicians were active on Medscape monthly. We also reach a total of approximately 2 million other healthcare professionals in the U.S. annually and a total of approximately 1.7 million physicians outside the U.S. annually.

According to comScore , *The WebMD Health Network* reached an average of approximately 74 million users per month (combining desktop and mobile users on a de-duplicated basis) in the first quarter of 2017, which was approximately the same as in the prior year period. In recent quarters, we have seen declines in the number of search referrals we have received from Google and this has impacted the aggregate traffic to our consumer sites. However, we have offset much of the decline with growth in direct sources of traffic.

Overall traffic to *The WebMD Health Network* is not correlated to our advertising and sponsorship revenue. With respect to our Websites for consumers, we create content on specific topics and program various portions to build and maintain traffic in the areas most important to our advertising and sponsorship clients. In addition, while the total *Medscape* audience is small compared to the total audience of *The WebMD Health Network* , *Medscape* Websites and mobile apps contributed approximately 60% of our advertising and sponsorship revenue in recent periods because of the high value our clients place on being able to reach the *Medscape* audience of physicians and other healthcare professionals or to reach targeted portions of that *Medscape* audience.

- *Social Media and Video Initiatives* . Given the increasing prominence of social networks as important platforms for finding and consuming content, WebMD is working to enable users to more easily discover, share and interact with content from WebMD, not just on our own Websites, but also in other online locations. Some of our initiatives are directed toward the creation of new content offerings that are tailored for specific social networks and platforms. Our strategy to extend our content and brand beyond *The WebMD Health Network* will, in some cases, allow us to drive people back to WebMD's sites, where we can monetize that traffic as we do today; in other cases, we may be able to take advantage of new monetization opportunities as we engage with users outside of WebMD's sites. Another key aspect of these initiatives is to create video content that is both highly engaging and easily sharable across social networks. We are also continuing to develop longer-form video offerings, such as our multi-episode clinical series, *Medscape TV* , which utilizes nationally recognized thought leaders to discuss important topics in medicine for a physician audience.
- *Trends Affecting Our Services for Employers and Health Plans* . In response to increasing healthcare costs, public and private sector employers and health plans have been changing benefit plan designs to increase deductibles, co-payments and other out-of-pocket costs and taking other steps to motivate employees and plan participants to live healthier lives and use healthcare in a cost-effective manner. In connection with shifting greater responsibility for healthcare costs to employees and plan participants, employers and health plans are making available more health and benefits information and decision- support applications to help their employees and plan participants make informed decisions about

treatment options, health risks, lifestyle choices and healthcare providers. Since lifestyle choices, including choices regarding nutrition, exercise and tobacco use, are key drivers of health and can dramatically impact risks for acquiring chronic, costly health conditions, employers and health plans seek to reduce demand for healthcare services by focusing on health and wellness initiatives for their employees and plan participants. We believe that, through our *WebMD Health Services* platform and related coaching and condition management services, we are well-positioned to play a role in this environment. Our services help employees and plan participants make more informed health and benefit decisions, positively change health behaviors, manage health conditions and lead healthier lives. Our strategy depends, in part, on increasing usage of our services by our employer and health plan clients' employees and plan participants and being able to demonstrate a sufficient return on investment and other benefits for our clients from those services. Increasing such usage requires us to continue to develop new and updated applications, features and services.

- *International.* Physicians and healthcare professionals from around the world access our content in English through *Medscape*. In addition, we publish Spanish, French, Portuguese and German language editions of *Medscape* through which healthcare professionals can access our content in those languages. We have also entered into collaborations with companies having expertise in a specific country or region to extend our reach. We plan to continue to pursue opportunities to expand the reach of our brands outside the United States, particularly with respect to our healthcare professionals audience. In certain markets outside the United States, we expect to accomplish this through partnerships or joint ventures with other companies having expertise in the specific country or region, while in other such markets we expect to rely primarily on our own internal resources.
- *Other Initiatives.* We are pursuing, and intend to continue to identify, new business opportunities where our consumer and physician audiences and our resources can be leveraged to develop additional products and services. We may pursue initiatives to create new or enhanced revenue streams or, alternatively, to increase audience engagement even when we have not identified any potential related revenue stream. New business initiatives present risks and challenges that may be different from the ones we have faced in the past. In addition, later events may alter the risks that were evaluated at the time decisions are made on specific initiatives. Failure to effectively identify and assess new business initiatives and to successfully implement them may adversely affect our company and its prospects.

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.

#### ***Background Information on Certain Significant Developments and Transactions***

*Exploration of Strategic Alternatives.* On February 16, 2017, we announced that our Board of Directors, working together with our management team and legal and financial advisors, had 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 our company, a merger with another party, other types of strategic transactions, or continuing to execute on WebMD's business plan. As of the date of this Quarterly Report, that process is ongoing and our Board has not set a specific date for its completion. There can be no assurance that the exploration of strategic alternatives will result in a transaction.

As described under “—Convertible Notes” below, WebMD has outstanding convertible notes in an aggregate principal amount of \$1.06 billion. The effect on the convertible notes of any potential transaction relating to the exploration of strategic alternatives would depend on the specific timing, structure and terms of such transaction, including (among other things) the type and amount of any consideration received, and may also depend on



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[Table of Contents](#)

specific information regarding the other party to a transaction, including whether and where its securities are publicly traded. Under the respective indentures applicable to each of the convertible notes, a holder of the convertible notes may, depending on the specific terms of any transaction, have certain rights, such as: the right to require WebMD (or its successor) to repurchase the holders' convertible notes at 100% of their principal amount plus accrued interest; the right to an adjustment of the respective conversion rates applicable to the convertible notes; and, in connection with a conversion of notes within a specified period of time, the right to receive additional shares of WebMD Common Stock, above what the holder would be entitled to pursuant to the applicable conversion rate (sometimes referred to as a "make-whole adjustment"). The convertible notes do not permit their holders to vote, as noteholders, on any potential transaction relating to the exploration of strategic alternatives.

*Stock Repurchases.* During 2016, we repurchased 456,218 shares of our Common Stock at an aggregate cost of \$23,643 under our stock repurchase program and, on December 15, 2016, we completed a tender offer (which we refer to as the 2016 Tender Offer) for our Common Stock and repurchased 2,000,000 shares at a price of \$55.00 per share for a total cost of \$110,413, which includes \$413 of costs directly attributable to the purchase. We did not repurchase any shares of our Common Stock through our stock repurchase program during the three months ended March 31, 2016 or the three months ended March 31, 2017. As of March 31, 2017, \$45,611 remained available for repurchases under our stock repurchase program.

*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 December 2016 following completion of the 2016 Tender Offer, holders may surrender their 2.50% Notes for conversion into WebMD Common Stock at a conversion rate of 15.5854 shares of WebMD Common Stock per thousand dollars principal amount of the 2.50% Notes. This is equivalent to a conversion price of approximately \$64.16 per share of Common Stock. In the aggregate, the 2.50% Notes were convertible into 6,234,160 shares of Common Stock as of December 31, 2016 and March 31, 2017. The conversion rate may be adjusted further under certain circumstances.

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. The 2.25% Notes matured on March 31, 2016 and the remaining outstanding principal amount of \$102,682 was repaid.

On November 26, 2013, we issued \$300,000 aggregate principal amount of 1.50% Convertible Notes due 2020 (which we refer to as the 1.50% Notes) in a private offering. Unless previously converted, the 1.50% Notes will mature on December 1, 2020. Net proceeds from the sale of the 1.50% Notes were approximately \$291,823, after deducting the related offering expenses. Interest on the 1.50% Notes is payable semi-annually on June 1 and December 1 of each year, commencing June 1, 2014. Under the terms of the 1.50% Notes, as adjusted in December 2016 following completion of the 2016 Tender Offer, holders may surrender their 1.50% Notes for conversion into WebMD Common Stock at a conversion rate of 19.0695 shares of Common Stock per thousand dollars principal amount of the 1.50% Notes. This is equivalent to a conversion price of approximately \$52.44 per share of Common Stock. In the aggregate, the 1.50% Notes were convertible into 5,720,850 shares of Common Stock as of December 31, 2016 and March 31, 2017. The conversion rate may be adjusted further under certain circumstances.

On June 1, 2016, we issued \$360,000 aggregate principal amount of 2.625% Convertible Notes due 2023 (which we refer to as the 2.625% Notes) in a private offering. Unless previously converted, the 2.625% Notes will mature on June 15, 2023. Net proceeds from the sale of the 2.625% Notes were approximately \$350,394,

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[Table of Contents](#)

after deducting the related offering expenses. Interest on the 2.625% Notes is payable semi-annually on June 15 and December 15 of each year, commencing December 15, 2016. Under the terms of the 2.625% Notes, as adjusted in December 2016 following completion of the 2016 Tender Offer, holders may surrender their 2.625% Notes for conversion into WebMD Common Stock at a conversion rate of 11.5389 shares of Common Stock per thousand dollars principal amount of the 2.625% Notes. This is equivalent to a conversion price of approximately \$86.66 per share of Common Stock. In the aggregate, the 2.625% Notes were convertible into 4,154,004 shares of Common Stock as of December 31, 2016 and March 31, 2017. The conversion rate may be adjusted further under certain circumstances.

***Seasonality***

The timing of our revenue is affected by seasonal factors. Our advertising and sponsorship revenue is seasonal, primarily due to the annual spending patterns of our advertising and sponsorship clients. 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. Additionally, 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 (GAAP). 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, the value of foreign currency forward contracts, 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 and subscriptions to our *WebMD Health Services* platform, as well as related

health coaching and condition management services, is recognized ratably over the term of the applicable agreement. Revenue from information services is recognized as the underlying data is delivered. Revenue from the sponsorship of CME is recognized over the period that we substantially complete our contractual deliverables as determined by the applicable agreements.

Contracts that contain multiple deliverables are subject to Accounting Standards Update (ASU) 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 defines the level of evidence of selling price required to separate deliverables and allows a company to make its best estimate of the selling price of deliverables when more objective evidence of selling price is not available.

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 vendor-specific objective evidence (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, GAAP requires that a substantial majority of the selling prices fall within a reasonable range based on historical pricing trends for specific products and services. TPE is based on competitor prices of similar deliverables when sold separately. 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.

- *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 test goodwill for impairment at the reporting unit level only when, after completing a qualitative analysis, it is determined that it is more likely than not that the fair value of the reporting unit is less than its carrying value. 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 in 2016 or during the three months ended March 31, 2017.
- *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 on a straight-line basis over the requisite service period of the award, which is generally the vesting term of the share-based payment awards. As of March 31, 2017, there was approximately \$70,500 of unrecognized stock-based compensation expense (excluding any estimate for forfeitures) related to unvested stock options and restricted stock 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. Effective January 1, 2017, we adopted ASU No. 2016-09, which revised the way we account for stock-based compensation. For a more detailed discussion, see “—Recent Accounting Pronouncements – Accounting Pronouncements Adopted During 2017” below.

## Table of Contents

- *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 portion of our net deferred tax assets, primarily those related to net operating losses in certain states and certain federal tax credits, are reserved for by a valuation allowance. Management determines the need for a valuation allowance by assessing the probability of realizing deferred tax assets, taking into consideration factors including historical operating results, expectations of future earnings and taxable income. Management will continue to evaluate the need for a valuation allowance in the future.
- *Tax Contingencies.* Our tax contingencies are recorded to address potential exposures involving tax positions we have taken that could be challenged by tax authorities. These potential exposures result from applications of various statutes, rules, regulations and interpretations. Our estimates of tax contingencies reflect assumptions and judgments about potential actions by taxing jurisdictions. We believe that these assumptions and judgments are reasonable. However, our accruals may change in the future due to new developments in each matter and the ultimate resolution of these matters may be greater or less than the amount that we have accrued. Consistent with our historical financial reporting, we have elected to reflect interest and penalties related to uncertain tax positions as part of the income tax provision.

## Results of Operations

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

	Three Months Ended March 31,			
	2017		2016	
	\$	% (a)	\$	% (a)
Revenue	\$ 154,058	100.0	\$ 158,553	100.0
Cost of operations	63,501	41.2	62,513	39.4
Sales and marketing	36,008	23.4	33,756	21.3
General and administrative	22,619	14.7	23,756	15.0
Depreciation and amortization	7,061	4.6	7,487	4.7
Interest income	1,953	1.3	206	0.1
Interest expense	7,066	4.6	5,100	3.2
Other expense	262	0.2	—	—
Income before income tax provision	19,494	12.7	26,147	16.5
Income tax provision	7,161	4.6	10,429	6.6
Net income	<u>\$ 12,333</u>	<u>8.0</u>	<u>\$ 15,718</u>	<u>9.9</u>

(a) Amounts may not add due to rounding.

Revenue is derived from four groups. The first group is “Advertising and Sponsorship – Biopharma and Medical Device” and consists of advertising and sponsorship revenue from pharmaceutical, biotechnology and medical device clients relating to prescription pharmaceutical products or other regulated devices or products or for sponsoring educational programs. The second category is “Advertising and Sponsorship – OTC, CPG and Other” and consists of advertising and sponsorship revenue relating to non-Rx or over-the-counter medications and other healthcare products, food and beverages, beauty products and other consumer products, as well as revenue from clients such as retailers, pharmacies, hospitals, health insurance companies and government agencies and market research companies where we provide physician recruitment services. The combined revenue of the first two groups is sometimes referred to as “Advertising and Sponsorship” revenue. The third group is “Health Services” (which we previously referred to as “Private Portal Services”) and consists of revenue from employers and health plans for subscriptions to our *WebMD Health Services* platform and related services,

[Table of Contents](#)

including health coaching and condition management services. The change in the name of this group to “Health Services” does not reflect any change in the source of the revenue included in this group from prior periods. The fourth group is “Information Services” and consists of revenue from the sale of stand-alone information and data products.

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 Websites, mobile applications and our *WebMD Health Services* platform. 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 salaries and related expenses, and non-cash stock-based compensation for account executives, account management and marketing personnel, as well as costs and expenses for marketing programs, and fees for professional marketing and advertising services.

General and administrative expense consists primarily of salaries and related expenses and non-cash stock-based compensation expense for administrative, finance, legal, information technology, human resources and executive personnel. Also included in general and administrative expense are costs of general insurance and professional services expenses.

Our discussions throughout this MD&A make references 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 March 31,	
	2017	2016
Stock-based compensation expense included in:		
Cost of operations	\$ 1,576	\$ 1,290
Sales and marketing	1,777	1,562
General and administrative	5,670	5,676
Total stock-based compensation expense	<u>\$ 9,023</u>	<u>\$ 8,528</u>

**Three Months Ended March 31, 2017 and 2016**

The following discussion is a comparison of our results of operations for the three months ended March 31, 2017 and 2016.

*Revenue*

Our total revenue decreased 2.8% to \$154,058 for the three months ended March 31, 2017 from \$158,553 in the prior year period. The decrease was due to a decrease in advertising and sponsorship revenue of \$961 and a decrease in health services revenue of \$3,716, which was offset by an increase in information services revenue of \$182. A more detailed discussion regarding changes in these revenue groupings is included below under “–Supplemental Financial and Operating Information.”

*Costs and Expenses*

*Cost of Operations.* Cost of operations increased to \$63,501 for the three months ended March 31, 2017 from \$62,513 in the prior year period. As a percentage of revenue, cost of operations was 41.2% in the first quarter of 2017, compared to 39.4% in the prior year period. Included in cost of operations in the three months ended March 31, 2017 was non-cash expense related to stock-based compensation of \$1,576, compared to \$1,290 in the prior year period. Cost of operations, excluding such non-cash expense, was \$61,925 or 40.2% of revenue for the three months ended March 31, 2017, compared to \$61,223 or 38.6% of revenue for the prior year period. Because many of our expenses are fixed in nature, our cost of operations as a percentage of revenue increased, both with and without the non-cash expenses discussed above, for the first quarter of 2017 compared to the first quarter of 2016 as result of the decrease in our revenue of 2.8%.

*Sales and Marketing.* Sales and marketing expense was \$36,008 for the three months ended March 31, 2017 compared to \$33,756 in the prior year period. As a percentage of revenue, sales and marketing expense was 23.4% in the first quarter of 2017, compared to 21.3% in the prior year period. Included in sales and marketing expense was non-cash expense related to stock-based compensation of \$1,777 and \$1,562 in the first quarters of 2017 and 2016, respectively. Sales and marketing expense, excluding such non-cash expense, was \$34,231 or 22.2% of revenue for the three months ended March 31, 2017, compared to \$32,194 or 20.3% of revenue for the prior year period. Because many of our expenses are fixed in nature, our sales and marketing expense as a percentage of revenue increased, both with and without the non-cash expenses discussed above, for the first quarter of 2017 compared to the first quarter of 2016 as result of the decrease in our revenue of 2.8%.

*General and Administrative.* General and administrative expense was \$22,619 for the three months ended March 31, 2017, compared to \$23,756 in the prior year period. As a percentage of revenue, general and administrative expense was 14.7% in the first quarter of 2017, compared to 15.0% in the prior year period. Included in general and administrative expense in the first quarters of 2017 and 2016 was non-cash stock-based compensation expense of \$5,670 and \$5,676, respectively. General and administrative expense, excluding such non-cash expense, was \$16,949 or 11.0% of revenue for the three months ended March 31, 2017, compared to \$18,080 or 11.4% of revenue for the prior year period. The decrease in general and administrative expense, excluding the non-cash expenses discussed above, for the first quarter of 2017 compared to the first quarter of 2016, was primarily due to lower personnel related expenses.

*Depreciation and Amortization.* Depreciation and amortization expense was \$7,061 for the three months ended March 31, 2017, compared to \$7,487 in the same period last year.

*Interest Income.* Interest income was \$1,953 for the three months ended March 31, 2017, compared to \$206 in the same period last year. The increase resulted from higher average rates of return on our investments, investments we made in U.S. Treasury securities starting in the second quarter of 2016, as well as higher average investment balances during the three months ended March 31, 2017 due to the net proceeds from the issuance of our 2.625% Notes on June 1, 2016.

*Interest Expense.* Interest expense was \$7,066 for the three months ended March 31, 2017 compared to \$5,100 in the same period last year. These amounts included non-cash interest expense, related to the amortization of debt issuance costs for convertible debt, of \$1,079 and \$897 for the three months ended March 31, 2017 and 2016, respectively. The increase in interest expense for the three months ended March 31, 2017, compared to the prior year period, was primarily due to the issuance of our 2.625% Notes on June 1, 2016.

*Other Expense.* Other expense for the three months ended March 31, 2017 includes \$695 of transaction expenses, primarily professional services fees, incurred in connection with the process being conducted by our Board of Directors to explore strategic alternatives for our Company, which was partially offset by an adjustment of \$433 to finalize severance and related expenses in connection with the September 2016 departure of our former Chief Executive Officer.

[Table of Contents](#)

*Income Tax Provision.* The income tax provision was \$7,161, or 36.7% of pre-tax income, for the three months ended March 31, 2017, compared to \$10,429, or 39.9% of pre-tax income, in the prior year period. The effective tax rate for the three months ended March 31, 2017 was lower than the prior year period, due in part to the adoption of ASU No. 2016-09 on January 1, 2017, which revised the way we account for excess tax benefits on stock-based awards. For a more detailed discussion, see “—Recent Accounting Pronouncements – Accounting Pronouncements Adopted During 2017” below.

*Net Income.* Net income was \$12,333 for the three months ended March 31, 2017, compared to \$15,718 in the same period last year. As a percentage of revenue, net income was 8.0% of revenue for the three months ended March 31, 2017, compared to 9.9% of revenue in the prior year period. The decrease as a percentage of revenue was primarily due to the lower revenue in the 2017 period. Many of our expenses are fixed in nature and do not vary directly with revenue and, accordingly, our net income as a percentage of revenue will fluctuate primarily as a result of changes in our revenue.

### 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 and 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 net income to Adjusted EBITDA.

	Three Months Ended March 31,	
	2017	2016
<b>Revenue</b>		
Advertising and sponsorship		
Biopharma and medical device	\$ 89,480	\$ 88,685
OTC, CPG and other	31,998	33,754
	<u>121,478</u>	<u>122,439</u>
Health services	24,539	28,255
Information services	8,041	7,859
	<u>\$ 154,058</u>	<u>\$ 158,553</u>
<b>Net income</b>	<u>\$ 12,333</u>	<u>\$ 15,718</u>
<b>Interest, taxes, non-cash and other items</b>		
Interest income	(1,953)	(206)
Interest expense	7,066	5,100
Income tax provision	7,161	10,429
Depreciation and amortization	7,061	7,487
Non-cash stock-based compensation	9,023	8,528
Other expense	262	—
<b>Earnings before interest, taxes, non-cash and other items (Adjusted EBITDA)</b>	<u>\$ 40,953</u>	<u>\$ 47,056</u>

The following discussion is a comparison of the results of operations for our groups of revenue and our Adjusted EBITDA for the three months ended March 31, 2017 and 2016.

*Advertising and Sponsorship.* Advertising and sponsorship revenue was \$121,478 in the three months ended March 31, 2017, a decrease of \$961 or 0.8% from the prior year period. The decrease in revenue was

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## [Table of Contents](#)

primarily attributable to a decrease in our advertising and sponsorship revenue from our OTC, CPG and Other customers of \$1,756, which was offset by an increase in advertising and sponsorship revenue from our biopharma and medical device customers of \$795. In general, pricing remained relatively stable in our advertising and sponsorship offerings and was not a significant source of the change in revenue. For additional information, see “–Background Information on Certain Trends and Developments Affecting Our Business” above.

*Health Services.* Health services revenue was \$24,539 in the three months ended March 31, 2017, a decrease of \$3,716 or 13.2% from the prior year period. This decrease was primarily attributable to a reduction in the number of customers using our services. In general, pricing remained relatively stable for our *WebMD Health Services* platform and related services and was not a significant source of the revenue decrease. The number of customers using our *WebMD Health Services* platform at March 31, 2017 was 80 compared to 89 customers using our *WebMD Health Services* platform at March 31, 2016.

*Information Services.* Information services revenue was \$8,041 in the three months ended March 31, 2017, an increase of \$182 or 2.3% from the prior year period.

*Adjusted EBITDA.* Adjusted EBITDA decreased to \$40,953 or 26.6% of revenue in the three months ended March 31, 2017 from \$47,056 or 29.7% of revenue in the prior year period. This decrease as a percentage of revenue was primarily due to the lower revenue in 2017. 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, “net income (loss)” calculated in accordance with GAAP. Our management uses Adjusted EBITDA as an additional measure of performance for purposes of business decision-making, including developing budgets, managing expenditures, and evaluating potential acquisitions or divestitures. Period-to-period comparisons of Adjusted EBITDA help our management identify additional trends in financial results that may not be shown solely by period-to-period comparisons of net income (loss). 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. 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 net income (loss) to Adjusted EBITDA 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 March 31, 2017, we had \$88,567 of cash and cash equivalents, investments in short-term treasury securities of \$945,885 and working capital of \$636,056. Our operating cash flows 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 notes, 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 during the three months ended March 31, 2017 was \$44,872, which related to net income of \$12,333, adjusted for a non-cash income tax provision of \$6,621 related to deferred



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[Table of Contents](#)

income taxes, and other non-cash expenses of \$17,163, which include depreciation and amortization expense, non-cash interest expense and non-cash stock-based compensation expense. Additionally, changes in operating assets and liabilities increased operating cash flow by \$8,755, primarily due to a decrease in accounts receivable of \$21,226 and an increase in deferred revenue of \$18,101, which was offset by a decrease in accrued liabilities of \$22,722 and an increase in prepaid and other assets of \$7,850.

Cash provided by operating activities during the three months ended March 31, 2016 was \$33,816, which related to net income of \$15,718, adjusted for a non-cash income tax provision of \$9,074 related to deferred income taxes, and other non-cash expenses of \$16,912, which include depreciation and amortization expense, non-cash interest expense and non-cash stock-based compensation expense. Additionally, changes in operating assets and liabilities resulted in a decrease in cash of \$7,888, primarily due to cash used as a result of a decrease in accrued liabilities of \$20,147 and an increase in accounts receivable of \$3,070, which was offset by cash provided by an increase in deferred revenue of \$13,598 and a decrease in prepaid and other assets of \$1,731.

Cash used in investing activities was \$451,469 and \$8,703 during the three months ended March 31, 2017 and 2016, respectively. During the three months ended March 31, 2017, we used \$446,042 in cash to purchase short-term investments. We used \$5,427 in connection with purchases of property and equipment in the three months ended March 31, 2017, compared to \$9,229 of property and equipment purchases in the prior year period. Also included in investing activities in the three months ended March 31, 2016 was the receipt of \$526 related to the partial redemption of a cost-method investment.

Cash provided by financing activities was \$2,740 in the three months ended March 31, 2017 and cash used in financing activities was \$73,407 in the three months ended March 31, 2016. During the three months ended March 31, 2017 and 2016, we received cash proceeds of \$6,604 and \$30,165, respectively, related to the exercise of stock options, and used cash of \$3,864 and \$890, respectively, for withholding taxes on stock-based awards. Additionally, we used cash of \$102,682 in the first quarter of 2016 to repay our 2.25% Notes which matured on March 31, 2016.

Potential future uses of cash include repurchases of our Common Stock, payments related to the January 2018 maturity of our 2.50% Notes and our anticipated capital expenditure requirements for 2017. Our capital expenditure requirements for 2017, which we estimate to be approximately \$25 million to \$30 million, primarily relate to improvements that will be deployed across our 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 *WebMD Health Services* platform.

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 24 months. Our future liquidity and capital requirements will depend upon numerous factors, including retention of customers at current volume and revenue levels, implementation of new or updated application and service offerings, competing technological and market developments and potential future acquisitions. In addition, our ability to generate cash flow is subject to numerous factors beyond our control, including general economic, regulatory and other matters affecting us and our customers. We plan to continue to enhance our online services and to continue to invest in acquisitions, strategic relationships, facilities and technological infrastructure and product development. We intend to grow each of our existing businesses and enter into complementary ones through both internal investments and acquisitions. We may need to raise additional funds to support expansion, develop new or enhanced applications and services, respond to competitive pressures, acquire complementary businesses or technologies or take advantage of unanticipated opportunities. If required, we may raise such additional funds through public or private debt or equity financing, strategic relationships or other arrangements. We cannot assure that such financing will be available on acceptable terms, if at all, or that such financing will not be dilutive to our stockholders. Future indebtedness may impose various restrictions and covenants on us that could limit our ability to respond to market conditions, to provide for unanticipated capital investments or to take advantage of business opportunities.

## Recent Accounting Pronouncements

### *Accounting Pronouncements Adopted During 2017*

In March 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which addresses, among other items, accounting for income taxes, forfeitures, and cash flow presentation of share-based compensation. We adopted ASU No. 2016-09 effective January 1, 2017.

The adoption of ASU No. 2016-09 primarily resulted in the following:

- Net operating losses related to excess tax benefits on stock-based awards are now recognized as deferred tax assets on the balance sheet and are subject to a valuation allowance if the asset is not realizable. Effective January 1, 2017, we recorded a net cumulative-effect adjustment to increase retained earnings and increase deferred tax assets by \$204,475 related to the recognition of the previously unrecognized tax benefits.
- On a prospective basis, excess tax benefits and deficiencies generated when stock awards vest or settle are no longer recognized in equity but are instead recognized as a reduction or increase to the income tax provision, subject to a valuation allowance if the deduction is not realizable. During the three months ended March 31, 2017, we recorded a decrease to our income tax provision of \$267 reflecting the recognition of excess tax benefits for stock-based awards that vested or were settled during the period.
- Excess tax benefits on stock-based awards are now presented as an operating activity rather than as a financing activity within the consolidated statements of cash flows. We elected to retrospectively adopt the classification change in the statements of cash flows. Accordingly, \$7,897 in excess tax benefits on stock-based awards for the three months ended March 31, 2016 were reclassified from financing activities to operating activities to conform with the current year presentation.
- We have elected to account for forfeitures of stock-based awards as they occur, rather than estimate expected forfeitures. Effective January 1, 2017, we recorded a net cumulative-effect adjustment to decrease retained earnings and increase additional paid-in capital by \$1,947, reflecting the previously unrecognized compensation expense due to estimated forfeitures.

### *Accounting Pronouncements to Be Adopted in the Future*

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to achieve a consistent application of revenue recognition within the U.S., resulting in a single revenue model to be applied by reporting companies under GAAP. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the revised guidance requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which delays the effective date of ASU No. 2014-09 by one year. As a result, the revised guidance is effective for us beginning in the quarter ending March 31, 2018. Early adoption is permitted, but not before the original effective date of the guidance. The revised guidance is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. In March, April, May and December 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, and ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, respectively. ASU No. 2016-08, ASU No. 2016-10, ASU No. 2016-12 and ASU No. 2016-20 provide supplemental adoption guidance and clarification to ASU No. 2014-09, and must be adopted concurrently with the adoption of ASU No. 2014-09. We expect that we will adopt the revised guidance under the modified

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[Table of Contents](#)

retrospective method; however, we have not yet determined the impact the revised guidance will have on our consolidated financial statements in periods following adoption.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which revises the classification and measurement of investments in certain equity investments and the presentation of certain fair value changes for certain financial liabilities measured at fair value. ASU No. 2016-01 also requires the change in fair value of many equity investments to be recognized in net income. The revised guidance is effective for us beginning in the quarter ending March 31, 2018. We have not yet determined the impact that the revised guidance will have on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The revised guidance must be applied on a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The revised guidance is effective for us beginning in the quarter ending March 31, 2019. We have not yet determined the impact the revised guidance will have on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which revises the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. The revised guidance is effective for us beginning in the quarter ending March 31, 2020 and must be adopted using a modified retrospective transition approach. We have not yet determined the impact the revised guidance will have on our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The revised guidance is effective for us beginning in the quarter ending March 31, 2018, with early adoption permitted, and must be applied retrospectively to all periods presented. We have not yet determined the impact the revised guidance will have on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. The revised guidance must be applied using a retrospective transition method to each period presented and is effective for us beginning in the quarter ending March 31, 2018. We have not yet determined the impact the revised guidance will have on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which clarifies the definition of a business by providing a more robust framework to use in determining when a set of assets and activities is a business. The revised guidance is effective for us beginning in the quarter ending March 31, 2018. We have not yet determined the impact the revised guidance will have on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminates step 2 from the goodwill impairment test. The revised guidance must be applied on a prospective basis and is effective for us beginning in the quarter ending March 31, 2020, with early adoption permitted on January 1, 2017. We have not yet determined the impact the revised guidance will have on our consolidated financial statements.

**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 cash equivalents, which was \$88.6 million at March 31, 2017, is not subject to changes in interest rates. The value of our investments, which was \$945.9 million at March 31, 2017, is subject to changes in interest rates; however, due to the short-term nature of these investments, any changes are not expected to be material.

The 2.50% Notes, the 1.50% Notes and the 2.625% Notes have fixed interest rates; therefore, changes in interest rates will not impact our results of operations or financial position.

***Exchange Rate Sensitivity***

Substantially all of our revenues and expenses are denominated in United States dollars; however, a portion of the revenue from our international operations was contracted in foreign currencies. The impact of changes in exchange rates for three months ended March 31, 2017 and 2016 has been reflected in our results of operations and was not material, and future changes in exchange rates are not expected to have a material impact on 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 the Chief Financial Officer, conducted an evaluation of the effectiveness of WebMD's disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of March 31, 2017. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that WebMD's disclosure controls and procedures were effective as of March 31, 2017.

In connection with the evaluation required by Exchange Act Rule 13a-15(d), WebMD management, including the Chief Executive Officer and the Chief Financial Officer, concluded that there were no changes in WebMD's internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), during the first quarter of 2017 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 6 to the consolidated financial statements included in Part I, Item 1 of this Quarterly Report is incorporated herein by this reference.

**ITEM 1A.     *Risk Factors***

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

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**Risks Related to Our Operations and the Healthcare Content We Provide**

***If we are unable to provide content and services that attract users to The WebMD Health Network, 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 *The WebMD Health Network* depends upon our ability to make available a variety of health, wellness 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 and healthcare professionals;
- 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.

If consumers and healthcare professionals do not perceive our content, applications and tools to be useful, reliable and trustworthy, we may not be able to attract or retain users or otherwise maintain or increase the frequency and duration of their engagement with our health information services. 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 consumers 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. 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 advertising and sponsorship revenue to decrease and could have a material adverse effect on our results of operations. However, overall traffic to *The WebMD Health Network* does not have a direct correlation to our advertising and sponsorship revenue. Our ability to generate advertising and sponsorship revenue depends primarily on our ability to create content on specific topics and to program various parts of *The WebMD Health Network* to build and maintain traffic in areas most important to our advertising and sponsorship clients. If we are unable to do that, our advertising and sponsorship revenue could decrease even if our overall traffic remains the same or increases.

***A significant portion of the traffic to The WebMD Health Network is directed to us through algorithmic search results on Internet search engines and, if we are listed less prominently in search result listings or our traffic from search is otherwise reduced, our business and operating results could be harmed***

A significant portion of the traffic to *The WebMD Health Network* is directed to us through the algorithmic search results on Internet search engines. In addition to providing quality content and tools, we seek to produce and deliver our 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 or make other changes and our SEO efforts may 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, which could, in some circumstances, reduce the ranking that would otherwise be provided to our Websites and increase the ranking of other sites. If we are unable to respond effectively to changes made by search engine providers in their algorithms and other processes or to respond effectively to other factors and challenges that may impair our ability to attract traffic through search, a substantial decrease in traffic to *The WebMD Health Network* could occur, which could cause our revenue to decrease and could have a material adverse effect on our results of operations. We cannot predict if, or how long, efforts to improve SEO or otherwise increase traffic may take to mitigate any such declines.

Search engine providers also typically display, together with algorithmic search results, content and links that may divert traffic from the pages referenced in the algorithmic search results, including: advertisements that are presented with the algorithmic search results for which the search engine provider receives compensation (sometimes referred to as paid search results); and health-related or other content and links that the search engine provider selects and displays in response to the specific search queries in a format determined by the search engine provider. Accordingly, even if we rank highly in algorithmic search results, traffic to our Websites may be reduced as a result of paid search results and other content included on the search results page generated by a search query. We cannot control the amount, quality or presentation of such paid search results and other content and, accordingly, we cannot predict any reductions in our traffic that may occur from time to time as search engine providers make changes in their policies and procedures regarding paid search results or regarding any other content they provide. In addition, to the extent that there is a reduction in the total volume of health-related searches on Internet search engines, traffic to *The WebMD Health Network* could also be reduced and we may have little or no ability to take steps to mitigate the effect on our traffic. In addition, we have experienced in the past, and may experience in the future, declines in traffic to *The WebMD Health Network* from search for reasons that we are unable to identify. Any resulting reduction in our traffic for any of the reasons described above, if significant, could cause our revenue to decrease and could have a material adverse effect on our results of operations.

***If we fail to maintain successful monetization strategies for smartphone traffic, our financial results could be adversely affected***

The number of people, including the number of physicians and other healthcare professionals, who access online content and services through smartphones has increased rapidly and is expected to continue to increase. Accordingly, the portion of our page views from smartphones has increased rapidly and is expected to continue to increase. The monetization of smartphone page views can be challenging because of the smaller screen size. If we are unable to maintain successful monetization strategies for smartphone traffic, our financial results could be negatively affected.

***Our initiative to provide content in online locations outside The WebMD Health Network may not increase our audience and, even if it does, may not be profitable***

We are in the process of working to enable users to more easily discover, share and interact with content from WebMD not just on our Websites but also in other online locations and, in support of this initiative, we are creating new content offerings tailored for specific social networks and platforms and building our capabilities to create video content. If we are not successful in creating content offerings that support this initiative, our ability to compete for advertising and sponsorship revenue may be reduced. Even if we are successful in creating such content offerings and users respond favorably, there can be no assurance that we will be able to adequately monetize audience usage of such content or to drive sufficient traffic to our own Websites to make this initiative profitable.

***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.

- *The WebMD Health Network* faces competition from numerous other companies, both in attracting users and in generating revenue from advertisers and sponsors. We compete for users with Websites and mobile applications that provide health-related information, including both commercial ones and not-for-profit ones. We compete for advertisers and sponsors with: health-related Websites and mobile applications; general interest 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; and advertising networks that aggregate traffic from multiple sites. *The WebMD Health Network* also faces competition from: traditional media and offline publications and information services; and manufacturers and distributors of activity trackers, heart rate monitors, blood pressure monitors and similar devices relating to health and wellness that can download data to a PC, tablet or smartphone, as well as numerous other companies developing applications and tools for use with those devices.
- Our *WebMD Health Services* platform and related services, including health coaching and condition management services compete with: providers of online health management applications, including personal health records; wellness and disease management vendors; and competing services provided by health insurance companies, employee benefits services companies, and their affiliates. Employers may also decide to develop similar solutions for their own populations rather than obtaining solutions from *WebMD Health Services* or its competitors.

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 may have more customers or users than we do. We cannot provide assurance that we will be able to compete successfully against these organizations. In addition, we expect that competitors will continue to enter these markets. The competition we face for our services may result in fewer or smaller customer commitments or pressure to reduce prices, which could reduce our profit margins.

***Developing and implementing new and updated services may be more difficult than expected and may not result in sufficient increases in revenue to justify the costs***

In order to attract and retain users of our Websites and mobile applications and clients for our *WebMD Health Services* platform and related services, we must continue to improve the technology underlying our services and continue to develop new and updated offerings. If we are unable to do so on a timely basis or if we are unable to implement new offerings 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 Websites, 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.

***Failure to effectively identify, assess and pursue new business initiatives could adversely affect our company and its prospects***

We are working to broaden our portfolio of services and taking steps to diversify our client base and revenue streams. The development of new products and services in response to evolving trends in healthcare and evolving technologies for Internet-based and mobile services, as well as the identification of new business opportunities in this dynamic environment, requires significant time and resources. We may not be able to respond quickly enough or in a cost-effective manner, appropriately time the introduction of new products and services to the market or identify new business opportunities in a timely manner. In addition, while evolving technologies may offer new opportunities, they may also present additional challenges, including challenges relating to security and privacy.

Some of the business initiatives we are working on have challenges that are different from 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 potential revenue streams from any investments that we may make in pursuing new business opportunities will justify the amounts spent. Failure to effectively identify, assess and pursue new business initiatives may adversely affect our company and its prospects.

***Failure to continue to enhance the analytic capabilities we use to demonstrate the value of our services to advertisers and sponsors could adversely affect our ability to market our services***

We continue to work to enhance the analytic capabilities we use to demonstrate to advertisers and sponsors how promotional strategies implemented through *The WebMD Health Network* impact physician and consumer behaviors and preferences. Our ability to demonstrate the value of advertising and sponsorship on *The WebMD Health Network* depends, in part, on our ability to provide accurate and reliable analytics and measurement capabilities and to continue to improve such capabilities. If we are unable to demonstrate such analytic capabilities, it could adversely affect our ability to market our services or to satisfy client expectations and commitments that rely on analytics to measure performance and, as a result, we may lose business to competitors even if our advertising and sponsorship services are superior to theirs.

***Restrictions on our ability to access or use various forms and sources of data could adversely impact our business***

We are increasingly using data analytics based on information that we collect regarding usage of *The WebMD Health Network*, as well as other third-party sources of data. Our use of data regarding users of *The WebMD Health Network* is governed by the privacy policies posted on those sites and is designed to comply with applicable laws and regulations as is our use of any third-party data. In addition, we sell certain information products and services on a stand-alone basis using de-identified data that we license from a small number of third-party data sources, of which the principal source is a license from Change Healthcare to HLTH Corporation (HLTH). As the successor to HLTH, this license provides us the rights to certain de-identified data from Change Healthcare through early February 2018 for use in the development and commercialization of various information products and services as to which we pay Change Healthcare a royalty. To date, these stand-alone information products and services do not include any data derived from the operation of our Websites. We are seeking to acquire additional third-party data sources and to develop data generated from our Website operations in order to diversify our data product offerings.

Our revenue from the stand-alone products and services that utilize data under the current Change Healthcare license is highly profitable and is reported net of the royalties and commissions that we pay to Change



Healthcare or others. We do not expect that the current license agreement with Change Healthcare will continue after February 2018, and expect that if such agreement is replaced with new third-party data sources, the terms of any such replacement license would not be as favorable to us as those in the current agreement. Discussions around extending our agreement with Change Healthcare have stalled. In addition, as described in Note 6 to the consolidated financial statements included in this Quarterly Report, Change Healthcare filed a lawsuit in April 2017 challenging WebMD's rights under the license agreement to continue to use the data delivered to WebMD during the term of the agreement after the agreement's termination in early February 2018. We are exploring other sources of third-party data and uses of our first party data to generate additional revenue streams, but we are early in that process. Accordingly, we expect that the sales of, and the profits generated by, our information services business will be materially adversely affected by the termination, in early February 2018, of our license agreement with Change Healthcare.

Changes to our ability to access or use data could adversely affect our ability to implement improved analytics or to offer information products on a stand-alone basis. Accordingly, our business could be adversely impacted if, for any reason (including, but not limited to, changes in applicable laws and regulations) the data we use becomes unavailable or the conditions on its availability are not commercially reasonable or are inconsistent with our planned usage. In addition, the quality of our data analytics depends on the reliability of the information that we are able to obtain. If the information we use contains errors or is otherwise unreliable, analyses we create and actions we take based on those analyses could be wrong, which could hurt our reputation and business.

***Failure to maintain and enhance the “WebMD” and “Medscape” brands and our other brands could have a material adverse effect on our business***

We believe that the “WebMD” and “Medscape” brand identities that we have developed have contributed to the success of our business and have helped us achieve recognition as a trusted source of health and wellness information and tools for consumers and of online content for physicians and other healthcare professionals. We also believe that maintaining and enhancing those brands, as well as our other brands, is important to expanding the user base for *The WebMD Health Network* and to our relationships with sponsors and advertisers. The “WebMD” brand is also important to our ability to gain additional employer and healthcare payer clients for our *WebMD Health Services* platform and related services. We have expended considerable resources on establishing and enhancing the “WebMD” and “Medscape” brands 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.

***The markets we participate in are relatively new and continue to change***

We 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 online and through mobile platforms 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.

The standards that our advertising and sponsorship clients apply to our services continue to evolve, including standards for ad delivery, placement and frequency and for measuring the effectiveness of our services as compared to other alternatives available to our clients. Our ability to meet such standards as they change in the future will be important to our ability to compete for business, and we cannot provide assurance that we will be able to do so or estimate what the costs for doing so may be. For example, standards are continuing to evolve in the online advertising marketplace regarding the viewability of online advertising, or the length of time an advertisement is visible to a user as determined by a third-party verification source. We cannot predict how the requirements of advertisers will continue to evolve. If we fail to meet the standards that our advertisers require, our advertising revenues could be reduced.

***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, healthcare professionals, 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***

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 commitments or that they will enter into any additional commitments.

The time between the date of initial contact with a potential advertiser or sponsor regarding a specific program and the execution of a commitment 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. We have experienced, from time to time, 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 commitments. 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:

- U.S. Food and Drug Administration (FDA) approval for new products or for new indications or uses for approved products;
- any adverse determinations by the FDA affecting products previously approved or expected to be approved or the permitted uses of such products or their marketing;
- FDA approval of generic products that compete with existing brand name products and any increase in the number or significance of such approvals;
- recalls, withdrawals or shortages of products from the market;
- consolidation of companies in the pharmaceutical and biotechnology industries;
- rollouts of new or enhanced services on *The WebMD Health Network* ;
- 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.

Some of our pharmaceutical company customers have experienced patent expirations for certain of their products in the past several years and some are expected to experience patent expirations over the next several

years. In the pharmaceutical industry, patent expirations allow for competition from lower-priced generic versions of the patented drugs and generally result in the termination of marketing efforts for the drug (unless the FDA awards regulatory exclusivities beyond the patent term). In addition, expirations of patents that result in a significant reduction in revenue for a pharmaceutical company can lead to reductions in their advertising and sponsorship expenditures for other drugs in their product portfolios or for their entire product portfolio.

***Applications and other software that can block advertisements could reduce demand for our advertising and sponsorship products and decrease our revenue***

We derive a significant portion of our revenue from advertising and sponsorship on *The WebMD Health Network*. Applications and software are available that can block or obscure the display of advertisements or block the cookies used to deliver such advertisements, or shift the location in which advertising appears on pages. While the use of ad-blocking programs by visitors to *The WebMD Health Network* has been limited to date and our audience consists primarily of individuals who have not typically adopted ad-blocking programs so far, if these programs gain acceptance among our users in the future, they could reduce our ability to deliver advertisements to our audience which, in turn, could reduce demand for our advertising and sponsorship products and cause our revenue from those products to decrease.

***Mergers and acquisitions among our clients may reduce the volume of our services purchased by the consolidated company following such a transaction, which could harm our operating results***

Mergers and acquisitions among our pharmaceutical, biotechnology and medical device company clients have in the past and could in the future reduce the number of our clients and potential clients. Similarly, mergers and acquisitions among health insurance company clients of our *WebMD Health Services* platform could reduce the number of those clients. In addition, when companies consolidate, the number of vendors used for services, or the amount spent, by the separate companies may be reduced by the consolidated entity and some vendors and services may no longer be used at all. Any such event could have a negative effect on our revenue and profitability and we cannot provide assurance that we would be able to mitigate any such negative effect.

***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 interest consumer sites, and numerous other alternatives. Competition for this business may also result in smaller customer commitments or pressure to reduce prices, both of 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, 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 it further.

***Lengthy sales and implementation cycles for our WebMD Health Services platform and certain contractual rights of our clients make it difficult to forecast our revenues and may have an adverse impact on our results of operations***

The period from our initial contact with a potential client for our *WebMD Health Services* platform and entry into a contract for a subscription to 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 contracts may be subject to delays or cancellations due to a client's internal procedures for approving large expenditures and other

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[Table of Contents](#)

factors beyond our control, including the effect of general economic conditions on the willingness of potential clients to subscribe to our *WebMD Health Services* solution. The time it takes to implement our *WebMD Health Services* platform 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 clients. This, in turn, makes it more difficult to forecast our financial performance for future periods and may have an adverse impact on our results of operations.

During the contracting cycle and the implementation period, we may expend substantial time, effort and money preparing contract proposals, negotiating contracts and implementing our *WebMD Health Services* platform without receiving any related revenue. In addition, many of the expenses related to providing our platform are relatively fixed in the short term, including personnel costs and technology and infrastructure costs. If our health services 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.

In addition, some of our client contracts permit termination, by the client, prior to the end of the stated contract term for some or all of the services to be provided, which can make it more difficult to forecast our future financial performance and may have an adverse 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 develop and update our offerings and to increase usage of our services by their employees and plan members***

In a healthcare market where a greater share of the responsibility for healthcare costs and decision-making has been shifting to consumers, use of information technology (including personal health records) to assist consumers in making informed decisions about healthcare has also increased. We believe that through our *WebMD Health Services* platform as well as our health coaching programs and our targeted condition management programs, we are well positioned to play a role in this environment. However, our strategy depends, in part, on increasing usage of our services by our employer and health plan clients' employees and plan participants and being able to demonstrate a sufficient return on investment and other benefits for our clients from those services. Increasing usage of our platform and related services requires us to continue to develop new and updated applications, features and services. In addition, there are numerous competitors for the services we provide, many of which have greater financial, technical, product development, marketing and other resources than we do, and may be better known than we are. We cannot provide assurance that we will be able to meet our development and implementation goals or that we will be able to compete successfully against other vendors offering competitive services and, if we are unable to do so, we may experience static or diminished usage of our platform and related services, possible non-renewals of our customer agreements and, since some customers have the right to terminate or modify existing agreements before the end of the full contract term, possible terminations for some or all of the services to be provided.

***The condition management programs that we provide to clients of our WebMD Health Services platform involve risk and challenges with which we have limited experience and may not be profitable***

We provide condition management services to clients of our *WebMD Health Services* platform and plan to continue to expand that portion of our business. Our current offerings include programs targeting individuals struggling with coronary artery disease, congestive heart failure, diabetes, chronic obstructive pulmonary disease and asthma. Our condition management programs include ongoing, intensive one-on-one coaching by condition specialists, along with targeted online resources and progress tracking tools. Providing condition management services involves new risks and challenges for us, including: potential requirements to obtain and retain licenses, permits and regulatory clearances and approvals related to these services; difficulty in quantifying the costs savings and other benefits for our clients from these services; and difficulty in differentiating our condition management services from those of competitors, some of whom may be able to provide such services at a lower cost. We cannot predict the demand among our existing *WebMD Health Services* clients and other potential

clients for our condition management services and cannot provide assurance that the revenue opportunities from providing our current offerings or ones for additional conditions will justify the costs involved in maintaining or developing the required capabilities and delivering the services to clients.

***Contractual relationships with governmental customers may impose special burdens on us and provide special benefits to those customers, including the right to change or terminate the contract in response to budgetary constraints or policy changes***

A portion of our revenues come from customers that are governmental agencies or vendors to such agencies. Government contracts and subcontracts may be subject to some or all of the following:

- termination when appropriated funding for the current fiscal year is exhausted or becomes unavailable;
- termination for the governmental customer's convenience, subject to a negotiated settlement for costs incurred and profit on work completed, along with the right to place contracts out for bid before the full contract term, as well as the right to make unilateral changes in contract requirements, subject to negotiated price adjustments;
- "most-favored" pricing disclosure requirements that are designed to ensure that the government can negotiate and receive pricing akin to that offered commercially and requirements to submit proprietary cost or pricing data to ensure that government contract pricing is fair and reasonable;
- commercial customer price tracking requirements that require contractors to monitor pricing offered to a specified class of customers and to extend price reductions offered to that class of customers to the government;
- reporting and compliance requirements related to, among other things: equal employment opportunity, affirmative action for veterans and for workers with disabilities, and accessibility for the disabled;
- broader audit rights than we would usually grant to non-governmental customers; and
- specialized remedies for breach and default or failure to meet service level commitments, including setoff rights, retroactive price adjustments, and civil or criminal fraud penalties, as well as mandatory administrative dispute resolution procedures instead of state contract law remedies.

In addition, certain violations of federal law may subject government contractors to having their contracts terminated and, under certain circumstances, suspension and/or debarment from future government contracts.

***Expansion to markets outside the United States subjects 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 to accomplish this through partnerships or joint ventures with other companies having expertise in the specific country or region, while in other such markets we expect to rely primarily on our own internal resources. In certain markets outside of the United States, we are providing some of our online services in the local language directly to healthcare professionals. We also provide our online services in English to healthcare professionals outside the United States. Our participation in international markets is subject to certain 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;
- potential burdens of complying with a wide variety of legal, regulatory and market requirements, as well as uncertainty as to the applicability of non-U.S. laws to operations based in the United States and regarding the interpretation of such laws by local authorities;

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[Table of Contents](#)

- potential regulation or interpretation of existing regulation that could limit or eliminate our ability to distribute one or more of our products in one or more countries;
- variability of economic and political conditions, including the extent of the impact of adverse economic conditions in markets outside the United States;
- exposure to applicable anti-corruption laws, including but not limited to the U.S. Foreign Corrupt Practices Act;
- 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.

In addition, outside the United States, we face competition from locally based companies that have experience doing business in their home countries or regions and familiarity with local business practices, customs and laws and, as a result, generally do not face, or are better positioned to face, the risks described above.

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**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 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.

***Failure to update our technology infrastructure could adversely affect our business***

Evolving technologies could require us to modify our technology infrastructure and any failure to do so on a timely basis may limit the types of services we can provide or the quality of those services, and may put us in a weaker position relative to our competitors. Competitors with newer technology infrastructure may also have greater flexibility and be in a position to respond more quickly than us to new opportunities, which may impact our competitive position in certain markets and adversely affect our business.

***Implementation of updates to our technology infrastructure may result in performance problems and may not provide the additional functionality that was expected***

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

***If the systems we use to provide our online services 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 our 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. Because the techniques used by hackers to sabotage or to obtain unauthorized access to computer systems change frequently, we may be unable to anticipate specific types of attacks or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose users, customers, advertisers or publishers. Any compromise of our security, whether as a result of breaches or failures of our own systems or the systems with which they interface, 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. Many of these providers have experienced significant outages in the past and they 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 services 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 services. We may fail to meet contractual performance standards or client expectations. Clients of our online services may seek compensation from us or may seek to terminate their agreements with us, withhold payments due to us, seek refunds from us of part or all of the fees charged under those agreements or initiate litigation or other dispute resolution procedures. In addition, we could face breach of warranty or other claims by clients, or additional development costs. Our software and systems are inherently complex and, despite testing and quality control, we cannot be certain that they will perform as planned.

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

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

***Developments in the healthcare industry that reduce spending by healthcare industry participants generally could adversely affect our business***

Our business could be adversely impacted by changes in the structure of the healthcare industry and other changes that reduce 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:

- changes in government regulation or private initiatives that affect the manner in which healthcare industry participants interact with patients, payers (including governmental payers) or other healthcare industry



participants, including any such regulations or initiatives that seek to control the pricing or means of delivery of healthcare products and services or that create restrictions on the advertising or promotion 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.

***Developments in the healthcare industry that reduce spending in the specific market segments that we participate in could adversely affect our business***

Even if overall 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 or governmental programs that pay for healthcare products and services;
- the timing of FDA (or European or other national regulatory authority) approvals for new products or for new approved indications or 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 products;
- the timing of FDA (or European or other national regulatory authority) 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 (or European or other national regulatory authority) approvals of biosimilars to approved biological products and any increase in the number or significance of such approvals or of withdrawals of biological products from the market; and
- decreases in marketing expenditures by pharmaceutical or medical device companies, including as a result of governmental regulation or private initiatives that discourage, restrict or prohibit advertising, sponsorship or educational activities by pharmaceutical or medical device companies or that discourage, restrict 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. Since 2016, there has been increasing scrutiny regarding pricing increases for pharmaceutical products, which could lead to additional regulation of pharmaceutical pricing or other changes in how those products are distributed and the roles played by various industry participants in that distribution. We cannot predict the effect that such scrutiny or any resulting changes may have on the marketing plans of our customers in future periods or their future use of our services.

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.

***Changes to the Affordable Care Act and other healthcare reform efforts could affect some of our healthcare industry customers and clients***

Political, economic, regulatory and enforcement influences are subjecting the healthcare industry in the U.S. to fundamental changes. There have been, and we expect there will continue to be, legislative and regulatory

proposals to change the healthcare system in ways that could impact the various healthcare entities with which we contract. In particular, we anticipate that the U.S. Executive Branch, U.S. Congress, state legislatures and the private sector will continue to consider and may adopt healthcare policies intended to curb rising healthcare costs, particularly given the ongoing scrutiny regarding healthcare pricing in the U.S. generally, and prescription drug pricing specifically. Such policies could limit the prices our advertisers and sponsors charge for their healthcare-related products or services, limit the commercial opportunities of our advertisers and sponsors and/or negatively impact revenues collected by our advertisers and sponsors. We are particularly dependent on our healthcare clients, which primarily include pharmaceutical, biotechnology, and medical device companies, for our advertising and sponsorship revenue. Our advertisers and sponsors may face cost reduction measures and, in response, reduce their expenditures or postpone expenditure decisions, including expenditures for our services, which could have material adverse effects on our business.

One law in particular with a significant impact on the healthcare industry is 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 Affordable Care Act), which was signed into law in March 2010. The Affordable Care Act made extensive changes to the system of healthcare insurance and benefits in the U.S. While we do not currently anticipate any significant adverse effects on WebMD as a direct result of the application of the Affordable Care Act, as currently enacted or as it may be amended, to our business or on our company in its capacity as an employer, we are unable to predict what the indirect impacts 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 *The WebMD Health Network* and employers and health plans that license our *WebMD Health Services* platform. Healthcare industry participants may respond to the Affordable Care Act or to uncertainties created by the potential statutory and regulatory changes 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, services, and business arrangements 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, services, and business arrangements. 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:

- *U.S. 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 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 Magazine* violates applicable regulations and guidance documents, 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 respective states' consumer protection statutes. Any increase or change in regulation of drug or medical device advertising and promotion, especially if it relates to promotional activities involving the Internet or social media, could make it more difficult for us to contract for sponsorships and advertising and could have a material adverse effect on

our revenues and results of operations. We cannot predict how our customers or others in the industry might implement regulations or guidance in the future or how its implementation might affect our business. Private industry initiatives have resulted in voluntary restrictions, which advertisers and sponsors have agreed to follow. In December 2016, Congress passed the 21st Century Cures Act (the Cures Act) which contained a number of provisions designed to speed development of innovative therapies, to provide public science funding, and to adjust how the FDA evaluates new medical products and new indications for existing prescription drugs and devices. We cannot predict what effect, if any, the Cures Act might have on our business but we will closely monitor the changes.

- *Non-U.S. Regulation of Drug and Medical Device Advertising and Promotion.* To the extent that *The WebMD Health Network* reaches users outside of the United States, our Websites may be required to comply with the national laws of the respective countries whose users they address. In many countries, the advertising of prescription drugs to the general public is not allowed and, accordingly, these countries generally require access restrictions for Websites that contain such advertisements, which are only allowed to be addressed to healthcare professionals. In addition, there are laws and regulations regarding the use of indirect or disguised marketing, and regarding the offering and providing of gifts or benefits with promotional purpose that are not of minor value.
- *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 anti-kickback law prohibits any person or entity from offering, paying, soliciting or receiving anything of value, directly or indirectly, in exchange for the referral of patients for items or services reimbursed by Medicare, Medicaid and other federal healthcare programs, or to induce or reward the leasing, purchasing, ordering or arranging for or recommending the lease, purchase or order of any item, good, facility or service reimbursed 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 government healthcare program. These laws are applicable to any person or entity, including manufacturers and distributors and, therefore, may restrict how we and some of our customers market products to healthcare providers. We carefully review our practices with regulatory experts in an effort to ensure that we comply with all applicable laws. However, the laws in this area are both broad and vague, and it is often difficult or impossible to determine precisely how the laws will be applied, particularly to new services. Penalties for violating the federal anti-kickback law include imprisonment, fines and exclusion from participating, directly or indirectly, in Medicare, Medicaid and other federal healthcare programs. 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 of our practices could cause us to incur significant costs or cause adverse publicity. In addition, enforcement or the potential for enforcement of these laws against some of our customers may influence the services we are able to offer and/or our customers' willingness to continue to use our services.
- *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. The whistleblower (or "*qui tam*") provisions of the Federal False Claims Act allow a private individual to bring actions on behalf of the Federal government alleging that the defendant has submitted a false claim to the federal government and to share in any monetary recovery. After the filing of a *qui tam* suit, the Federal government may intervene and control the case; if it does not, the private individual may pursue the claim on his or her own. 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 continuing medical education (or CME) was unlawful off-label promotion. It is not clear whether there is a basis for the application of the Federal False Claims Act to the types of services that WebMD provides. However, plaintiffs have in the past, and may in the future, seek to name us as defendants in these types of cases. 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 reduce the use of our services by our advertising and sponsorship clients.

- *Medical Professional Regulation.* The practice of most healthcare professions requires licensing under applicable state law. In addition, the laws in some states prohibit business entities from practicing medicine. If a state determines that some portion of our business violates these laws, it may seek to have us discontinue those portions or subject us to penalties or licensure requirements.
- *Regulation of Mobile Medical Applications and Other Mobile Health Technology.* The FDA has issued guidance regarding mobile medical applications and other mobile health technology, clarifying the agency's intent to regulate only those applications that meet the agency's definition of "device" and could pose a risk to patients' safety if they fail to work as intended. The FDA is exercising enforcement discretion with respect to certain lower risk mobile applications that meet the device definition, such as those that maintain or encourage a general state of health or a healthy activity. Mobile applications that do not meet the device definition are beyond the FDA's jurisdiction and, accordingly, are not subject to the agency's oversight. In February 2015, the FDA issued guidance stating it would refrain from exercising enforcement over certain products that promote health or healthy lifestyles that reduce the risk or impact of certain diseases or conditions. In light of FDA guidance, we believe that none of our existing online services and mobile applications are subject to regulation as a medical device under applicable FDA regulations. We are required to determine whether FDA regulations would apply to any of our applications and the FDA could disagree with our determination. It is also possible that products or services that we may offer in the future could subject us to such regulation or that current rules could change or be interpreted to apply to some of our existing online services or mobile applications. In addition, it is possible that our mobile health offerings could fall under the scope of the FTC Act or the Health Insurance Portability and Accountability Act of 1996 (HIPAA), as amended by the Health Information Technology for Economic and Clinical Health (HITECH) Act of 2009. In April 2016, the FTC released a web-based tool in conjunction with the U.S. Department of Health and Human Services (HHS), Office of National Coordinator for Health Information Technology (ONC) and Office for Civil Rights (OCR), and the FDA, to help mobile application developers determine which federal privacy laws might apply to their applications. At the same time, the FTC released guidance aimed at mobile health developer compliance with the FTC Act. In February 2016, OCR posted guidance on its mHealth Developer Portal regarding scenarios in which HIPAA might apply to mobile health applications. Complying with such rules and regulations could be burdensome and expensive and could delay our introduction of new services or applications.

***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. Physicians and other healthcare professionals use our services to access clinical reference sources, commentary from leading medical experts, medical news, and coverage of professional meetings and conferences. If our content, or content we obtain from third parties, contains inaccuracies, it is possible that physicians, 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 Websites and 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 Websites as trustworthy and dependable sources of healthcare information. Allegations of impropriety or inaccuracy, even if unfounded, could harm our reputation and business.

***Government regulation of the Internet could adversely affect our business***

The Internet and its associated technologies are subject to various laws and government regulation. 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 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.

***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, legal standards for privacy (including, but not limited to, "unfairness" and "deception" as enforced by the FTC and state attorneys general) continue to evolve, and any failure or perceived failure to comply may result in private party litigation against us or proceedings or actions against us by government entities, or could cause us to lose users and customers, which could have a material adverse effect on our business. There has recently been an increase in the number of privacy-related lawsuits filed against companies. In addition, we are unable to predict what additional legislation or regulation in the area of privacy of personal information, including personal health information, could be enacted and what effect that could have on our operations and business. Concerns about our practices with regard to the collection, use, disclosure, or security of personal information or other privacy-related matters, even if unfounded and even if we are in compliance with applicable laws, could damage our reputation and harm our business.

The Privacy Standards and Security Standards under HIPAA establish a set of national privacy and security standards for the handling of protected health information by health plans, healthcare clearinghouses and healthcare providers (referred to as "covered entities") and their "business associates," which are persons or entities that perform certain services for, or functions or activities on behalf of, a covered entity (or another business associate) that involve the creation, receipt, maintenance, or transmission of protected health information. Certain portions of our business, such as those managing employee or plan member health information for employers or health plans, are subject to HIPAA as business associates of covered entities. In addition to imposing privacy and security requirements, HIPAA also creates obligations for us to report any unauthorized acquisition, access, use or disclosure of protected health information, known as a breach, to our covered entity customers. The 2013 final HITECH rule modified the breach reporting standard in a manner that made more data security incidents qualify as reportable breaches. In addition, HITECH and its implementing regulations imposed similar data breach notification requirements on vendors of personal health records that

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[Table of Contents](#)

require us to notify affected individuals, the FTC, and, in some cases, the media in the event of a data breach involving the unsecured personal information of users of *The WebMD Health Network*. Violations of HIPAA may result in civil and criminal penalties and could damage our reputation and harm our business. HITECH increased civil penalty amounts for violations of HIPAA and significantly strengthened 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 Standards and Security Standards that threaten the privacy of state residents. In July 2016, OCR announced a new phase of the HIPAA Audit Program, which for the first time targets business associates. Audits may, in certain circumstances, lead to full compliance reviews, with the potential for civil or criminal penalties. We cannot assure you that we will adequately address the risks created by these amended HIPAA Privacy Standards 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, transfers of EU individuals' personal data from EU member states to countries not recognized as having adequate protections for personal data, which includes the U.S., are regulated by the Directive 95/46/EC and its national implementations. The U.S.-EU Safe Harbor Framework, previously used widely to legitimize transfers of personal data from the EU to the U.S, was declared invalid in 2015. On July 12, 2016, the European Commission adopted the EU-U.S. Privacy Shield to replace the U.S.-EU Safe Harbor Framework. The Privacy Shield is intended to protect the fundamental rights of anyone in the EU whose personal data are transferred to the U.S. to a Privacy-Shield certified organization. U.S. companies that self-certify to meeting the requirements of the new framework are required to among other things post a privacy policy on their Websites, and are required to reply promptly to any complaints. We are continuing to assess the need for, and form of any transfer mechanism we may use. Criminal sanctions in Europe for violations of national implementations of the data protection Directive 95/46/EC and of the e-Privacy Directive 2002/58/EC are rarely imposed, though national implementations provide for both criminal and administrative sanctions. For example, France provides for administrative fines of up to 3,000,000 Euros in case of illegal collection or processing of personally identifiable information. Under the General Data Protection Regulation, there will be fines of up to 10,000,000 Euros or up to 2% of the global sales for certain comparatively minor offenses, or up to 20,000,000 Euros or up to 4% of the global sales for more serious offenses.

***Changes in the regulatory environment or in industry practices relating to user privacy could limit our ability to serve advertisements to consumers based on online behavior, which could adversely affect our revenue***

Internet and mobile 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. The FTC and state attorneys general continue to pay close attention to Internet privacy issues and, under their current unfair or deceptive trade practices authority, have been active in investigating and entering into consent decrees with companies because of the online privacy and data security practices of those companies. The FTC's evolving privacy enforcement activities, as reflected in its workshops, reports and enforcement actions, may be relevant to services we offer. In the U.S., there is a possibility of new legislation and regulation and increased enforcement activities relating to privacy and behavioral advertising. In addition, changes in industry practice (whether on their own or when combined with regulatory changes) could adversely impact our ability to deliver advertisements based on online behavior. For example, it is possible that at some point in the future, it will be a common Internet practice for Websites to honor "Do Not Track" settings in Internet browsers that are turned on by default. Whether through industry practice or in combination with government regulation, such a development could limit our ability to serve advertisements to consumers based on online behavior on third-party sites or on our sites, which could adversely affect our revenue.

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 laws may vary. Nevertheless, the provisions of this directive, whether or not 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 January 2017, the European Commission proposed a new EU-wide regulation to replace Directive 2009/136/EC, which if enacted, may impose new privacy requirements for electronic communications, including the use of “cookies” and similar technologies on a user’s computer or mobile device. Separately, under the General Data Protection Regulation (GDPR), a European-wide regulation that will be fully enforceable by May 25, 2018, various new requirements relating to Internet privacy will apply, including for users’ consent for offline and online marketing. European privacy regulators will continue to publish guidance on GDPR requirements throughout 2017. In addition, the GDPR and recent case law in some European countries will increase the likelihood of the 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 sufficiently 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, including, but not limited to the GDPR or a new “cookie” regulation in the EU, could adversely affect our business.

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

Medscape, LLC’s continuing education activities for physicians and other healthcare professionals 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. The 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. Medscape, LLC’s accreditation is a Joint Accreditation from the ACCME, the Accreditation Council for Pharmacy Education (as a provider of continuing education for pharmacy) and the American Nurses Credentialing Center (as a provider of continuing education for nurses).

Medscape, LLC’s current ACCME accreditation expires in August 2022. If Medscape, LLC fails to maintain its status as an accredited ACCME provider (whether at the time of such renewal or at an earlier time as a result of a failure to comply with existing or additional ACCME standards), it will not be permitted to certify 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 activities, which could have a material adverse effect on our business.

***Government regulation and industry initiatives could adversely affect the volume of CME programming available on Medscape Education***

CME activities may be subject to government oversight or regulation by Congress, the FDA, HHS, and local regulatory authorities, both in the United States and abroad. Medscape, LLC, WebMD Global LLC and the financial supporters of their medical education activities may be subject to enforcement actions if any of these activities are deemed improperly promotional, potentially leading to the termination of financial support.

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[Table of Contents](#)

Additionally, Supporters of CME activities could be affected by industry initiatives regarding funding for CME which may cause them to decrease funding for CME activities.

Government authorities continue to examine pharmaceutical companies' financial support of CME including public reporting requirements as they relate to payments and transfers of value made to physician speakers and faculty involved in CME activities. These authorities' interpretation of these reporting requirements, which has been evolving and may continue to change, could affect pharmaceutical companies' views of their reporting obligations with respect to payments in support of physician speakers and faculty for CME activities. In implementing internal controls and procedures that promote adherence to applicable regulations and requirements, supporters of CME may interpret the regulations and requirements differently and may implement varying procedures or requirements. These regulations and requirements which are subject to change, and the related internal controls and procedures:

- may discourage pharmaceutical and medical device companies from providing grants for independent educational activities;
- may slow their internal approval for such grants;
- may reduce the volume of third-party supported educational programming on *Medscape Education* to levels that are lower than in the past, thereby reducing revenue; and
- may require Medscape, LLC and WebMD Global LLC to make changes to how they offer or provide educational programming.

If we are not able to comply with applicable regulations and requirements, then our ability to provide medical education programming will be limited, which could have an adverse effect on our business.

***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., U.K., German, and most European laws, this prohibition has been interpreted to apply to doctors and other medical professionals who work in state-run hospitals and state-run healthcare systems. Some of these laws broadly prohibit bribery in both the private and public sectors, even to self-employed HCPs. In recent years, several global anti-corruption enforcement actions led to significant monetary penalties against several companies operating in the global healthcare industry for providing illegal inducements to medical professionals.

As our business expands globally, we (and others acting on our behalf) increasingly interact with public officials, including with 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 have implemented compliance policies and procedures to mitigate such risk, our personnel and others acting on our behalf could engage in conduct that violates such laws, for which we could 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, reputation, brand, financial condition and results of operations.

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

***We cannot assure you that our exploration of strategic alternatives will result in us pursuing a transaction or that any such transaction would be successful, and there may be negative impacts on our business and our stock price as a result of the process of exploring strategic alternatives or its conclusion***

On February 16, 2017, we announced that our Board of Directors, working together with our management team and legal and financial advisors, had 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, other types of strategic transactions, or continuing to execute on WebMD's business plan. As of the date of this Quarterly Report, that process is ongoing and our Board has not set a specific date for its completion. There can be no assurance that the exploration of strategic alternatives will result in a transaction or that any transaction that is agreed to will ultimately be completed. Our ability to conclude a transaction, if our Board decides to pursue one, will depend on numerous factors, some of which are outside of our control, including factors affecting the availability of financing for transactions and the financial markets in general.

Our financial results and operations may, during the process of exploring strategic alternatives, be adversely affected by factors such as the diversion of management resources and uncertainty regarding the outcome of the process. For example, the process could lead us to lose or fail to attract employees, customers or business partners. Although we have taken steps to address those risks, there can be no assurance that any such losses or distractions will not adversely affect our operations or financial results. The strategic review process could also result in fluctuations in our stock price based on speculation regarding the outcome of the process. In addition, our stock price may be adversely affected if we fail to enter into a transaction, or if the terms of any such transaction are not viewed favorably by our investors in light of the then-current trading price of our stock.

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

Our Restated Certificate of Incorporation and By-laws, 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, 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.

In December 2016, WebMD repurchased shares of its common stock in a tender offer (the "Tender Offer"). Completion of the Tender Offer may increase the possibility of another ownership change, 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***

We have been, and may continue to be, subject to claims that we are misappropriating or infringing intellectual property or other proprietary rights of others. These claims, even if not meritorious, may 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***

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

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

The issuance of additional equity or debt securities could:

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

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

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

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

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

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

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

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

Our future liquidity and capital requirements will depend upon numerous factors, including the success of our service offerings, market developments, and repurchases of our common stock. We may need to raise additional funds to support expansion, develop new or enhanced applications and services, respond to competitive pressures, acquire complementary businesses or technologies or take advantage of unanticipated opportunities. If required, we may raise such additional funds through public or private debt or equity financing, strategic relationships or other arrangements. There can be no assurance that such financing will be available on acceptable terms, if at all, or that such financing will not be dilutive to our stockholders.

[Table of Contents](#)

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

(c) The following table provides information about purchases by WebMD during the three months ended March 31, 2017 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

**Issuer Purchases of Equity Securities**

<u>Period</u>	<u>Total Number of Shares Purchased (1)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)</u>
1/1/17 - 1/31/17	521	\$ 50.78	—	\$ 45,611,058
2/1/17 - 2/28/17	3,828	\$ 51.00	—	\$ 45,611,058
3/1/17 - 3/31/17	55,554	\$ 50.39	—	\$ 45,611,058
Total	<u>59,903</u>	\$ 50.44	<u>—</u>	

(1) Represents 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. 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. Increases to the Program of \$75,000,000, \$50,000,000, \$40,000,000, \$30,000,000, \$23,895,440, \$27,450,843 and \$35,197,847 were authorized in October 2011, February 2014, March 2014, April 2014, November 2014, September 2015 and September 2016, respectively. For additional information, see Note 4 to the consolidated financial statements included in this Quarterly Report.

**ITEM 6. Exhibits**

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

**SIGNATURES**

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

**WEBMD HEALTH CORP.**

By: /s/ BLAKE DESIMONE

Blake DeSimone

*Executive Vice President and*

*Chief Financial Officer*

Date: May 9, 2017

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
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 3.1 to the Registrant's Current Report on Form 8-K filed on April 18, 2017)
10.1	Amendment No. 7, dated as of March 31, 2017, to the WebMD Supplemental Bonus Program Trust Agreement*
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
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

\* Agreement relates to executive compensation.

**AMENDMENT NO. 7  
TO THE WEBMD HEALTH CORP.  
SUPPLEMENTAL BONUS PROGRAM TRUST AGREEMENT**

THIS AMENDMENT is made to be effective as of March 31, 2017:

WHEREAS, WebMD Health Corp. (the "Company") and Scott Wahlers (the "Trustee") are parties to the WebMD Health Corp. Supplemental Bonus Program Trust Agreement (as Amended and Restated Effective as of March 15, 2008 and further amended by Amendment Nos. 1, 2, 3, 4, 5 and 6) (the "Trust Agreement");

WHEREAS, the Compensation Committee of the Board of Directors of the Company approved an extension of, and certain amendments to, the supplemental bonus program, as provided herein; and

WHEREAS, for the 2016 Bonuses (as defined below), there are no Participants who are currently Executive Officers and there is only one group of Participants with the same Participant Bonus Determination Date (as those terms are defined in the Trust Agreement);

NOW, THEREFORE, the Trust Agreement is hereby amended, effective immediately following payment of the 2015 Bonuses and liquidation of all the assets in the Trust for the 2015 performance year, as follows:

1.

Section 1.01(a)(iii) is hereby amended by replacing "December 31, 2017" with "December 31, 2018".

2.

Section 1.01(b) is amended by adding the following at the end thereof: "The Company has made Bonuses under the supplemental bonus program for the performance year ended December 31, 2016 (the "2016 Bonuses"). Accordingly, the term of the supplemental bonus program and the Trust is extended until full payment of such Bonuses has been made, subject to Section 1.01(a)."

3.

Section 1.01 (b) is amended by adding the following at the end thereof: "The Company has made Bonuses under the supplemental bonus program for the performance year ended December 31, 2016 and, accordingly, extended the term of the supplemental bonus program and the Trust until full payment of such Bonuses has been made, subject to Section 1.01.

4.

All changes to the Trust Agreement made by Amendment No. 6 to the Trust Agreement, other than the changes set forth in Sections 1 and 2 of such Amendment No. 6, are undone and the Trust Agreement shall be amended to read as it did immediately prior to the adoption of Amendment No. 6 (the effect of which is to have only one group of Participants with the same Participant Bonus Determination Date), except for Sections 1.01(a)(iii) and 1.01(b) which shall read as further amended by Sections 1 and 2 of this Amendment No. 7.

Except as provided herein, the provisions of the Trust Agreement shall remain in full force and effect. Upon the effectiveness of this Amendment No. 7, all references to the Trust Agreement in the Trust Agreement itself shall be references to the Trust Agreement as amended by this Amendment No. 7.

IN WITNESS WHEREOF, each of the undersigned has duly executed this Amendment to the Trust Agreement to be effective as of the day and year first written above.

**TRUSTEE**

/s/ Scott Wahlers  
\_\_\_\_\_  
Scott Wahlers

**WEBMD HEALTH CORP.**

/s/ Steven L. Zatz  
\_\_\_\_\_  
Steven L. Zatz  
Chief Executive Officer

/s/ Blake DeSimone  
\_\_\_\_\_  
Blake DeSimone  
Executive Vice President & Chief Financial Officer



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

I, Steven L. Zatz, certify that:

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

Date: May 9, 2017

/s/ Steven L. Zatz  
\_\_\_\_\_  
Steven L. Zatz  
*Chief Executive Officer*  
(Principal executive officer)

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

I, Blake DeSimone, certify that:

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

Date: May 9, 2017

\_\_\_\_\_  
/s/ Blake DeSimone  
Blake DeSimone  
*Executive Vice President and Chief Financial Officer*  
(Principal financial and accounting officer)

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

In connection with the Quarterly Report of WebMD Health Corp. ("WebMD") on Form 10-Q for the period ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven L. Zatz, Chief Executive Officer of WebMD, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Dated: May 9, 2017

/s/ Steven L. Zatz  
Steven L. Zatz  
Chief Executive Officer

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The foregoing certification is being furnished to accompany WebMD's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017 (the "Report") solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed as part of the Report or as a separate disclosure document and shall not be deemed incorporated by reference into any other filing of WebMD that incorporates the Report by reference. A signed original of this written certification required by Section 906 has been provided to WebMD and will be retained by WebMD and furnished to the Securities and Exchange Commission or its staff upon request.

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

In connection with the Quarterly Report of WebMD Health Corp. ("WebMD") on Form 10-Q for the period ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Blake DeSimone, Executive Vice President and Chief Financial Officer of WebMD, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Dated: May 9, 2017

\_\_\_\_\_  
/s/ Blake DeSimone  
Blake DeSimone  
Executive Vice President and Chief Financial Officer

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The foregoing certification is being furnished to accompany WebMD's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017 (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”). 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 MD&A also includes reconciliations of non-GAAP financial measures to GAAP financial measures.

Adjusted EBITDA is used by our management as an additional measure of our company’s performance for purposes of business decision-making, including developing budgets, managing expenditures, and evaluating potential acquisitions or divestitures. Period-to-period comparisons of Adjusted EBITDA help our management identify additional trends in our company’s financial results that may not be shown solely by period-to-period comparisons of net income. 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 net income to Adjusted EBITDA 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 net income to Adjusted EBITDA, 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.

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- **Stock-Based Compensation Expense** . Stock-based compensation expense is a non-cash expense arising from the grant of stock-based awards to employees. We believe that excluding the effect of stock-based compensation from Adjusted EBITDA assists management and investors in making period-to-period comparisons in 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, 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.
  - **Income Tax Provision (Benefit)**. We maintain a valuation allowance on a portion of our net deferred tax assets, the amount of which may change from quarter to quarter through adjustments to the income tax provision (benefit). The income tax provision (benefit) is also adjusted each quarter for excess tax benefits and/or deficiencies related to stock-based awards that vest or are settled in such quarter. 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) loss on repurchases of our convertible notes; (iii) severance expense; 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.