HLTH CORP
Form 10-Q
May 12, 2008

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

Form 10-Q

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the quarterly period ended March 31, 2008**
	or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from _____to _____**

Commission file number: 0-24975

HLTH CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**94-3236644**
(State of incorporation)	*(I.R.S. employer identification no.)*
669 River Drive, Center 2 **Elmwood Park, New Jersey**	**07407-1361**
(Address of principal executive office)	*(Zip code)*

(201) 703-3400
(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 þ No o

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

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

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

Yes o No þ

As of May 5, 2008, there were 183,608,198 shares of HLTH Common Stock outstanding (including unvested shares of restricted HLTH Common Stock issued under our equity compensation plans).

HLTH CORPORATION

QUARTERLY REPORT ON FORM 10-Q
For the period ended March 31, 2008

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WebMD®, WebMD Health®, CME Circle®, eMedicine®, MedicineNet®, Medscape®, MEDPOR®, Medsite®, POREX®, RxList®, Subimo®, Summex®, theheart.org®, The Little Blue Book™ and ViPS℠ are among the trademarks of HLTH Corporation or its subsidiaries.

Emdeon™ and Emdeon Business Services™ are among the trademarks of Emdeon Business Services, LLC or its subsidiaries.

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FORWARD-LOOKING STATEMENTS

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

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

- failure to achieve sufficient levels of usage of WebMD s public portals;
- inability to successfully deploy new or updated applications or services;
- failure to achieve sufficient levels of utilization and market acceptance of new or updated products and services;
- difficulties in forming and maintaining relationships with customers and strategic partners;
- inability to attract and retain qualified personnel;
- anticipated benefits from acquisitions not being fully realized or not being realized within the expected time frames;
- general economic, business or regulatory conditions affecting the healthcare, information technology, Internet and plastics industries being less favorable than expected; and
- the other risks and uncertainties described in this Quarterly Report on Form 10-Q under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations Factors That May Affect Our Future Financial Condition or Results of Operations.

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, could also have material adverse effects on our future results.

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

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PART I
FINANCIAL INFORMATION

ITEM 1. *Financial Statements*

HLTH CORPORATION

CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	March 31, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,106,128	$ 536,879
Short-term investments	309,256	290,858
Accounts receivable, net of allowance for doubtful accounts of $1,174 at March 31, 2008 and $1,165 at December 31, 2007	73,861	86,081
Due from EBS Master LLC	28	1,224
Prepaid expenses and other current assets	27,781	71,090
Assets of discontinued operations	266,591	262,964
Total current assets	1,783,645	1,249,096
Marketable equity securities	2,036	2,383
Property and equipment, net	47,883	49,554
Goodwill	214,623	217,323
Intangible assets, net	33,766	36,314
Investment in EBS Master LLC		25,261
Other assets	59,922	71,466
TOTAL ASSETS	$ 2,141,875	$ 1,651,397
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accrued expenses	$ 59,002	$ 49,598
Deferred revenue	88,114	76,401
Liabilities of discontinued operations	113,397	123,131
Total current liabilities	260,513	249,130
1.75% convertible subordinated notes due 2023	350,000	350,000
31/8% convertible notes due 2025	300,000	300,000
Other long-term liabilities	21,214	21,137
Minority interest in WHC	130,231	131,353

Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.0001 par value; 5,000,000 shares authorized; no shares outstanding		
Common stock, $0.0001 par value; 900,000,000 shares authorized; 457,905,955 shares issued at March 31, 2008; 457,803,361 shares issued at December 31, 2007	46	46
Additional paid-in capital	12,485,444	12,479,574
Treasury stock, at cost; 275,570,467 shares at March 31, 2008; 275,786,634 shares at December 31, 2007	(2,564,169)	(2,564,948)
Accumulated deficit	(8,857,590)	(9,320,748)
Accumulated other comprehensive income	16,186	5,853
Total stockholders equity	1,079,917	599,777
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 2,141,875	$ 1,651,397

See accompanying notes.

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HLTH CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Revenue	$ 81,682	$ 71,881
Costs and expenses:		
Cost of operations	31,570	28,618
Sales and marketing	25,830	22,870
General and administrative	21,144	28,443
Depreciation and amortization	6,888	6,325
Interest income	11,936	9,674
Interest expense	4,607	4,709
Gain on sale of EBS Master LLC	538,024	
Impairment of auction rate securities	60,108	
Other (expense) income, net	(4,144)	2,882
Income (loss) from continuing operations before income tax provision (benefit)	477,351	(6,528)
Income tax provision (benefit)	25,614	(231)
Minority interest in WHC (loss) income	(3,845)	115
Equity in earnings of EBS Master LLC	4,007	7,099
Income from continuing operations	459,589	687
Income from discontinued operations (net of tax of $2,910 in 2008 and $1,221 in 2007)	3,569	5,015
Net income	$ 463,158	$ 5,702
Basic income per common share:		
Income from continuing operations	$ 2.52	$ 0.00
Income from discontinued operations	0.02	0.03
Net income	$ 2.54	$ 0.03
Diluted income per common share:		
Income from continuing operations	$ 2.03	$ 0.00
Income from discontinued operations	0.01	0.03
Net income	$ 2.04	$ 0.03
Weighted-average shares outstanding used in computing income per common share:		
Basic	182,175	176,011

Diluted	228,159	186,355

See accompanying notes.

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HLTH CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Cash flows from operating activities:		
Net income	$ 463,158	$ 5,702
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Income from discontinued operations, net of tax	(3,569)	(5,015)
Depreciation and amortization	6,888	6,325
Minority interest in WHC (loss) income	(3,845)	115
Equity in earnings of EBS Master LLC	(4,007)	(7,099)
Amortization of debt issuance costs	743	721
Non-cash advertising	1,558	2,320
Non-cash stock-based compensation	5,972	9,182
Deferred income taxes	5,389	2
Gain on sale of EBS Master LLC and 2006 EBS Sale	(538,024)	(399)
Impairment of auction rate securities	60,108	
Changes in operating assets and liabilities:		
Accounts receivable	12,220	2,185
Prepaid expenses and other, net	17,493	421
Accrued expenses and other long-term liabilities	10,320	(46,158)
Deferred revenue	11,714	7,678
Net cash provided by (used in) continuing operations	46,118	(24,020)
Net cash (used in) provided by discontinued operations	(3,751)	6,712
Net cash provided by (used in) operating activities	42,367	(17,308)
Cash flows from investing activities:		
Proceeds from maturities and sales of available-for-sale securities	104,518	67,922
Purchases of available-for-sale securities	(177,150)	(65,932)
Purchases of property and equipment	(2,662)	(4,780)
Proceeds related to sales of EBS, EPS and ACS/ACP, net of fees	598,935	2,898
Decrease in net advances to EBS Master LLC	1,195	19,691
Net cash provided by continuing operations	524,836	19,799
Net cash used in discontinued operations	(1,438)	(847)
Net cash provided by investing activities	523,398	18,952
Cash flows from financing activities:		
Proceeds from issuance of HLTH and WHC common stock	1,777	63,404
Purchases of treasury stock under repurchase program		(11,322)

Net cash provided by continuing operations	1,777	52,082
Net cash used in discontinued operations	(46)	(43)
Net cash provided by financing activities	1,731	52,039
Effect of exchange rates on cash	1,753	184
Net increase in cash and cash equivalents	569,249	53,867
Cash and cash equivalents at beginning of period	536,879	614,691
Cash and cash equivalents at end of period	$ 1,106,128	$ 668,558

See accompanying notes.

HLTH CORPORATION

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

1. Background and Basis of Presentation

Background

HLTH Corporation (HLTH or the Company) is a Delaware corporation that was incorporated in December 1995 and commenced operations in January 1996 as Healtheon Corporation. HLTH s Common Stock began trading on the Nasdaq National Market under the symbol HLTH on February 11, 1999 and now trades on the Nasdaq Global Select Market. The Company changed its name to Healtheon/WebMD Corporation in November 1999 and to WebMD Corporation in September 2000. In October 2005, WebMD Corporation changed its name to Emdeon Corporation in connection with the initial public offering of equity securities of WebMD Health Corp. (WHC). In connection with the November 2006 sale of a 52% interest in the Company s Emdeon Business Services segment, the Company transferred its rights to the name Emdeon and related intellectual property to Emdeon Business Services. Accordingly, in May 2007, the Company changed its name to HLTH Corporation.

WHC s Class A Common Stock began trading on the Nasdaq National Market under the symbol WBMD on September 29, 2005 and now trades on the Nasdaq Global Select Market. As of March 31, 2008, the Company owned 48,100,000 shares of WHC Class B Common Stock, which represented 83.4% of the total outstanding Class A Common Stock (which considers certain WHC shares to be issued pursuant to the purchase agreement for the acquisition of Subimo, LLC) and Class B Common Stock of WHC. WHC Class A Common Stock has one vote per share, while WHC Class B Common Stock has five votes per share. As a result, the WHC Class B Common Stock owned by the Company represented, as of March 31, 2008, 96.2% of the combined voting power of WHC s outstanding Common Stock.

Basis of Presentation

The accompanying consolidated financial statements include the consolidated accounts of HLTH Corporation and its subsidiaries and have been prepared in United States dollars, and in accordance with U.S. generally accepted accounting principles (GAAP). The consolidated accounts include 100% of the assets and liabilities of the majority-owned WHC and the ownership interests of minority stockholders of WHC are recorded as minority interest in WHC in the accompanying consolidated balance sheets.

The Company s 48% ownership in EBS Master LLC was accounted for under the equity method through February 8, 2008, the date of the sale of the Company s investment in EBS Master LLC. See Note 3 for further details.

On February 21, 2008, the Company announced its intention to sell its ViPS and Porex businesses. Accordingly, the results of the Company s ViPS and Porex segments are presented as discontinued operations in the accompanying consolidated financial statements. See Note 2 for further details.

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, 2008 are not necessarily indicative of the operating results to be expected for any subsequent period or for the entire year ending December 31, 2008. Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted under the Securities and Exchange Commission s (the SEC) rules and regulations.

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HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, 2007, which are included in the Company s Annual Report on Form 10-K filed with the SEC.

Seasonality

The timing of the Company s revenue is affected by seasonal factors. WebMD s advertising and sponsorship revenue is seasonal, primarily as a result of the annual budget approval process of the advertising and sponsorship clients of the public portals. This portion of revenue is usually the lowest in the first quarter of each calendar year, and increases during each consecutive quarter throughout the year. WebMD s private portal licensing revenue is historically highest in the second half of the year as new customers are typically added during this period in conjunction with their annual open enrollment periods for employee benefits. Additionally, the annual distribution cycle for certain publishing products results in a significant portion of WebMD s publishing revenue being recognized in the second and third quarter of each calendar year.

Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company bases its estimates on historical experience, current business factors, and various other assumptions that the Company believes are necessary to consider to form a basis for making judgments about the carrying values of assets and liabilities, the recorded amounts of revenue and expenses, and the disclosure of contingent assets and liabilities. The Company is subject to uncertainties such as the impact of future events, economic, environmental and political factors, and changes in the Company s business environment; therefore, actual results could differ from these estimates. Accordingly, the accounting estimates used in the preparation of the Company s financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the Company s operating environment changes. Changes in estimates are made when circumstances warrant. Such changes in estimates and refinements in estimation methodologies are reflected in reported results of operations; if material, the effects of changes in estimates are disclosed in the notes to the consolidated financial statements. Significant estimates and assumptions by management affect: the allowance for doubtful accounts, the carrying value of prepaid advertising, the carrying value of long-lived assets (including goodwill and intangible assets), the amortization period of long-lived assets (excluding goodwill), the carrying value, capitalization and amortization of software and Web site development costs, the carrying value of short-term and long-term investments, the provision for income taxes and related deferred tax accounts, certain accrued expenses, revenue recognition, contingencies, litigation and related legal accruals and the value attributed to employee stock options and other stock-based awards.

Net Income Per Common Share

Basic income per common share and diluted income per common share are presented in conformity with Statement of Financial Accounting Standards (SFAS) No. 128, Earnings Per Share (SFAS 128). In accordance with SFAS 128, basic income per common share has been computed using the weighted-average number of shares of common stock outstanding during the period, increased to give effect to the participating rights of the convertible redeemable exchangeable preferred stock. Diluted income per common share has been computed using the weighted-average number of shares of common stock outstanding during the period, increased to give effect to potentially dilutive securities and assumes that any dilutive convertible notes were converted, only in the periods in which such effect is dilutive. Additionally, for purposes of calculating diluted income per common share of the Company, the numerator has been adjusted to consider the effect of potentially dilutive securities of WHC, which can dilute the portion of WHC s net income otherwise retained

HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

by the Company. The following table presents the calculation of basic and diluted income per common share (shares in thousands):

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Numerator:		
Income from continuing operations	$ 459,589	$ 687
Convertible redeemable exchangeable preferred stock fee		88
Income from continuing operations Basic	459,589	775
Interest expense on convertible notes	2,771	
Effect of WHC dilutive securities		(28)
Income from continuing operations Diluted	$ 462,360	$ 747
Income from discontinued operations, net of tax Basic and Diluted	$ 3,569	$ 5,015
Denominator:		
Common stock	182,175	165,373
Convertible redeemable exchangeable preferred stock		10,638
Weighted-average shares Basic	182,175	176,011
Employee stock options, restricted stock and warrants	3,968	10,344
Convertible notes	42,016	
Adjusted weighted-average shares Diluted	228,159	186,355
Basic income per common share:		
Income from continuing operations	$ 2.52	$ 0.00
Income from discontinued operations	0.02	0.03
Net income	$ 2.54	$ 0.03
Diluted income per common share:		
Income from continuing operations	$ 2.03	$ 0.00
Income from discontinued operations	0.01	0.03
Net income	$ 2.04	$ 0.03

The Company has excluded convertible subordinated notes and convertible notes, as well as certain outstanding warrants, restricted stock and stock options, 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 number of shares that could potentially dilute income per common share in the future that were not included in the computation of diluted income per common share during the periods presented (shares in thousands):

	Three Months Ended March 31,	
	2008	**2007**
Options, restricted stock and warrants	35,059	21,172
Convertible notes		42,015
	35,059	63,187

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HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Income Taxes

The income tax provision of $25,614 and benefit of $231 for the three months ended March 31, 2008 and 2007, respectively, represents taxes for federal, state and other jurisdictions. While the majority of the gain on the 2008 EBSCo Sale (as defined in Note 3) was offset by net operating loss carryforwards, certain AMT and other state taxes were not offset resulting in a provision of approximately $24,000 for the three months ended March 31, 2008. The income tax provision for the three months ended March 31, 2008 excludes a benefit for the impairment of auction rate securities, as it is currently not deductible for tax purposes.

Recent Accounting Pronouncements

On May 9, 2008, the Financial Accounting Standards board (FASB) issued FASB Staff Position (FSP) Accounting Principles Board (APB) Opinion No. 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSB APB 14-1). The FSP will require cash settled convertible debt to be separated into debt and equity components at issuance and a value to be assigned to each. The value assigned to the debt component will be the estimated fair value, as of the issuance date, of a similar bond without the conversion feature. The difference between the bond cash proceeds and this estimated fair value will be recorded as a debt discount and amortized to interest expense over the life of the bond. Although FSB APB 14-1 would have no impact on the Company s actual past or future cash flows, it will require the Company to record a significant amount of non-cash interest expense as the debt discount is amortized. As a result, there will be a material adverse impact on the results of operations and earnings per share. In addition, if the convertible debt is redeemed or converted prior to maturity, any unamortized debt discount will result in a loss on extinguishment. FSP APB 14-1 will become effective January 1, 2009, and will require retrospective application.

On April 25, 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142). The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141 (Revised 2007), Business Combinations, and other U.S. GAAP. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company is currently evaluating the impact that this FSP will have on its operations, financial position and cash flows.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), Business Combinations (SFAS 141R), a replacement of FASB Statement No. 141. SFAS 141R is effective for fiscal years beginning on or after December 15, 2008 and applies to all business combinations. SFAS 141R provides that, upon initially obtaining control, an acquirer shall recognize 100 percent of the fair values of acquired assets, including goodwill, and assumed liabilities, with only limited exceptions, even if the acquirer has not acquired 100 percent of its target. As a consequence, the current step acquisition model will be eliminated. Additionally, SFAS 141R changes current practice, in part, as follows:
(1) contingent consideration arrangements will be fair valued at the acquisition date and included on that basis in the purchase price consideration; (2) transaction costs will be expensed as incurred, rather than capitalized as part of the purchase price; (3) pre-acquisition contingencies, such as legal issues, will generally have to be accounted for in purchase accounting at fair value; and (4) in order to accrue for a restructuring plan in purchase accounting, the

requirements in FASB Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities, would have to be met at the acquisition date. While there is no expected impact to the Company s consolidated financial statements on the accounting for acquisitions completed prior to December 31, 2008, the adoption of SFAS 141R on January 1, 2009 could materially change the accounting for business combinations consummated subsequent to that date.

HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51, (SFAS 160). SFAS 160 requires the recognition of a noncontrolling interest (minority interest) as equity in the financial statements and separate from the parent s equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the results of operations. SFAS 160 clarifies that changes in a parent s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. SFAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and is to be applied prospectively as of the beginning of the fiscal year in which the statement is applied. Early adoption is not permitted. The Company is currently evaluating the impact that SFAS 160 will have on its operations, financial position and cash flows.

Reclassifications

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

2. Discontinued Operations

ViPS and Porex

In November 2007, the Company announced its intentions to propose a transaction that would allow HLTH s stockholders to participate more directly in the ownership of WHC stock. Also at that time, the Company announced its intentions to explore potential sales transactions for its ViPS and Porex segments, as the cash proceeds from the potential sales of ViPS and Porex would partially fund the cash necessary to consummate the potential transaction with WHC.

In February 2008, the Company announced the WHC Merger (as defined in Note 4) and its intention to divest the ViPS and Porex segments. These divestitures are not dependent on the WHC Merger and do not require shareholder approval. The Company expects the disposal of these entities will be completed within one year. As a result of the Company s intentions to sell the ViPS and Porex segments, the financial information of the ViPS and Porex segments are presented as discontinued operations in the accompanying consolidated financial statements.

ViPS

Summarized operating results for ViPS for the three months ended March 31, 2008 and 2007 are as follows:

	Three Months Ended March 31,	
	2008	**2007**

Statement of Operations Data:		
Revenue	$ 25,983	$ 26,659
Earnings before taxes	2,851	1,268

HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The major classes of assets and liabilities of ViPS as of March 31, 2008 and December 31, 2007 are as follows:

	March 31, 2008	December 31, 2007
Assets of discontinued operations:		
Accounts receivable, net	$ 16,383	$ 17,240
Property and equipment, net	4,360	4,020
Goodwill	71,253	71,253
Intangible assets, net	46,280	47,815
Deferred tax asset	804	804
Other assets	3,117	2,833
Total Assets	$ 142,197	$ 143,965
Liabilities of discontinued operations:		
Accounts payable	$ 1,397	$ 1,599
Accrued expenses and other	3,384	4,370
Deferred revenue	9,044	10,982
Deferred tax liability	16,336	16,924
Total Liabilities	$ 30,161	$ 33,875

Porex

Summarized operating results for Porex for the three months ended March 31, 2008 and 2007 are as follows:

	Three Months Ended March 31,	
	2008	2007
Statement of Operations Data:		
Revenue	$ 23,761	$ 22,709
Earnings before taxes	3,476	5,024

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HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The major classes of assets and liabilities of Porex as of March 31, 2008 and December 31, 2007 are as follows:

	March 31, 2008	December 31, 2007
Assets of discontinued operations:		
Accounts receivable, net	$ 15,129	$ 12,921
Inventory	12,367	11,772
Property and equipment, net	21,997	21,176
Goodwill	43,576	43,283
Intangible assets, net	24,818	24,873
Deferred tax asset	1,420	1,420
Other assets	5,087	3,554
Total Assets	$ 124,394	$ 118,999
Liabilities of discontinued operations:		
Accounts payable	$ 2,676	$ 1,533
Accrued expenses	7,333	7,684
Deferred tax liability	24,330	24,375
Other long-term liabilities	100	101
Total Liabilities	$ 34,439	$ 33,693

ACS/ACP Business

As of December 31, 2007, the Company, through WHC, entered into an Asset Sale Agreement and completed the sale of certain assets and certain liabilities of its medical reference publications business, including the publications *ACP Medicine and ACS Surgery: Principles and Practice*. The assets and liabilities sold are referred to below as ACS/ACP Business. ACP Medicine and ACS Surgery are official publications of the American College of Physicians and the American College of Surgeons, respectively. As a result of the sale, the historical financial information of the ACS/ACP Business has been reclassified as discontinued operations in the accompanying consolidated financial statements. The Company will receive net cash proceeds of $2,809, consisting of $1,734 received during the three months ended March 31, 2008 and $1,075 to be received through June 30, 2008. The Company incurred approximately $800 of professional fees and other expenses associated with the sale of the ACS/ACP Business. In connection with the sale, the Company recognized a gain of $3,571, net of a tax benefit of $177, in the three months ended December 31, 2007. Summarized operating results for the ACS/ACP Business for the three months ended March 31, 2007 were as follows:

	Three Months Ended

		March 31, 2007
Statement of Operations Data:		
Revenue	$	1,018
Loss before taxes		(29)

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HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

EPS

On September 14, 2006, the Company completed the sale (the EPS Sale) of Emdeon Practice Services, Inc. (together with its subsidiaries, EPS) to Sage Software, Inc. (Sage Software). The Company has certain indemnity obligations to advance amounts for reasonable defense costs for initially ten and now nine former officers and directors of EPS, who were indicted in connection with the previously disclosed investigation by the United States Attorney for the District of South Carolina (the Investigation), which is more fully described in Note 12, Commitments and Contingencies. In connection with the sale of EPS, the Company agreed to indemnify Sage Software relating to these indemnity obligations. During the quarter ended June 30, 2007, based on information it had recently received at that time, the Company determined a reasonable estimate of the range of probable costs with respect to its indemnification obligation and accordingly, recorded a pre-tax charge of $57,774, which represented the Company s estimate of the low end of the probable range of costs related to this matter. The Company had reserved the low end of the probable range of costs because no estimate within the range was a better estimate than any other amount. That estimate included assumptions as to the duration of the trial and pre-trial periods, and the defense costs to be incurred during these periods. During the quarter ended December 31, 2007, the Company updated the estimate of the range of its indemnification obligation, and as a result, recorded an additional pre-tax charge of $15,573, which reflects the increase in the low end of the probable range of costs related to this matter. As of March 31, 2008, the probable range of future costs with respect to this matter is approximately $39,900 to $63,700. The ultimate outcome of this matter is still uncertain, and accordingly, the amount of cost the Company may ultimately incur could be substantially more than the reserve the Company has currently provided. If the recorded reserves are insufficient to cover the ultimate cost of this matter, the Company will need to record additional charges to its consolidated statement of operations in future periods. The accrual related to this obligation is $48,797 and $55,563 as of March 31, 2008 and December 31, 2007, respectively, and is reflected as liabilities of discontinued operations in the accompanying consolidated balance sheets.

3. Emdeon Business Services

On November 16, 2006, the Company completed the sale of a 52% interest in EBS (2006 EBS Sale) to an affiliate of General Atlantic LLC (GA). The 2006 EBS Sale was structured so that the Company and GA each own interests in a limited liability company, EBS Master LLC (EBSCo), which owns the entities comprising EBS through a wholly owned limited liability company, Emdeon Business Services LLC. During the three months ended March 31, 2007, the Company recognized a gain of $399 which related to the finalization of the working capital adjustment in connection with the 2006 EBS Sale.

Beginning on November 17, 2006, the Company s remaining 48% ownership interest in EBSCo was reflected as an investment in the Company s consolidated financial statements, accounted for under the equity method and the Company s share of EBSCo s net earnings was reported as equity in earnings of EBS Master LLC in the accompanying consolidated statements of operations through February 8, 2008.

On February 8, 2008, the Company entered into a Securities Purchase Agreement (the Purchase Agreement) and simultaneously completed the sale of its 48% minority ownership interest in EBSCo (the 2008 EBSCo Sale) for $575,000 in cash to an affiliate of GA and affiliates of Hellman & Friedman, LLC (H&F). In connection with the 2008 EBSCo Sale, the Company recognized a gain of $538,024. The Company expects to utilize a portion of its federal NOL carryforward to offset a portion of the tax liability that would otherwise result from the 2008 EBSCo

Sale. Under the existing Tax Sharing Agreement between the Company and WHC, the Company has agreed to reimburse WHC for any NOL carryforward attributable to WHC that is utilized by the Company in connection with this transaction. The amount of the NOL carryforward attributable to WHC to be utilized and the amount of the resulting reimbursement depend on numerous factors and cannot be determined at this time. This reimbursement obligation would be extinguished by the completion of the WHC Merger.

HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company s share of EBSCo s net earnings is reported as equity in earnings of EBS Master LLC in the accompanying consolidated statements of operations for the period January 1, 2008 through February 8, 2008, the closing date of the 2008 EBSCo Sale. The difference between the equity in earnings of EBS Master LLC in the accompanying consolidated statements of operations and 48% of the net income of EBSCo is principally due to the amortization of the excess of the fair value of EBSCo s net assets as adjusted for in purchase accounting, over the carryover basis of the Company s investment in EBSCo. The following is summarized financial information of EBSCo for the period January 1, 2008 through February 8, 2008 and for the three months ended March 31, 2007:

	For the Period January 1, 2008 to February 8, 2008	Three Months Ended March 31, 2007
Statement of Operations Data:		
Revenue	$ 94,481	$ 198,409
Cost of operations	44,633	91,185
Net income	5,551	8,276

4. Pending Merger with WHC

On February 20, 2008, the Company and WHC entered into a Merger Agreement, pursuant to which the Company will merge into WHC (the WHC Merger), with WHC continuing as the surviving company. In the WHC Merger, each outstanding share of Company common stock will be converted into 0.1979 shares of WHC common stock and $6.89 in cash, which cash amount is subject to a downward adjustment as described below (the Merger Consideration). The shares of WHC Class A Common Stock currently outstanding will remain outstanding and will be unchanged in the WHC Merger. The WHC Merger will eliminate both the controlling class of WHC stock held by the Company and WHC s existing dual-class stock structure. The terms of the Merger Agreement were negotiated between the Company and a Special Committee of the Board of Directors of WHC. The Merger Agreement was approved by the Board of WHC, based on the recommendations of the Special Committee, and by the Board of the Company.

The cash portion of the Merger Consideration will be funded from cash and investments at WHC and the Company, and proceeds from the Company s anticipated sales of its ViPS and Porex businesses. The cash portion of the Merger Consideration is subject to downward adjustment prior to the closing, based on matters relating to the Company s investment in certain auction rate securities (ARS), as described below. If either ViPS or Porex has not been sold at the time the WHC Merger is ready to be consummated, WHC may issue up to $250,000 in redeemable notes to the stockholders of the Company in lieu of a portion of the cash consideration otherwise payable in the WHC Merger. The notes would bear interest at a rate of 11% per annum, payable in kind annually in arrears. The notes would be subject to mandatory redemption by WHC from the proceeds of the divestiture of the remaining ViPS or Porex business. The redemption price would be equal to the principal amount of the notes to be redeemed plus accrued but unpaid interest through the date of the redemption.

Completion of the WHC Merger is subject to: the Company and WHC receiving required stockholder approvals; a requirement that the surviving company have an amount of cash, as of the closing, at least equal to an agreed upon threshold, calculated in accordance with a formula contained in the Merger Agreement; completion of the sale by the Company of either ViPS or Porex and completion of the sale of the Company s auction rate securities investments (or the availability of certain alternatives described below); and other customary closing conditions. The Company, which owns shares of WHC constituting approximately 96% of the total number of votes represented by outstanding shares, has agreed to vote its shares of WHC in favor of the WHC Merger.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Following the WHC Merger, WHC as the surviving corporation will assume the obligations of the Company under the Company s 31/8% Convertible Notes due September 1, 2025 and the Company s 1.75% Convertible Subordinated Notes due June 15, 2023 (Convertible Notes). In the event a holder of these Convertible Notes converts these Convertible Notes into shares of the Company s Common Stock pursuant to the terms of the applicable indenture prior to the effective time of the WHC Merger, those shares would be treated in the WHC Merger like all other shares of the Company s Common Stock. In the event a holder of the Convertible Notes converts those Convertible Notes pursuant to the applicable indenture following the effective time of the WHC Merger, those Convertible Notes would be converted into the right to receive the Merger Consideration payable in respect of the shares of the Company s Common Stock into which such Convertible Notes would have been convertible.

On May 6, 2008, the Company and WHC entered into an amendment (the Amendment) to the Merger Agreement, which modifies certain provisions of the Merger Agreement to reflect the flexibility and additional liquidity afforded by the Credit Facility that the Company has entered into, which is described in Note 14 (the HLTH Credit Facility). Under the Merger Agreement, as amended, the Company is not required to sell its ARS holdings as a condition to closing if the outstanding loan amount, under the HLTH Credit Facility, is equal to 75% of the face amount of the ARS investments held by the Company at the effective time of the Merger or if the Company would be capable of satisfying, as of that time, all of the conditions to making a drawdown of that amount. In either such case, the maximum reduction in the aggregate cash consideration payable in the Merger would be fixed at $48.6 million (which is 25% of the face amount of the Company s ARS holdings as of the date of this Quarterly Report, excluding WHC s ARS holdings), or approximately $0.27 per share (based on the number of shares of the Company s Common Stock outstanding as of the date of this Quarterly Report). To the extent that the Company, instead, sells some or all of its ARS holdings for greater than 75% of the face amount, the reduction in the aggregate cash portion of the Merger Consideration with respect to the ARS that are sold would be based on the actual sale price for those holdings. The Amendment was approved by the Boards of Directors of HLTH and WHC and by a Special Committee of the Board of Directors of WHC.

5. WebMD Health Corp.

Gain Upon Sale of WHC Class A Common Stock

The Company s WHC subsidiary issues its Class A Common Stock in various transactions from time to time, which result in the dilution of the Company s percentage ownership in WHC. The Company accounts for the issuance of WHC Class A Common Stock in accordance with the SEC s Staff Accounting Bulletin No. 51, Accounting for Sales of Stock by a Subsidiary. The issuances of WHC Class A Common Stock resulted in an aggregate gain to equity of $757 and $4,804 during the three months ended March 31, 2008 and 2007, respectively, related to the exercise of stock options and the release of restricted stock awards. As a result, the Company s ownership in WHC decreased to 83.4% as of March 31, 2008, from 83.5% as of December 31, 2007 (which considers certain WHC shares to be issued pursuant to the purchase agreement for the acquisition of Subimo, LLC).

6. Segment Information

Segment information has been prepared in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS 131). As a result of the Company s announcement of its intention to sell its ViPS and Porex businesses, the Company modified its segment reporting from the three operating segments of ViPS, Porex and WebMD to the operating segments of WHC. The Company s segments going forward are: WebMD Online Services; WebMD Publishing and Other Services (which, together with WebMD Online Services, we sometimes refer to as the WebMD Segments); and Corporate. Therefore, the segment disclosures for 2007 have been modified to conform to the current presentation. The accounting

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

policies of the segments are the same as the accounting policies for the consolidated Company. Inter-segment revenue represents certain services provided by the WebMD Segments to the Corporate segment. The performance of the Company s business is monitored based on earnings before interest, taxes, non-cash and other items. Other items include: legal expenses incurred by the Company, which reflect costs and expenses related to the investigation by the United States Attorney for the District of South Carolina and the SEC; income related to the reduction of certain sales and use tax contingencies; professional fees in 2008, primarily consisting of legal, accounting and financial advisory services, related to the WHC merger; the gain on the 2008 EBSCo Sale; the gain recognized in connection with the working capital adjustment associated with the 2006 EBS Sale; and the impairment charge related to the Company s ARS holdings.

The WebMD Segments and Corporate segment are described as follows:

WebMD Online Services. WebMD provides health information services to consumers, physicians, healthcare professionals, employees and health plans through its public and private online portals. WebMD s public portals for consumers enable them to obtain detailed information on a particular disease or condition, check symptoms, locate physicians, store individual healthcare information, receive periodic e-newsletters on topics of individual interest, enroll in interactive courses and participate in online communities with peers and experts. WebMD s public portals for physicians and healthcare professionals make it easier for them to access clinical reference sources, stay abreast of the latest clinical information, learn about new treatment options, earn continuing medical education (CME) credit and communicate with peers. WebMD s private portals enable employers and health plans to provide their employees and plan members with access to personalized health and benefit information and decision-support technology that helps them make more informed benefit, provider and treatment choices. WebMD provides related services for use by such employees and members, including lifestyle education and personalized telephonic health coaching. WebMD also provides e-detailing promotion and physician recruitment services for use by pharmaceutical, medical device and healthcare companies.

Publishing and Other Services. WebMD publishes *The Little Blue Book,* a physician directory; and *WebMD the Magazine,* a consumer magazine distributed to physician office waiting rooms.

Corporate includes personnel costs and other expenses related to functions that are not directly managed by one of the Company s segments or by the Porex and ViPS businesses included in discontinued operations. The personnel costs include executive personnel, legal, accounting, tax, internal audit, risk management, human resources and certain information technology functions. Other corporate costs and expenses include professional fees including legal and audit services, insurance, costs of leased property and facilities, telecommunication costs and software maintenance expenses. Corporate expenses are net of $873 and $804 for the three months ended March 31, 2008 and 2007, respectively, which are costs allocated to WebMD for services provided by the Corporate segment. In connection with the 2006 EBS Sale and EPS Sale, the Company entered into transition services agreements whereby the Company provided Sage Software and EBSCo certain administrative services, including payroll, accounting, purchasing and procurement, tax, and human resource services, as well as information technology support. Additionally, EBSCo provided certain administrative services to the Company. See Note 2 and Note 3. These services were provided through the Corporate segment, and the related transition services fees that the Company charged to EBSCo and Sage Software, net of the fee the Company paid to EBSCo, were also included in the Corporate segment, which approximates the cost of providing these services. The transition services agreement with Sage Software was terminated on December 31, 2007 and, therefore, net transition services fees are solely for services related to EBSCo for the three months ended March 31, 2008.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summarized financial information for the WebMD Segments and Corporate segments and a reconciliation to net income are presented below:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Revenue		
WebMD Online Services:		
Advertising and sponsorship	$ 56,065	$ 47,421
Licensing	21,923	20,115
Content syndication and other	417	884
Total WebMD Online Services	78,405	68,420
WebMD Publishing and Other Services	3,277	3,524
Inter-segment eliminations		(63)
	$ 81,682	$ 71,881
Earnings (loss) before interest, taxes, non-cash and other items		
WebMD Online Services	$ 16,531	$ 12,992
WebMD Publishing and Other Services	(754)	(358)
Corporate	(5,059)	(6,726)
	10,718	5,908
Interest, taxes, non-cash and other items		
Depreciation and amortization	(6,888)	(6,325)
Non-cash stock-based compensation	(5,972)	(9,182)
Non-cash advertising	(1,558)	(2,320)
Gain on sale of EBS Master LLC	538,024	
Interest income	11,936	9,674
Interest expense	(4,607)	(4,709)
Income tax (provision) benefit	(25,614)	231
Minority interest in WHC loss (income)	3,845	(115)
Equity in earnings of EBS Master LLC	4,007	7,099
Impairment of auction rate securities	(60,108)	
Other (expense) income, net	(4,194)	426
Income from continuing operations	459,589	687
Income from discontinued operations, net of tax	3,569	5,015
Net income	$ 463,158	$ 5,702

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Stock-Based Compensation

The Company has various stock-based compensation plans (collectively, the Plans) under which directors, officers and other eligible employees receive awards of options to purchase HLTH Common Stock and restricted shares of HLTH Common Stock. Additionally, WHC has two similar stock-based compensation plans that provide for stock options and restricted stock awards based on WHC Class A Common Stock. The Company also maintains an Employee Stock Purchase Plan which provides employees with the ability to buy shares of HLTH Common Stock at a discount. The following sections of this note summarize the activity for each of these plans.

HLTH Plans

The Company had an aggregate of 5,632,631 shares of HLTH Common Stock available for future grants under the Plans as of March 31, 2008. In addition to the Plans, the Company has granted options to certain directors, officers and key employees pursuant to individual stock option agreements. At March 31, 2008, there were options to purchase 4,139,881 shares of HLTH Common Stock outstanding to these individuals. The terms of these grants are similar to the terms of the options granted under the Plans and accordingly, the stock option activity of these individuals is included in all references to the Plans. Beginning in April 2007, shares are issued from treasury stock when options are exercised or restricted stock is granted. Prior to this time, new shares were issued in connection with these transactions.

Stock Options

Generally, options under the Plans vest and become exercisable ratably over a three to five year period based on their individual grant dates subject to continued employment on the applicable vesting dates. The majority of options granted under the Plans expire within ten years from the date of grant. Options are granted at prices not less than the fair market value of HLTH Common Stock on the date of grant. The following table summarizes activity for the Plans for the three months ended March 31, 2008:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value (1)
Outstanding at January 1, 2008	47,293,577	$ 14.35		
Granted	120,000	13.40		
Exercised	(216,167)	7.34		
Cancelled	(475,778)	18.58		
Outstanding at March 31, 2008	46,721,632	$ 14.34	3.6	$ 19,782

Vested and exercisable at the end of the period	41,331,318	$	14.88	3.1	$	16,617

(1) The aggregate intrinsic value is based on the market price of HLTH s Common Stock on March 31, 2008, which was $9.54, less the applicable exercise price of the underlying option. This aggregate intrinsic value represents the amount that would have been realized if all of the option holders had exercised their options on March 31, 2008.

HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model, considering the assumptions noted in the following table. Expected volatility is based on implied volatility from traded options of HLTH Common Stock combined with historical volatility of HLTH Common Stock. Prior to January 1, 2006, only historical volatility was considered. 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. 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, 2008	Three Months Ended March 31, 2007
Expected dividend yield	0%	0%
Expected volatility	0.33	0.31
Risk free interest rate	2.82%	4.72%
Expected term (years)	3.81	3.94
Weighted average fair value of options granted during the period	$ 3.92	$ 3.94

Restricted Stock Awards

HLTH Restricted Stock consists of shares of HLTH 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, HLTH Restricted Stock awards vest ratably over a three to five year period from their individual award dates subject to continued employment on the applicable vesting dates. The following table summarizes the activity of non-vested HLTH Restricted Stock for the three months ended March 31, 2008:

	Shares	Weighted Average Grant Date Fair Value
Balance at January 1, 2008	1,240,297	$ 10.74
Vested	(126,333)	9.01
Forfeited	(2,000)	9.17
Balance at March 31, 2008	1,111,964	$ 10.94

Proceeds received from the exercise of options to purchase HLTH Common Stock were $1,588 and $60,668 for the three months ended March 31, 2008 and 2007, respectively. The intrinsic value related to the exercise of these stock options, as well as the fair value of shares of HLTH Restricted Stock that vested was $2,375 and $37,121 for the three months ended March 31, 2008 and 2007, respectively.

WebMD Plans

During September 2005, WHC adopted the 2005 Long-Term Incentive Plan (the WHC Plan). In connection with the acquisition of Subimo, LLC, in December 2006, WHC adopted the WebMD Health Corp. Long-Term Incentive Plan for Employees of Subimo, LLC (the Subimo Plan). The terms of the Subimo Plan are similar to the terms of the WHC Plan but it has not been approved by WHC stockholders. Awards under the Subimo Plan were made on the date of the Company s acquisition of Subimo, LLC in reliance on the NASDAQ Global Select Market exception to shareholder approval for equity grants to new hires. No additional grants will be made under the Subimo Plan. The WHC Plan and the Subimo Plan are included in all references as the WebMD Plans. The maximum number of shares of WHC Class A Common Stock that may be subject to options or restricted stock awards under the WebMD Plans is 9,480,574, subject to

HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

adjustment in accordance with the terms of the WebMD Plans. WHC had an aggregate of 2,492,579 shares of Class A Common Stock available for future grants under the WebMD Plans at March 31, 2008.

Stock Options

Generally, options under the WebMD Plans vest and become exercisable ratably over a four year period based on their individual grant dates subject to continued employment on the applicable vesting dates. The options granted under the WebMD Plans expire within ten years from the date of grant. Options are granted at prices not less than the fair market value of WHC s Class A Common Stock on the date of grant. The following table summarizes activity for the WebMD Plans for the three months ended March 31, 2008:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value (1)
Outstanding at January 1, 2008	5,020,551	$ 27.56		
Granted	286,250	35.07		
Exercised	(33,564)	17.55		
Cancelled	(84,876)	39.77		
Outstanding at March 31, 2008	5,188,361	$ 27.84	8.1	$ 17,275
Vested and exercisable at the end of the period	1,453,339	$ 21.90	7.7	$ 6,698

(1) The aggregate intrinsic value is based on the market price of WHC s Class A Common Stock on March 31, 2008, which was $23.57, less the applicable exercise price of the underlying option. This aggregate intrinsic value represents the amount that would have been realized if all of the option holders had exercised their options on March 31, 2008.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model, considering the assumptions noted in the following table. Prior to August 1, 2007, expected volatility was based on implied volatility from traded options of stock of comparable companies combined with historical stock price volatility of comparable companies. Beginning on August 1, 2007, expected volatility is based on implied volatility from traded options of WHC Class A Common Stock combined with historical volatility of WHC Class A 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 of WHC employees who were previously granted HLTH stock options. 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, 2008	Three Months Ended March 31, 2007
Expected dividend yield	0%	0%
Expected volatility	0.43	0.50
Risk free interest rate	2.31%	4.66%
Expected term (years)	3.29	3.46
Weighted average fair value of options granted during the period	$ 11.51	$ 18.75

Restricted Stock Awards

WHC Restricted Stock consists of shares of WHC Class A 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, WHC Restricted Stock awards vest ratably over a

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

four year period from their individual award dates subject to continued employment on the applicable vesting dates. The following table summarizes the activity of non-vested WHC Restricted Stock for the three months ended March 31, 2008:

	Shares	Weighted Average Grant Date Fair Value
Balance at January 1, 2008	307,722	$ 29.46
Granted	4,000	35.22
Vested	(10,462)	43.74
Balance at March 31, 2008	301,260	$ 29.04

Proceeds received from the exercise of options to purchase WHC Class A Common Stock were $589 and $4,458 for the three months ended March 31, 2008 and 2007, respectively. The intrinsic value related to the exercise of these stock options, as well as the fair value of shares of WHC Restricted Stock that vested was $971 and $5,043 for the three months ended March 31, 2008 and 2007, respectively.

Employee Stock Purchase Plan

The Company s 1998 Employee Stock Purchase Plan, as amended from time to time (the ESPP), allows eligible employees the opportunity to purchase shares of HLTH Common Stock through payroll deductions, up to 15% of a participant s annual compensation with a maximum of 5,000 shares available per participant during each purchase period. The purchase price of the stock is 85% of the fair market value on the last day of each purchase period. As of March 31, 2008, a total of 8,985,256 shares of HLTH Common Stock were reserved for issuance under the ESPP. The ESPP provides for annual increases equal to the lesser of 1,500,000 shares, 0.5% of the outstanding common shares, or a lesser amount determined by the Board of Directors. There were no shares issued under the ESPP during the three months ended March 31, 2008 and 2007.

Other

At the time of the WHC initial public offering and each year on the anniversary of the IPO, WHC issued shares of WHC Class A Common Stock to each non-employee director with a value equal to their annual board and committee retainers. The Company recorded $85 of stock-based compensation expense during the three months ended March 31, 2008 and 2007 in connection with these issuances.

Additionally, the Company recorded $279 and $257 of stock-based compensation expense during the three months ended March 31, 2008 and 2007, respectively, in connection with a stock transferability right for shares required to be issued in connection with the acquisition of Subimo by WHC.

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Summary of Stock-Based Compensation Expense

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

	Three Months Ended March 31,	
	2008	2007
HLTH Plans:		
Stock options	$ 1,944	$ 3,256
Restricted stock	1,373	2,022
WebMD Plans:		
Stock options	2,406	4,020
Restricted stock	164	832
Employee Stock Purchase Plan	46	41
Other	350	342
Total stock-based compensation expense	$ 6,283	$ 10,513
Included in:		
Cost of operations	$ 1,119	$ 1,578
Sales and marketing	1,138	1,258
General and administrative	3,715	6,346
Equity in earnings of EBS Master LLC		588
Income from continuing operations	5,972	9,770
Income from discontinued operations	311	743
Total stock-based compensation expense	$ 6,283	$ 10,513

As of March 31, 2008, approximately $20,887 and $37,688 of unrecognized stock-based compensation expense related to unvested awards (net of estimated forfeitures) is expected to be recognized over a weighted-average period of approximately 1.1 years and 1.5 years, related to the HLTH Plans and the WebMD Plans, respectively.

8. Stockholders Equity

Stock Repurchase Program

In December 2006, the Company announced the authorization of a stock repurchase program (the Program), at which time the Company was authorized to use up to $100,000 to purchase shares of HLTH Common Stock from time to time beginning on December 19, 2006, subject to market conditions. As of March 31, 2008 and 2007, respectively, the Company had repurchased 4,280,931 and 1,794,789 shares at an aggregate cost of approximately $58,447 and

$22,646 under the Program. No shares were repurchased during the three months ended March 31, 2008. Repurchased shares are recorded under the cost method and are reflected as treasury stock in the accompanying consolidated balance sheets.

9. Fair Value of Financial Instruments

Effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements (SFAS 157), for assets and liabilities measured at fair value on a recurring basis. SFAS 157 establishes a common definition for fair value to be applied to existing GAAP that require the use of fair value measurements, establishes a framework for measuring fair value and expands disclosure about such fair value

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

measurements. The adoption of SFAS 157 did not have an impact on the Company s financial position or operating results, but did expand certain disclosures.

SFAS 157 defines fair value 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, SFAS 157 requires the use of 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, such as the Company s equity securities reflected in the table below.
Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity s own assumptions.

The Company did not have any Level 2 assets as of March 31, 2008. The following table sets forth the Company s Level 1 and Level 3 financial assets that were measured at fair value as of March 31, 2008:

	Level 1	Level 3	Total
Auction rate securities	$	$ 302,842	$ 302,842
Equity securities	2,036		2,036

The following table reconciles the beginning and ending balances of the Company s Level 3 assets which consist of the Company s auction rate securities:

Balance as of January 1, 2008	$
Transfers to Level 3	363,700
Redemptions	(750)
Impariment charge included in earnings	(60,108)
Balance as of March 31, 2008	$ 302,842

The Company holds investments in ARS which have been classified as Level 3 assets as described above. The types of ARS investments the Company owns are backed by student loans, 97% of which are guaranteed under the Federal Family Education Loan Program (FFELP), and all had credit ratings of AAA or Aaa when purchased. Historically, the fair value of the Company s ARS investments approximated face value due to the frequent auction periods, generally every 7 to 28 days, which provided liquidity to these investments. However, since February 2008, virtually all auctions involving these securities have failed. The result of a failed auction is that these ARS will continue to pay interest in accordance with their terms at each respective auction date; however liquidity of the securities will be limited until there is a successful auction, the issuer redeems the securities, the securities mature or until such time as other markets for these ARS investments develop. The Company concluded that the estimated fair value of the ARS no longer approximates the face value due to the lack of liquidity. The securities have been classified within Level 3 as their valuation requires substantial judgment and estimation of factors that are not currently observable in the market due to the lack of trading in the securities.

The Company estimated the fair value of its ARS investments using an income approach valuation technique. Using this approach, expected future cash flows were calculated over the expected life of each security and were discounted to a single present value using a market required rate of return. Some of the more significant assumptions made in the present value calculations were (i) the estimated weighted average lives for the loan portfolios underlying each individual ARS, which range from 4 to 14 years and (ii) the required rates of return used to discount the estimated future cash flows over the estimated life of each security, which considered both the credit quality for each individual ARS and the market liquidity for these investments. The Company concluded the fair value of its ARS was $302,842 (of which $141,044 relates to

HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

WHC), compared to a face value of $362,950 (of which $168,450 relates to WHC) as of March 31, 2008. The impairment in value, or $60,108 (of which $27,406 relates to WHC), was considered to be other-than-temporary, and accordingly, was recorded as an impairment charge within the statement of operations during the three months ended March 31, 2008.

In making the determination that the impairment was other-than-temporary the Company considered (i) the current market liquidity for ARS, particularly student loan backed ARS, (ii) the long-term maturities of the loan portfolios underlying each ARS owned by the Company which, on a weighted average basis, extend to as many as 14 years and (iii) the ability and intent of the Company to hold its ARS investments until sufficient liquidity returns to the auction rate market to enable the sale of these securities or until the investments mature.

The Company continues to monitor the market for auction rate securities as well as the individual ARS investments it owns. The Company may be required to record additional losses in future periods if the fair value of its ARS deteriorate further.

10. Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income. Other comprehensive income includes foreign currency translation adjustments and certain changes in equity that are excluded from net income, such as changes in unrealized holding losses on available-for-sale marketable securities and 48% of the comprehensive loss of EBSCo. The following table presents the components of other comprehensive income:

	Three Months Ended March 31,	
	2008	**2007**
Foreign currency translation gains	$ 3,354	$ 430
Unrealized holding losses on securities	(347)	(90)
Reversal of comprehensive loss related to EBS Master LLC (a)	7,326	
Other comprehensive income	10,333	340
Net income	463,158	5,702
Comprehensive income	$ 473,491	$ 6,042

(a) Included in other comprehensive income during the three months ended March 31, 2008 is the reversal, in connection with the 2008 EBSCo Sale, of the accumulated other comprehensive loss associated with the Company s share of unrealized loss on the fair value of EBSCo s interest rate swap agreements.

Deferred taxes are not included within accumulated other comprehensive income because a valuation allowance was maintained for substantially all net deferred tax assets.

Accumulated other comprehensive income includes:

	March 31, 2008	December 31, 2007
Unrealized holding gains on securities	$ 563	$ 910
Foreign currency translation gains	15,623	12,269
Comprehensive loss of EBSCo		(7,326)
Total accumulated other comprehensive income	$ 16,186	$ 5,853

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the year ended December 31, 2007 and the three months ended March 31, 2008 are as follows:

	Online Services	Publishing and Other Services	Total
Balance as of January 1, 2007	$ 212,439	$ 11,045	$ 223,484
Reversal of income tax valuation allowance	(2,793)		(2,562)
Adjustments to finalize purchase price allocations	(3,368)		(3,599)
Balance as of January 1, 2008	206,278	11,045	217,323
Reversal of income tax valuation allowance	(2,700)		(2,700)
Balance as of March 31, 2008	$ 203,578	$ 11,045	$ 214,623

Intangible assets subject to amortization consist of the following:

	March 31, 2008				December 31, 2007			
	Gross Carrying Amount	Accumulated Amortization	Net	Weighted Average Remaining Useful Life(a)	Gross Carrying Amount	Accumulated Amortization	Net	Weighted Average Remaining Useful Life (a)
Content	$ 15,954	$ (13,071)	$ 2,883	2.0	$ 15,954	$ (12,581)	$ 3,373	2.1
Customer relationships	33,191	(11,091)	22,100	9.1	33,191	(10,183)	23,008	9.2
Technology and patents	14,967	(11,077)	3,890	1.3	14,967	(10,126)	4,841	1.5
Trade names	7,817	(2,924)	4,893	7.5	7,817	(2,725)	5,092	7.7
Total	$ 71,929	$ (38,163)	$ 33,766	7.3	$ 71,929	$ (35,615)	$ 36,314	7.3

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

Amortization expense was $2,548 and $3,214 for the three months ended March 31, 2008 and 2007, respectively. Aggregate amortization expense for intangible assets is estimated to be:

Years Ending December 31:	
2008 (April 1st to December 31st)	$ 7,167
2009	6,401
2010	3,337
2011	2,464
2012	2,464
Thereafter	11,933

12. Commitments and Contingencies

Litigation Regarding Distribution of Shares in Healtheon Initial Public Offering

As previously disclosed, seven purported class action lawsuits were filed against Morgan Stanley & Co. Incorporated and Goldman Sachs & Co., underwriters of the initial public offering of the Company (then known as Healtheon Corporation) in the United States District Court for the Southern District of New York in the summer and fall of 2001. Three of these suits also named the Company and certain of its former officers and directors as defendants. These suits were filed in the wake of reports of governmental investigations of the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

underwriters practices in the distribution of shares in certain initial public offerings. Similar suits were filed in connection with over 300 other initial public offerings that occurred in 1999, 2000 and 2001.

The complaints against the Company and its former officers and directors alleged violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 under that Act and Section 11 of the Securities Act of 1933 because of failure to disclose certain practices alleged to have occurred in connection with the distribution of shares in the Healtheon IPO. Claims under Section 12(a)(2) of the Securities Act of 1933 were also brought against the underwriters. These claims were consolidated, along with claims relating to over 300 other initial public offerings, in the Southern District of New York. The plaintiffs have dismissed the claims against the four former officers and directors of the Company without prejudice, pursuant to Reservation of Rights Tolling Agreements with those individuals. On July 15, 2002, the issuer defendants in the consolidated action, including the Company, filed a joint motion to dismiss the consolidated complaints. On February 18, 2003, the District Court denied, with certain exceptions not relevant to the Company, the issuer defendants motion to dismiss.

After a lengthy mediation under the auspices of former United States District Judge Nicholas Politan, the issuer defendants in the consolidated action (including the Company), the affected insurance companies, and the plaintiffs reached an agreement on a settlement to resolve the matter among the participating issuer defendants, their insurers, and the plaintiffs. The settlement called for the participating issuers insurers jointly to guarantee that plaintiffs recover a certain amount in the IPO litigation and certain related litigation from the underwriters and other non-settling defendants. Accordingly, in the event the guarantee became payable, the agreement called for the Company s insurance carriers, not the Company, to pay the Company s pro rata share.

The Company, and virtually all of the approximately 260 other issuer defendants who were eligible to participate, elected to participate in the settlement. Although the Company believed that the claims alleged in the lawsuits were primarily directed at the underwriters and, as they relate to the Company, were without merit, the Company believed that the settlement was beneficial to the Company because it would have reduced the time, expense and risks of further litigation, particularly since virtually all the other issuer defendants elected to participate and the Company s insurance carriers strongly supported the settlement.

On June 10, 2004, plaintiffs submitted to the court a Stipulation and Agreement of Settlement with Defendant Issuers and Individuals. On February 15, 2005, the court certified the proposed settlement class and preliminarily approved the settlement, subject to certain modifications, to which the parties agreed. On April 24, 2006, the court held a hearing for final approval of the settlement.

On December 5, 2006, in response to an appeal by the underwriter defendants, the United States Court of Appeals for the Second Circuit reversed the district court s certification of the classes in six related focus cases dealing with the offerings of other issuers. On April 6, 2007, the Second Circuit denied the plaintiffs petition for rehearing. In the view of counsel for the issuers and the insurance carriers and the district court, the definition of the proposed settlement class embodied in the settlement was inconsistent with the Second Circuit s ruling on class certification in the focus cases. Accordingly, the parties to the previously-negotiated settlement agreement terminated the settlement agreement. On June 28, 2007, the court entered a Stipulation and Order terminating the settlement.

On August 14, 2007, the plaintiffs filed amended complaints in the six focus cases, in which they proposed a new class definition, and on September 27, 2007, they moved for class certification. On March 26, 2008, the court denied the defendants motions to dismiss the complaints in the six focus cases. Plaintiffs motions for class certification in the six focus cases are pending. At this point, it is impossible to determine whether a class will be certified.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

As previously disclosed, the United States Attorney for the District of South Carolina is conducting an investigation of the Company, which the Company first learned about on September 3, 2003. Based on the information available to the Company, it believes that the investigation relates principally to issues of financial accounting improprieties relating to Medical Manager Corporation, a predecessor of the Company (by its merger into the Company in September 2000), and, more specifically, its Medical Manager Health Systems, Inc. subsidiary. Medical Manager Health Systems was a predecessor to Emdeon Practice Services, Inc., a subsidiary that the Company sold to Sage Software in September 2006. The Company has been cooperating and intends to continue to cooperate fully with the U.S. Attorney s Office. As previously reported, the Board of Directors of the Company has formed a special committee consisting solely of independent directors to oversee this matter with the sole authority to direct the Company s response to the allegations that have been raised. As previously disclosed, the Company understands that the SEC is also conducting a formal investigation into this matter. In connection with the EPS Sale, the Company agreed to indemnify Sage Software with respect to this matter.

The United States Attorney for the District of South Carolina announced on January 10, 2005, that three former employees of Medical Manager Health Systems each had agreed to plead guilty to one count of mail fraud and that one such employee had agreed to plead guilty to one count of tax evasion for acts committed while they were employed by Medical Manager Health Systems. The three former employees include a Vice President of Medical Manager Health Systems responsible for acquisitions who was terminated for cause in January 2003; an executive who served in various accounting roles at Medical Manager Health Systems until his resignation in March 2002; and a former independent Medical Manager dealer who was a paid consultant to Medical Manager Health Systems until the termination of his services in 2002. According to the Informations, Plea Agreements and Factual Summaries filed by the United States Attorney in, and available from, the District Court of the United States for the District of South Carolina Beaufort Division, on January 7, 2005, the three former employees and other then unnamed co-schemers were engaged in schemes between 1997 and 2002 that included causing companies acquired by Medical Manager Health Systems to pay the former vice president in charge of acquisitions and co-schemers kickbacks which were funded through increases in the purchase price paid by Medical Manager Health Systems to the acquired companies and that included fraudulent accounting practices to inflate artificially the quarterly revenues and earnings of Medical Manager Health Systems when it was an independent public company called Medical Manager Corporation from 1997 through 1999, when and after it was acquired by Synetic, Inc. in July 1999 and when and after it became a subsidiary of the Company in September 2000. A fourth former officer of Medical Manager Health Systems pleaded guilty to similar activities later in 2005.

The fraudulent accounting practices cited by the government in the January 7, 2005 District Court filings included: causing companies acquired by Medical Manager Health Systems to reclassify previously recognized sales revenue as deferred income so that such deferred income could subsequently be reported as revenue by Medical Manager Health Systems and its parents in later periods; fabricating deferred revenue entries which could be used to inflate earnings when Medical Manager Health Systems acquired companies; causing companies acquired by Medical Manager Health Systems to inflate reserve accounts so that these reserves could be reversed in later reporting periods in order to artificially inflate earnings for Medical Manager Health Systems and its parents; accounting for numerous acquisitions through the pooling of interests method in order to fraudulently inflate Medical Manager Health Systems quarterly earnings, when the individuals involved knew the transactions failed to qualify for such treatment; causing companies acquired by Medical Manager Health Systems to enter into sham purchases of software from Medical Manager Health

Systems in connection with the acquisition which purchases were funded by increasing the purchase price paid by Medical Manager Health Systems to the acquired company and using these round trip sales to create fraudulent revenue for Medical Manager Health Systems and its parents; and causing Medical Manager Health Systems to book and record sales and training revenue before the revenue process was complete in accordance with Generally

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Accepted Accounting Principles and thereby fraudulently inflating Medical Manager Health Systems reported revenues and earnings. According to the Informations to which the former employees have pled guilty, the fraudulent accounting practices resulted in the reported revenues of Medical Manager Health Systems and its parents being overstated materially between June 1997 and at least December 31, 2001, and reported quarterly earnings being overstated by at least one cent per share in every quarter during that period.

The documents filed by the United States Attorney in January 2005 stated that the former employees engaged in their fraudulent conduct in concert with senior management, and at the direction of senior Medical Manager officers. In its statement at that time, the United States Attorney for the District of South Carolina stated that the senior management and officers referred to in the Court documents were members of senior management of the Medical Manager subsidiary during the relevant time period.

On December 15, 2005, the United States Attorney announced indictments of the following former officers and employees of Medical Manager Health Systems: Ted W. Dorman, a former Regional Vice President of Medical Manager Health Systems, who was employed until March 2003; Charles L. Hutchinson, a former Controller of Medical Manager Health Systems, who was employed until June 2001; Maxie L. Juzang, a former Vice President of Medical Manager Health Systems, who was employed until August 2005; John H. Kang, a former President of Medical Manager Health Systems, who was employed until May 2001; Frederick B. Karl, Jr., a former General Counsel of Medical Manager Health Systems, who was employed until April 2000; Franklyn B. Krieger, a former Associate General Counsel of Medical Manager Health Systems, who was employed until February 2002; Lee A. Robbins, a former Vice President and Chief Financial Officer of Medical Manager Health Systems, who was employed until September 2000; John P. Sessions, a former President and Chief Operating Officer of Medical Manager Health Systems, who was employed until September 2003; Michael A. Singer, a former Chief Executive Officer of Medical Manager Health Systems and a former director of the Company, who was most recently employed by the Company as its Executive Vice President, Physician Software Strategies until February 2005; and David Ward, a former Vice President of Medical Manager Health Systems, who was employed until June 2005. The indictment charges the persons listed above with conspiracy to commit mail, wire and securities fraud, a violation of Title 18, United States Code, Section 371 and conspiracy to commit money laundering, a violation of Title 18, United States Code, Section 1956(h). The indictment charges Messrs. Sessions and Ward with substantive counts of money laundering, violations of Title 18, United States Code, Section 1957. The allegations set forth in the indictment describe activities that are substantially similar to those described above with respect to the January 2005 plea agreements.

On February 27, 2007, the United States Attorney filed a Second Superseding Indictment with respect to the former officers and employees of Medical Manager Health Systems charged under the prior Indictment, other than Mr. Juzang. The allegations set forth in the Second Superseding Indictment are substantially similar to those described above.

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

The Company has certain indemnity obligations to advance amounts for reasonable defense costs for the initial ten, and now nine former officers and directors of EPS. During the year ended December 31, 2007, the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company recorded a pre-tax charge of $73,347, related to its estimated liability with respect to these indemnity obligations. See Note 2 for a more detailed discussion regarding this charge.

Directors & Officers Liability Insurance Coverage Litigation

On July 23, 2007, the Company commenced litigation (the Coverage Litigation) in the Court of Chancery of the State of Delaware in and for New Castle County against ten insurance companies in which the Company is seeking to compel the defendant companies (collectively, the Defendants) to honor their obligations under certain directors and officers liability insurance policies (the Policies). The Company is seeking an order requiring the Defendants to advance and/or reimburse expenses that the Company has incurred and expects to continue to incur for the advancement of the reasonable defense costs of initially ten and now nine former officers and directors of the Company s former EPS subsidiary who were indicted in connection with the Investigation described above in this Note 12. The Company subsequently has settled with two of the insurance companies during January 2008, through which the Company received an aggregate amount of $14,625. This amount was included within (loss) income from discontinued operations in the statement of operations during the three months ended December 31, 2007 and is included within prepaid expenses and other current assets in the accompanying consolidated balance sheet as of December 31, 2007, then subsequently received during the three months ended March 31, 2008.

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

The Policies at issue in the Coverage Litigation consist of two separate groups of insurance policies. Each group of policies consists of several layers of coverage, with different insurers having agreed to provide specified amounts of coverage at various levels. The first group of policies was issued to EPS in the amount of $20,000 (the EPS Policies) and the second group of policies was issued to Synetic, Inc. (the former parent of EPS, which merged into the Company) in the amount of $100,000, of which approximately $3,600 was paid by the primary carrier with respect to another unrelated matter (the Synetic Policies). To date, $31,000 has been paid by insurance companies representing the EPS Policies and the Synetic Policies through a combination of payment under the terms of the Policies, payment under reservation of rights and settlement. As a result of these payments, the Company has exhausted its coverage under the EPS Policies. Additionally, as of December 31, 2007, $16,414 has been paid under the Synetic Policies and the Company has remaining coverage under such policies of approximately $80,000. The Company s insurance policies provide that under certain circumstances, amounts advanced by the insurance companies in connection with the defense costs of the indicted individuals, may have to be repaid by the Company, although the $14,625 that the Company has received in settlement from certain carriers is not subject to being repaid. The Company has obtained an undertaking from each indicted individual pursuant to which, under certain circumstances, such individual has agreed to repay defense costs advanced on such individual s behalf.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

policies. The Company believes that such assertion is without merit. The Company filed its opposition to the motion together with its motion for summary judgment against such carrier and several other carriers who have issued the Synetic Policies seeking to require such carriers to advance payment of the defense costs that the Company is obligated to pay while the Coverage Litigation is pending. Oral argument with respect to both motions was held on May 5, 2008. The Court has not yet ruled on those motions.

The Company believes that the Defendants are required to advance and/or reimburse amounts that the Company has incurred and expects to continue to incur for the advancement of the reasonable defense costs of the indicted individuals and, as described above, several carriers have reimbursed the Company through a combination of payment under the terms of the Policies, payment under reservation of rights and settlement. However, there can be no assurance that the Company will prevail in the Coverage Litigation or that the Defendants will be required to provide funding on an interim basis pending the resolution of the Coverage Litigation. The Company intends to continue to satisfy its legal obligations to the indicted individuals with respect to advancement of amounts for their defense costs.

Other

In the normal course of business, the Company and its subsidiaries are involved in various other claims and legal proceedings. While the ultimate resolution of these matters, including those discussed in Note 12 to the Consolidated Financial Statements included in the Company s 2007 Annual Report on Form 10-K has yet to be determined, the Company does not believe that their outcome will have a material adverse effect on the Company s consolidated financial position, results of operations or liquidity.

13. Other (Expense) Income, Net

Other (expense) income, net consists of the following items:

	Three Months Ended March 31,	
	2008	**2007**
Transition service fees (a)	$ 50	$ 2,456
Reduction of tax contingencies (b)	437	347
Gain on 2006 EBS Sale (c)		399
Legal expense (d)	(372)	(320)
Advisory expense (e)	(4,259)	
Other (expense) income, net	$ (4,144)	$ 2,882

(a) Represents the net fees received from Sage Software and EBSCo in relation to their respective transition services agreements.

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

(c) Represents a gain recognized in connection with the working capital adjustment associated with the 2006 EBS Sale on November 16, 2006.

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

(e) Represents professional fees, primarily consisting of legal, accounting and financial advisory services incurred by the Company related to the potential merger of HLTH into WHC.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Subsequent Event

On May 6, 2008, the Company held investments in certain ARS backed by student loans with a face amount of approximately $362,300, of which ARS with a face amount of approximately $167,800 are held by WHC. The Company and WHC have each entered into a non-recourse credit facility (each a Credit Facility) from Citigroup secured by their respective ARS holdings (including, in some circumstances, interest payable on the ARS holdings), that will allow the Company and WHC to borrow up to 75% of the face amount of the ARS holdings pledged as collateral under the respective Credit Facilities. The Credit Facilities are each governed by a loan agreement, dated as of May 6, 2008, containing customary representations and warranties of the borrower and certain affirmative covenants and negative covenants relating to the pledged collateral. Under each of the loan agreements, the borrower and the lender may, in certain circumstances, cause the pledged collateral to be sold, with the proceeds of any such sale required to be applied in full immediately to repayment of amounts borrowed.

No borrowings have been made under either Credit Facility to date. The Company and WHC can each make borrowings under their respective Credit Facilities until May 2009. The interest rate applicable to such borrowings will be one-month LIBOR plus 250 basis points. Any borrowings outstanding under the respective Credit Facilities after March 2009 become demand loans, subject to 60 days notice, with recourse only to the pledged collateral.

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

This Item 2 contains forward-looking statements with respect to possible events, outcomes or results that are, and are expected to continue to be, subject to risks, uncertainties and contingencies, including those identified in this Item. *See Forward-Looking Statements on page 3.*

Overview

Management s discussion and analysis of financial condition and results of operations, or MD&A, is provided as a supplement to the Consolidated Financial Statements and notes thereto included elsewhere in this Quarterly Report and to provide an understanding of our results of operations, financial condition and changes in financial condition. Our MD&A is organized as follows:

Introduction. This section provides a general description of our company, a brief discussion of our operating segments, a description of pending corporate transactions and other recent transactions, other significant developments and trends, and a discussion on how our business is impacted by seasonality.

Critical Accounting Estimates and Policies. This section discusses those accounting policies that both are considered important to our financial condition and results of operations, and require us to exercise subjective or complex judgments in making estimates and assumptions. In addition, all of our significant accounting policies, including our critical accounting policies, are summarized in Note 1 to the Consolidated Financial Statements contained in our 2007 Annual Report on Form 10-K filed, as amended, with the Securities and Exchange Commission (which we refer to as SEC).

Results of Operations and Results of Operations by Operating Segment. These sections provide our analysis and outlook for the significant line items on our consolidated statements of operations, as well as other information that we deem meaningful to understand our results of operations on both a company-wide and a segment-by-segment basis.

Liquidity and Capital Resources. This section provides an analysis of our liquidity and cash flows and discussions of our contractual obligations and commitments, as well as our outlook on our available liquidity as of March 31, 2008.

Recent Accounting Pronouncements. This section provides a summary of the most recent authoritative accounting standards and guidance that have either been recently adopted or may be adopted in the future.

Factors That May Affect Our Future Financial Condition or Results of Operations. This section describes circumstances or events that could have a negative effect on our financial condition or results of operations, or that could change, for the worse, existing trends in some or all of our businesses. The factors discussed in this section are in addition to factors that may be described elsewhere in this Quarterly Report.

In this MD&A, dollar amounts are in thousands, unless otherwise noted.

Introduction

Company Overview

HLTH Corporation is a Delaware corporation that was incorporated in December 1995 and commenced operations in January 1996 as Healtheon Corporation. We changed our name to Healtheon/WebMD Corporation in November

1999, to WebMD Corporation in September 2000, to Emdeon Corporation in October 2005 and to HLTH Corporation in May 2007. Our common stock began trading on the Nasdaq National Market under the symbol HLTH on February 11, 1999 and now trades under that symbol on the Nasdaq Global Select Market.

As of March 31, 2008, we owned 83.4% of the aggregate amount of outstanding shares of WHC Class A Common Stock (which considers certain WHC shares to be issued pursuant to the purchase agreement for the acquisition of Subimo, LLC) and Class B Common Stock and, accordingly, our consolidated financial statements reflect the minority shareholders 16.6% share of equity and net (loss) income of WHC.

HLTH s 48% ownership in EBS Master LLC (which we refer to as EBSCo) was accounted for under the equity method through February 8, 2008, the date of the sale of our investment in EBS Master LLC. See Other Recent Transactions below.

Segments

As a result of our announcement of our intentions to sell our ViPS and Porex segments, see Pending Corporate Transactions below, our only remaining operating segments are WebMD Online Services and WebMD Publishing and Other Services (which we refer to together, as our WebMD Segments). The following is a description of each of our operating segments and our corporate segment:

WebMD Online Services. WebMD owns and operates both public and private online portals. WebMD s public portals enable consumers to become more informed about healthcare choices and assist them in playing an active role in managing their health. The public portals also enable physicians and other healthcare professionals to improve their clinical knowledge and practice of medicine, as well as their communication with patients. WebMD s public portals generate revenue primarily through the sale of advertising and sponsorship products, including continuing medical education (which we refer to as CME) services. WebMD s sponsors and advertisers include pharmaceutical, biotechnology, medical device and consumer products companies. WebMD provides information and services that enable employees and members, respectively, to make more informed benefit, treatment and provider decisions through WebMD s private portals for employers and health plans. WebMD also provides related services for use by such employees and members, including lifestyle education and personalized telephonic health coaching as a result of the acquisition of Summex on June 13, 2006. WebMD generates revenue from its private portals through the licensing of these portals to employers and health plans either directly or through distributors. WebMD also distributes its online content and services to other entities and generates revenue from these arrangements through the sale of advertising and sponsorship products and content syndication fees. WebMD also provides e-detailing promotion and physician recruitment services for use by pharmaceutical, medical device and healthcare companies as a result of the acquisition of Medsite on September 11, 2006.

WebMD Publishing and Other Services. WebMD provides several offline products and services: *The Little Blue Book*, a physician directory; and *WebMD the Magazine*, a consumer-targeted publication launched in early 2005 that is distributed free of charge to physician office waiting rooms. WebMD generates revenue from sales of *The Little Blue Book* directories and advertisements in those directories, and sales of advertisements in *WebMD the Magazine*. Until December 31, 2007, WebMD published *ACP Medicine and ACS Surgery: Principles of Practice*, its medical reference textbooks. WebMD sold this business in 2007 and it has now been reflected as a discontinued operation in our financial statements. WebMD s Publishing and Other Services segment complements its Online Services segment and extends the reach of our brand and our influence among health-involved consumers and clinically-active physicians.

Corporate. Corporate includes personnel costs and other expenses related to functions that are not directly managed by one of our segments, including the ViPS and Porex businesses which are reflected within discontinued operations. The personnel costs include executive personnel, legal, accounting, tax, internal audit, risk management, human resources and certain information technology functions. Other corporate costs and expenses include professional fees including legal and audit services, insurance, costs of leased property and facilities, telecommunication costs and software maintenance expenses. Corporate expenses are net of $873 and $804 for the three months ended March 31, 2008 and 2007, respectively, which are costs allocated to

WebMD for services provided by the Corporate segment. In connection with the sale of our EBS and EPS segments during the later part of 2006, we entered into transition services agreements whereby we provided Sage Software, Inc. (which we refer to as Sage Software) and EBSCo certain administrative services, including payroll, accounting, purchasing and procurement, tax, and human resource services, as well as information technology support. Additionally, EBSCo provides us certain administrative services, including telecommunication infrastructure and management services, data center support and purchasing and procurement services. Some of the services provided by EBSCo to HLTH are, in turn, used to fulfill HLTH s obligations to provide transition services to Sage Software. These services are provided through the Corporate segment, and the related transition services fee we charge to EBSCo and Sage Software, net of the fee we pay to EBSCo, is also included in the Corporate segment, which approximates the cost of providing these services. The transition services agreement with Sage Software was terminated on December 31, 2007 and, therefore, net transition services fees are for services related to EBSCo for the three months ended March 31, 2008.

Pending Corporate Transactions

Merger with WHC. On February 20, 2008, HLTH and WHC entered into a merger agreement, pursuant to which HLTH will merge into WHC (which we refer to as the WHC Merger), with WHC continuing as the surviving company. In the WHC Merger, each outstanding share of HLTH common stock will be converted into 0.1979 shares of WHC common stock and $6.89 in cash, which cash amount is subject to a downward adjustment as described below (which we refer to as the Merger Consideration). The shares of WHC Class A Common Stock currently outstanding will remain outstanding and will be unchanged in the WHC Merger. The WHC Merger will eliminate both the controlling class of WHC stock held by HLTH and WHC s existing dual-class stock structure. The terms of the Merger Agreement were negotiated between HLTH and a Special Committee of the Board of Directors of WHC. The Merger Agreement was approved by the Board of WHC, based on the recommendations of the Special Committee, and by the Board of HLTH.

The cash portion of the Merger Consideration will be funded from cash and investments at WHC and HLTH, and proceeds from HLTH s anticipated sales of its ViPS and Porex businesses. The cash portion of the Merger Consideration is subject to downward adjustment prior to the closing, based on matters relating to the our investment in certain auction rate securities (which we refer to as ARS), as described below. If either ViPS or Porex has not been sold at the time the WHC Merger is ready to be consummated, WHC may issue up to $250,000 in redeemable notes to the stockholders of HLTH in lieu of a portion of the cash consideration otherwise payable in the WHC Merger. The notes would bear interest at a rate of 11% per annum, payable in kind annually in arrears. The notes would be subject to mandatory redemption by WHC from the proceeds of the divestiture of the remaining ViPS or Porex business. The redemption price would be equal to the principal amount of the notes to be redeemed plus accrued but unpaid interest through the date of the redemption.

Completion of the WHC Merger is subject to: HLTH and WHC receiving required stockholder approvals; a requirement that the surviving company have an amount of cash, as of the closing, at least equal to an agreed upon threshold, calculated in accordance with a formula contained in the Merger Agreement; completion of the sale by HLTH of either ViPS or Porex; and completion of the sale of HLTH s ARS investments (or the availability of certain alternatives described below); and other customary closing conditions. HLTH, which owns shares of WHC constituting approximately 96% of the total number of votes represented by outstanding shares, has agreed to vote its shares of WHC in favor of the WHC Merger.

Following the WHC Merger, WHC as the surviving corporation will assume the obligations of HLTH under its 31/8% Convertible Notes due September 1, 2025 and its 1.75% Convertible Subordinated Notes due June 15, 2023 (which we refer to as Convertible Notes). In the event a holder of these Convertible Notes converts these Convertible Notes into shares of HLTH Common Stock pursuant to the terms of the applicable indenture prior to the effective time of the WHC Merger, those shares would be treated in the WHC Merger like all other shares of HLTH Common Stock. In the event a holder of the Convertible Notes converts those Convertible Notes pursuant to the applicable indenture following the effective time of the WHC Merger, those Convertible Notes would be converted into the right to receive the Merger Consideration payable in respect of the shares of HLTH Common Stock into which such Convertible Notes would have been convertible.

On May 6, 2008, HLTH and WHC entered into an amendment (which we refer to as the Amendment) to the Merger Agreement, which modifies certain provisions of the Merger Agreement to reflect the flexibility and additional liquidity afforded by the Credit Facility that HLTH has entered into, which is described below under Other Recent Transactions Credit Facilities (which we refer to as HLTH Credit Facility). Under the Merger Agreement, as amended, HLTH is not required to sell its ARS holdings as a condition to closing if the outstanding loan amount, under the HLTH Credit Facility, is equal to 75% of the face amount of the ARS investments held by HLTH at the effective time of the Merger or if HLTH would be capable of satisfying, as of that time, all of the conditions to making a drawdown of that amount. In either such case, the maximum reduction in the aggregate cash consideration payable in the Merger would be fixed at $48,600 (which is 25% of the face amount of HLTH s ARS holdings as of the date of this Quarterly Report, excluding WHC s ARS holdings), or approximately $0.27 per share (based on the number of shares of HLTH Common Stock outstanding as of the date of this Quarterly Report). To the extent that HLTH, instead, sells some or all of its ARS holdings for greater than 75% of the face amount, the reduction in the aggregate cash portion of the merger consideration with respect to the ARS that are sold would be based on the actual sale price for those holdings. The Amendment was approved by the Boards of Directors of HLTH and WHC and by a Special Committee of the Board of Directors of WHC.

Proposed Divestitures of Porex and ViPS. On February 21, 2008, HLTH announced that it intends to divest its ViPS and Porex segments. These divestitures are not dependent on the WHC Merger and do not require shareholder approval. As a result of our intentions to divest these segments and our expectation that these divestitures will be completed within one year, we reflected these segments as discontinued operations within the consolidated financial statements contained elsewhere in this Quarterly Report.

Strategic Considerations Relating to the Pending Transactions. In late 2007, HLTH s Board of Directors initiated the process leading to the entry into the Merger Agreement with WHC because it believed that the primary reason of many of the holders of HLTH common stock for owning those shares was HLTH s controlling interest in WHC and that the value of HLTH s other businesses was not adequately reflected in the trading price of HLTH common stock. Accordingly, HLTH sought to negotiate a transaction with the Special Committee of the Board of WHC that would allow HLTH s stockholders to participate more directly in the ownership of WHC and would unlock the value of the other HLTH assets. Cash on hand at HLTH and WHC (including proceeds from the sales of ViPS, Porex and HLTH s remaining 48% interest in EBS) would be used as a portion of the consideration in the WHC Merger, reducing the need for issuance of shares of WHC common stock. Upon completion of the WHC Merger, as structured in the definitive Merger Agreement, HLTH stockholders will own approximately 80% of the outstanding common stock of WHC, based on shares currently outstanding at HLTH and WHC. The WHC Merger will eliminate HLTH s controlling interest in WHC, and is expected to enhance the liquidity of WHC shares by significantly increasing the public float. In connection with the entry by HLTH and WHC into the merger agreement, the HLTH Board made a determination to divest Porex and VIPS (which divestitures are not, however, dependent on the merger occurring). The decisions relating to the divestitures of ViPS, Porex and HLTH s 48% interest in EBS were based on the corporate strategic considerations described above and not the performance of, or underlying business conditions affecting, the respective businesses.

Other Recent Transactions

Credit Facilities. On May 6, 2008, HLTH held investments in certain ARS backed by student loans with a face amount of approximately $362,300, of which ARS with a face amount of approximately $167,800 were held by WHC. HLTH and WHC have each entered into a non-recourse credit facility (which we refer to as the Credit Facilities) from Citigroup secured by their respective ARS holdings (including, in some circumstances, interest payable on the ARS holdings), that will allow HLTH and WHC to borrow up to 75% of the face amount of the ARS holdings pledged as collateral under the respective Credit Facilities. The Credit Facilities are each governed by a loan agreement, dated as of May 6, 2008, containing customary representations and warranties of the borrower and certain affirmative covenants and negative covenants relating to the pledged collateral. Under each of the loan agreements, the borrower and the lender may, in certain circumstances, cause the pledged collateral to be sold, with the proceeds of any such sale required to be applied in full immediately to repayment of amounts borrowed.

No borrowings have been made under either Credit Facilities to date. HLTH and WHC can each make borrowings under their respective Credit Facilities until May 2009. The interest rate applicable to such borrowings will be one-month LIBOR plus 250 basis points. Any borrowings outstanding under the respective Credit Facilities after March 2009 become demand loans, subject to 60 days notice, with recourse only to the pledged collateral.

Sale of EBSCo. On February 8, 2008, we entered into a Securities Purchase Agreement (which we refer to as the Purchase Agreement) and simultaneously completed the sale (which we refer to as the 2008 EBSCo Sale) of our 48% minority ownership interest in EBSCo for $575,000 in cash to an affiliate of GA and affiliates of Hellman & Friedman, LLC (which we refer to as H&F). For additional information, see Pending Corporate Transactions Strategic Considerations Relating to the Pending Transactions above. In connection with the 2008 EBSCo Sale, we recognized a gain of $538,024. We expect to utilize a portion of our federal NOL carryforward to offset a portion of the tax liability that would otherwise result from the 2008 EBSCo Sale. Under the existing Tax Sharing Agreement between HLTH and WHC, we have agreed to reimburse WHC for any NOL carryforward attributable to WHC that is utilized by us in connection with this transaction. The amount of the NOL carryforward attributable to WHC to be utilized and the amount of the resulting reimbursement depend on numerous factors and cannot be determined at this time. This reimbursement obligation would be extinguished by the completion of the WHC Merger.

Sale of ACP Medicine and ACS Surgery. As of December 31, 2007, through our WebMD Publishing and Other Services segment, WHC entered into an Asset Sale Agreement and completed the sale of certain assets and certain liabilities of our medical reference publications business, including the publications *ACP Medicine and ACS Surgery: Principles and Practice* (which we collectively refer to as the ACS/ACP Business). ACP Medicine and ACS Surgery are official publications of the American College of Physicians and the American College of Surgeons, respectively. WebMD received net cash proceeds of $2,809, consisting of $1,734 received during the three months ended March 31, 2008 and the remaining $1,075 to be received through June 30, 2008. WebMD incurred approximately $800 of professional fees and other expenses associated with the sale of the ACS/ACP Business. In connection with the sale, WebMD recognized a gain of $3,571 as of December 31, 2007. The decision to divest ACS/ACP Business was made because management determined that it was not a good fit with WebMD s core business.

Other Significant Developments and Trends

Impairment of Auction Rate Securities. We hold investments in auction rate securities (ARS). The types of ARS investments we own are backed by student loans, 97% of which are guaranteed under the Federal Family Education Loan Program (FFELP), and all had credit ratings of AAA or Aaa when purchased. Historically, the fair value of our ARS investments approximated face value due to the frequent auction periods, generally every 7 to 28 days, which provided liquidity to these investments. However, since February 2008, virtually all auctions involving these securities have failed. The result of a failed auction is that these ARS will continue to pay interest in accordance with their terms at each respective auction date; however liquidity of the securities will be limited until there is a successful auction, the issuer redeems the securities, the securities mature or until such time as other markets for these ARS investments develop. We concluded that the estimated fair value of the ARS no longer approximates the face value due to the lack of liquidity.

We concluded the fair value of our ARS was $302,842 (of which $141,044 relates to WHC), compared to a face value of $362,950 (of which $168,450 relates to WHC) as of March 31, 2008. The impairment in value, or $60,108 (of which $27,406 relates to WHC), was considered to be other-than-temporary, and accordingly, was recorded as an impairment charge within the statement of operations during the three months ended March 31, 2008. We continue to monitor the market for auction rate securities as well as the individual ARS investments we own. We may be required to record additional losses in future periods if the fair value of our ARS deteriorate further.

Use of the Internet by Consumers and Physicians. The Internet has emerged as a major communications medium and has already fundamentally changed many sectors of the economy, including the marketing and sales of financial services, travel, and entertainment, among others. The Internet is also changing the healthcare

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industry and has transformed how consumers and physicians find and utilize healthcare information. As consumers are required to assume greater financial responsibility for rising healthcare costs, the Internet serves as a valuable resource by providing them with immediate access to searchable and dynamic interactive content to check symptoms, assess risks, understand diseases, find providers and evaluate treatment options. The Internet has also become a primary source of information for physicians seeking to improve clinical practice and is growing relative to traditional information sources, such as conferences, meetings and offline journals.

Increased Online Marketing and Education Spending for Healthcare Products. Pharmaceutical, biotechnology and medical device companies spend large amounts each year marketing their products and educating consumers and physicians about them; however, only a small portion of this amount is currently spent on online services. WebMD believes that these companies, which comprise the majority of WebMD s advertisers and sponsors, are becoming increasingly aware of the effectiveness of the Internet relative to traditional media in providing health, clinical and product-related information to consumers and physicians, and this increasing awareness will result in increasing demand for WebMD s services. However, notwithstanding our general expectation for increased demand, WebMD s advertising and sponsorship revenue may vary significantly from quarter to quarter due to a number of factors, many of which are not in WebMD s control, and some of which may be difficult to forecast accurately, including the following:

The majority of WebMD s advertising and sponsorship contracts are for terms of approximately four to twelve months. WebMD has relatively few longer term advertising and sponsorship contracts. In addition, WebMD has recently noted a trend, among some of its advertisers and sponsors, of seeking to enter into shorter term contracts than they had entered into in the past.

The time between the date of initial contact with a potential advertiser or sponsor regarding a specific program and the execution of a contract with the advertiser or sponsor for that program may be subject to delays over which WebMD has little or no control, including as a result of budgetary constraints of the advertiser or sponsor or their need for internal approvals.

Other factors that may affect the timing of contracting for specific programs with advertisers and sponsors, or receipt of revenue under such contracts, include: the timing of FDA approval for new products or for new approved uses for existing products; the timing of FDA approval of generic products that compete with existing brand name products; the timing of withdrawals of products from the market; 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.

Changes in Health Plan Design; Health Management Initiatives. In a healthcare market where a greater share of the responsibility for healthcare costs and decision-making has been increasingly 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 WebMD s Health and Benefits Manager tools (including WebMD s personal health record application), WebMD is well positioned to play a role in this consumer-directed healthcare environment, and these services will be a significant driver for the growth of WebMD s private portals during the next several years. However, WebMD s growth strategy depends, in part, on increasing usage of WebMD s private portal services by WebMD s employer and health plan clients employees and members, respectively. Increasing usage of WebMD s services requires WebMD to continue to deliver and improve the underlying technology and develop new and updated applications, features and services. In addition, WebMD faces competition in the area of healthcare decision-support tools and online health management applications and health information services. Many of WebMD s competitors have greater financial, technical, product development, marketing and other resources than WebMD does, and may be better known than WebMD is.

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

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existing competitors seeking to benefit from these same trends, but the trends may also attract additional competitors.

Seasonality

The timing of our revenue is affected by seasonal factors. WebMD s advertising and sponsorship revenue is seasonal, primarily as a result of the annual budget approval process of the advertising and sponsorship clients of the public portals. This portion of revenue is usually the lowest in the first quarter of each calendar year, and increases during each consecutive quarter throughout the year. WebMD s private portal licensing revenue is historically highest in the second half of the year as new customers are typically added during this period in conjunction with their annual open enrollment periods for employee benefits. Additionally, the annual distribution cycle for certain publishing products results in a significant portion of WebMD s publishing revenue being recognized in the second and third quarter of each calendar year.

Critical Accounting Estimates and Policies

Our discussion and analysis of HLTH s financial condition and results of operations are based upon our Consolidated Financial Statements and Notes to Consolidated Financial Statements, which were prepared in conformity with U.S. generally accepted accounting principles. The preparation of financial statements requires us to make certain 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 in order to form a basis for making judgments about the carrying values of assets and liabilities, the recorded amounts of revenue and expenses, and disclosure of contingent assets and liabilities. We are subject to uncertainties such as the impact of future events, economic, environmental and political factors, and changes in our business environment; therefore, actual results could differ from these estimates. Accordingly, the accounting estimates used in 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, short-term and long-term investments, income taxes and tax contingencies, collectibility of customer receivables, long-lived assets including goodwill and other intangible assets, software and Web site development costs, prepaid advertising services, certain accrued expenses, contingencies, litigation and related legal accruals and the value attributed to employee stock options and other stock-based awards.

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 licenses of healthcare management tools and private portals as well as related health coaching services are recognized ratably over the term of the applicable agreement. Revenue from the sponsorship of CME is recognized over the period we substantially complete our contractual deliverables as determined by the applicable agreements. When contractual arrangements contain multiple elements, revenue is allocated to each element based on its relative fair value determined using prices charged when elements are sold separately. In certain instances where fair value does not exist for all the elements, the amount of revenue allocated to the delivered elements equals the total consideration less the fair value of the undelivered elements. In instances where fair value does not exist for the undelivered elements, revenue is recognized when the last element is delivered.

Long-Lived Assets Our long-lived assets consist of property and equipment, goodwill and other intangible assets. Goodwill and other intangible assets arise from the acquisitions we have made. The amount assigned to intangible assets is subjective and based on our estimates of the future benefit of

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the intangible asset using accepted valuation techniques, such as discounted cash flow and replacement cost models. Our long-lived assets, excluding goodwill, 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, whenever indicators of impairment are present. We evaluate the carrying value of goodwill annually, or whenever indicators of impairment are present. We use a discounted cash flow approach to determine the fair value of goodwill. Long-lived assets held for sale are reported at the lower of cost or fair value less costs to sell. There was no impairment of goodwill noted as a result of our impairment testing in 2007.

Fair Value of Investments We hold investments in ARS which are backed by student loans, 97% of which are guaranteed under the Federal Family Education Loan Program (FFELP), and all of which had credit ratings of AAA or Aaa when purchased. Historically, the fair value of our ARS investments approximated face value due to the frequent auction periods, generally every 7 to 28 days, which provided liquidity to these investments. However, since February 2008, virtually all auctions involving these securities have failed. The result of a failed auction is that these ARS will continue to pay interest in accordance with their terms at each respective auction date; however liquidity of the securities will be limited until there is a successful auction, the issuer redeems the securities, the securities mature or until such time as other markets for these ARS investments develop. We cannot be certain regarding the amount of time it will take for an auction market or other markets to develop. Accordingly, we concluded that the estimated fair value of the ARS no longer approximates the face value due to the lack of liquidity.

We estimated the fair value of our ARS investments using an income approach valuation technique. Using this approach, expected future cash flows were calculated over the expected life of each security and were discounted to a single present value using a market required rate of return. Some of the more significant assumptions made in the present value calculations include (i) the estimated weighted average lives for the loan portfolios underlying each individual ARS, which range from 4 to 14 years and (ii) the required rates of return used to discount the estimated future cash flows over the estimated life of each security, which considered both the credit quality for each individual ARS and the market liquidity for these investments. We concluded the fair value of our ARS investments was $302,842 (of which $141,044 relates to WHC), compared to a face value of $362,950 (of which $168,450 relates to WHC) as of March 31, 2008. The impairment in value, or $60,108 (of which $27,406 relates to WHC), was considered to be other-than-temporary, and accordingly, was recorded as an impairment charge within the statement of operations during the three months ended March 31, 2008.

Our auction rate securities have been classified as Level 3 assets in accordance with Statement of Financial Accounting Standards (which we refer to as SFAS) No. 157, Fair Value Measurements, as their valuation requires substantial judgment and estimation of factors that are not currently observable in the market due to the lack of trading in the securities. If different assumptions were used for the various inputs to the valuation approach including, but not limited to, assumptions involving the estimated lives of the ARS investments, the estimated cash flows over those estimated lives, and the estimated discount rates applied to those cash flows, the estimated fair value of these investments could be significantly higher or lower than the fair value we determined. We continue to monitor the market for auction rate securities as well as the individual ARS investments we own. We may be required to record additional losses in future periods if the fair value of our ARS deteriorate further.

Sale of Subsidiary Stock Our WHC subsidiary issues its Class A Common Stock in various transactions, which results in a dilution of our percentage ownership in WHC. We account for the sale of WHC Class A Common Stock in accordance with the SEC s Staff Accounting Bulletin No. 51 Accounting for Sales of Stock by a Subsidiary. The difference between the carrying amount of our investment in WHC before and after the issuance of WHC Class A Common Stock is considered either a gain or loss and is reflected as a component of our stockholders equity. During the three months ended March 31, 2008 and 2007, WHC stock options exercised and restricted stock awards were released in accordance with WHC s equity plans. The issuance of these shares resulted in an aggregate gain of $757 and $4,804 during the three months ended March 31, 2008 and 2007 and our ownership in WHC decreased to 83.4% as of March 31, 2008 from 83.5% as of December 31, 2007. We expect to continue to record gains in the future related to future issuances of WHC Class A Common Stock.

Stock-Based Compensation On January 1, 2006, we adopted SFAS No. 123, (Revised 2004): Share-Based Payment (which we refer to as SFAS 123R), which replaces SFAS No. 123, Accounting for Stock-Based Compensation (which we refer to as SFAS 123) and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees (which we refer to as APB 25). SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense over the service period (generally the vesting period) in the consolidated financial statements based on their fair values. We elected to use the modified prospective transition method. Under the modified prospective transition method, awards that were granted or modified on or after January 1, 2006 are measured and accounted for in accordance with SFAS 123R. Unvested stock options and restricted stock awards that were granted prior to January 1, 2006 will continue to be accounted for in accordance with SFAS 123, using the same grant date fair value and same expense attribution method used under SFAS 123, except that all awards are recognized in the results of operations over the remaining vesting periods. The impact of forfeitures that may occur prior to vesting is also estimated and considered in the amount recognized for all stock-based compensation beginning January 1, 2006. As of March 31, 2008, approximately $20,887 and $37,688 of unrecognized stock-based compensation expense related to unvested awards (net of estimated forfeitures) is expected to be recognized over a weighted-average period of approximately 1.1 years and 1.5 years, related to the HLTH and WHC stock-based compensation plans, respectively. The total recognition period for the remaining unrecognized stock-based compensation expense for both the HLTH and WHC stock-based compensation plans is approximately four years; however, the majority of this cost will be recognized over the next two years, in accordance with our vesting provisions.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model. The assumptions used in this model are expected dividend yield, expected volatility, risk-free interest rate and expected term. The expected volatility for stock options to purchase HLTH Common Stock is based on implied volatility from traded options of HLTH Common Stock combined with historical volatility of HLTH Common Stock. Prior to August 1, 2007, the expected volatility for stock options to purchase WHC Class A Common Stock was based on implied volatility from traded options of stock of comparable companies combined with historical stock price volatility of comparable companies. Beginning on August 1, 2007, expected volatility is based on implied volatility from traded options of WHC Class A Common Stock combined with historical volatility of WHC Class A Common Stock.

Deferred Taxes Our deferred tax assets are comprised primarily of net operating loss carryforwards. At December 31, 2007, we had net operating loss carryforwards of approximately $1.3 billion, which expire at varying dates from 2011 through 2028. These loss carryforwards may be used to offset taxable income in future periods, reducing the amount of taxes we might otherwise be required to pay. For the three months ended March 31, 2008, after consideration of the relevant factors, we reversed a portion of our valuation allowance in connection with the 2008 EBSCo Sale. In determining the need for a valuation allowance, management determined 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, and in the future, should management determine that realization of the net deferred tax asset is more likely than not, some or all of the remaining valuation allowance will be reversed, and our effective tax rate may be reduced by such reversal.

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

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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 (amounts in thousands):

	Three Months Ended March 31,			
	2008		2007	
	$	%	$	%
Revenue	$ 81,682	100.0	$ 71,881	100.0
Costs and expenses:				
Cost of operations	31,570	38.6	28,618	39.8
Sales and marketing	25,830	31.7	22,870	31.8
General and administrative	21,144	25.9	28,443	39.6
Depreciation and amortization	6,888	8.4	6,325	8.8
Interest income	11,936	14.6	9,674	13.5
Interest expense	4,607	5.6	4,709	6.6
Gain on sale of EBS Master LLC	538,024	658.7		
Impairment of auction rate securities	60,108	73.6		
Other (expense) income, net	(4,144)	(5.1)	2,882	4.0
Income (loss) from continuing operations before income tax provision (benefit)	477,351	584.4	(6,528)	(9.1)
Income tax provision (benefit)	25,614	31.3	(231)	(0.3)
Minority interest in WHC (loss) income	(3,845)	(4.7)	115	0.2
Equity in earnings of EBS Master LLC	4,007	4.9	7,099	10.0
Income from continuing operations	459,589	562.7	687	1.0
Income from discontinued operations, net of tax	3,569	4.3	5,015	6.9
Net income	$ 463,158	567.0	$ 5,702	7.9

Revenue is derived from our WebMD Segments: WebMD Online Services and WebMD Publishing and Other Services. WebMD Online Services segment derives revenue from advertising, sponsorship (including online CME services), e-detailing promotion and physician recruitment services, content syndication and distribution, and licenses of private online portals to employers, healthcare payers and others, along with related services including lifestyle education and personalized telephonic coaching. WebMD Publishing and Other Services segment derives revenue from sales of, and advertising in, our physician directories, and advertisements in *WebMD the Magazine*. WebMD sold its ACS/ACP Business as of December 31, 2007 and the revenue and expenses of this business are shown in discontinued operations for the three months ended March 31, 2007.

WebMD customers include pharmaceutical, biotechnology, medical device and consumer products companies, as well as employers and health plans. WebMD customers also include physicians and other healthcare providers who buy WebMD physician directories and reference textbooks.

Cost of operations consists of costs related to services and products WebMD provides to customers and costs associated with the operation and maintenance of our public and private portals. These costs relate to editorial and production, Web site operations, non-capitalized Web site development costs, and costs related to the production and distribution of our publications. These costs consist of expenses related to salaries and related expenses, non-cash stock-based compensation, creating and licensing content, telecommunications, leased properties and printing and distribution.

Sales and marketing expense consists primarily of advertising, product and brand promotion, salaries and related expenses, and non-cash stock-based compensation. These expenses include items related to salaries and related expenses of account executives, account management and marketing personnel, costs and expenses for marketing programs, and fees for professional marketing and advertising services. Also included in sales and marketing expense are the non-cash advertising expenses discussed below.

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

Our discussions throughout MD&A make references to certain non-cash expenses. The following is a summary of our principal non-cash expenses:

> *Non-cash advertising expense.* Expense related to the use of WebMD s prepaid advertising inventory that WebMD received from News Corporation in exchange for equity instruments we issued in connection with an agreement we entered into with News Corporation in 1999 and subsequently amended in 2000. This non-cash advertising expense is included in cost of operations when WebMD utilizes this advertising inventory in conjunction with offline advertising and sponsorship programs and is included in sales and marketing expense when WebMD uses the asset for promotion of WebMD s brand.
>
> *Non-cash stock-based compensation expense.* Expense reflects the adoption of SFAS 123R on January 1, 2006, which requires all share-based payments to employees and non-employee directors, including grants of employee stock options, to be recognized as compensation expense over the service period (generally the vesting period) in the consolidated financial statements based on their fair values. 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,	
	2008	**2007**
Advertising expense included in:		
Sales and marketing	$ 1,558	$ 2,320
Stock-based compensation expense included in:		
Cost of operations	$ 1,119	$ 1,578
Sales and marketing	1,138	1,258
General and administrative	3,715	6,346
Total	$ 5,972	$ 9,182

The following discussion includes a comparison of the results of operations for the three months ended March 31, 2008 and 2007.

Revenue

Our revenue increased 13.6% to $81,682 for the three months ended March 31, 2008 from $71,881 in the prior year period. This increase is primarily due to higher revenue from WebMD public portals. WebMD Online Services accounted for $9,985 of the revenue increase, offset by a decrease of $247 within WebMD Publishing and Other Services. A more detailed discussion regarding changes in revenue is included below under Results of Operations by Operating Segment.

Costs and Expenses

Cost of Operations. Cost of operations was $31,570 for the three months ended March 31, 2008, compared to $28,618 in the prior year period. Our cost of operations represented 38.6% of revenue for the three months ended March 31, 2008, compared to 39.8% of revenue in the prior year period. Included in cost of operations are non-cash expenses related to stock-based compensation of $1,119 for the three months ended

March 31, 2008, compared to $1,578 in the prior year period. The decrease in non-cash stock-based compensation expense for the three months ended March 31, 2008, compared to the prior year period was primarily related to graded vesting methodology used in determining stock-based compensation expense relating to WebMD s stock options and restricted stock awards granted at the time of its initial public offering.

Cost of operations, excluding the non-cash stock-based compensation expense discussed above, was $30,451 or 37.3% of revenue for the three months ended March 31, 2008, compared to $27,040 or 37.6% of revenue in the prior year period. The increase in absolute dollars was primarily attributable to increases in compensation related costs due to higher staffing levels relating to WebMD s Web site operations and development. The decrease as a percentage of revenue was primarily due to WebMD s ability to achieve the increase in revenue without incurring a proportional increase in cost of operations expense.

Sales and Marketing. Sales and marketing expense was $25,830 for the three months ended March 31, 2008, compared to $22,870 in the prior year period. Our sales and marketing expense represented 31.7% of revenue for the three months ended March 31, 2008, compared to 31.8% of revenue in the prior year period. Non-cash expense related to advertising was $1,558 for the three months ended March 31, 2008, compared to $2,320 in the prior year period. This decrease was due to lower utilization of WebMD prepaid advertising inventory. Non-cash stock-based compensation was $1,138 for the three months ended March 31, 2008, compared to $1,258 in the prior year period. The decrease in non-cash stock-based compensation expense was primarily related to graded vesting methodology used in determining stock-based compensation expense relating to WebMD s stock options and restricted stock awards granted at the time of the initial public offering.

Sales and marketing expense, excluding the non-cash expenses discussed above, was $23,134 or 28.3% of revenue for the three months ended March 31, 2008, compared to $19,292 or 26.8% of revenue in the prior year period. The increase in absolute dollars, as well the increase as a percentage of revenue, was primarily attributable to a $2,362 increase in compensation related costs due to increased staffing and to $1,043 of increased expenses related to marketing and advertising programs due to higher program volume of approximately 600 programs compared to 500 programs last year.

General and Administrative. General and administrative expense was $21,144 for the three months ended March 31, 2008, compared to $28,443 in the prior year period. Our general and administrative expenses represented 25.9% of revenue for the three months ended March 31, 2008, compared to 39.6% of revenue in the prior year period. Non-cash stock-based compensation was $3,715 in the three months ended March 31, 2008, compared to $6,346 in the prior year period. Non-cash stock-based compensation expense was lower for the three months ended March 31, 2008, when compared to the prior year period, as a result of the fluctuations in the market to market adjustments for stock-based compensation issued to non-employee directors of WebMD and the graded vesting methodology used in determining stock-based compensation expense relating to WebMD s stock options and restricted stock awards granted at the time of the initial public offering.

General and administrative expense, excluding non-cash stock-based compensation expense discussed above, was $17,429 or 21.3% of revenue for the three months ended March 31, 2008, compared to $22,097 or 30.7% of revenue in the prior year period. The decrease in absolute dollars was primarily attributable to lower costs in our Corporate segment, which represented approximately $4,100 of the year-over-year decrease, as well as a decrease in costs related to outside services and contractors in our WebMD Segments.

Depreciation and Amortization. Depreciation and amortization expense was $6,888 or 8.4% of revenue for the three months ended March 31, 2008, compared to $6,325 or 8.8% of revenue in the prior year period. The increase in depreciation and amortization expense was primarily due to the $1,460 increase in depreciation expense relating to capital expenditures in 2007 and 2008, partially offset by a decrease in amortization expense of $666 related to certain intangible assets becoming fully amortized.

Interest Income. Interest income increased to $11,936 for the three months ended March 31, 2008, from $9,674 in the prior year period. The increase was primarily due to higher average investment balances during the three months ended March 31, 2008, compared to the prior year period, slightly offset by a lower average rate of return for the current quarter as compared to the prior year period.

Interest Expense. Interest expense of $4,607 for the three months ended March 31, 2008 was consistent with interest expense of $4,709 in the prior year period. Interest expense in the three months ended March 31, 2008 and 2007 primarily included the interest expense and the amortization of debt issuance costs for our $350,000 of 1.75% Convertible Subordinated Notes due 2023 and our $300,000 of 31/8% Convertible Notes due 2025.

Gain on Sale of EBS Master LLC. The gain on sale of EBS Master LLC of $538,024 for the three months ended March 31, 2008 represented a gain recognized in connection with the sale of our equity investment in EBS Master LLC. See Introduction Other Recent Transactions with respect to this matter.

Impairment of Auction Rate Securities. Impairment of auction rate securities represents a charge of $60,108 related to an other-than temporary reduction of the fair value of our auction rate securities during the three months ended March 31, 2008. For additional information, see Other Significant Developments and Trends Impairment of Auction Rate Securities above.

Other (Expense) Income, Net. Other (expense) income, net was income of $4,144 for the three months ended March 31, 2008, compared to an expense of $2,882 in the prior year period and includes $4,259 for the three months ended March 31, 2008 of advisory expenses for professional fees, primarily consisting of legal, accounting and financial advisory services related to our exploration of strategic alternatives for WHC in 2008. See Introduction Pending Corporate Transactions for more information on the WHC Merger. Also included in other (expense) income, net was $372 and $320 for the three months ended March 31, 2008 and 2007, respectively, of external legal costs and expenses we incurred related to the investigation by the United States Attorney for the District of South Carolina and the SEC and transition services income of $50 and $2,456 for the three months ended March 31, 2008 and 2007, respectively, earned from the service fee charged to EBSCo and Sage Software, net of services EBSCo provides to us, for services rendered under each of their respective transition services agreement. The transition services agreement with Sage Software was terminated during the fourth quarter of 2007, therefore, net transaction services fees, are for services related to EBSCo for the three months ended March 31, 2008.

Income Tax Provision (Benefit). The income tax provision of $25,614 and benefit of $231 for the three months ended March 31, 2008 and 2007, respectively, represents taxes related to federal, state and other jurisdictions. While the majority of the gain on the 2008 EBSCo Sale was offset by net operating loss carryforwards, certain AMT and other state taxes were not offset resulting in a provision of approximately $24,000 for the three months ended March 31, 2008. The income tax provision for the three months ended March 31, 2008 excludes a benefit for the impairment of ARS, as it is currently not deductible for tax purposes.

Minority Interest in WHC (Loss) Income. Minority interest income of $3,845 for the three months ended March 31, 2008, compared to expense of $115 in the prior year period, represents the minority stockholders proportionate share of (loss) income for WHC, our consolidated WebMD Segments. The ownership interest of minority shareholders fluctuates based on the net income or loss reported by WHC, combined with changes in the percentage ownership of WHC held by the minority interest shareholders. The minority interest shareholders percentage ownership changes as a result of the issuance of WHC Class A Common Stock, which includes such issuances as the exercise of stock options and the release of restricted awards.

Income from Discontinued Operations, Net of Tax. Income from discontinued operations was $3,569 and $5,015 for the three months ended March 31, 2008 and 2007 and primarily represents the net operating results of our ViPS and Porex segments.

Results of Operations by Operating Segment

We monitor the performance of our business based on earnings before interest, taxes, non-cash and other items. Other items include: legal expenses we incurred, which reflect costs and expenses related to the investigation by the United States Attorney for the District of South Carolina and the SEC; income related to the reduction of certain sales and use tax contingencies; professional fees in 2008, primarily consisting of legal, accounting and financial advisory services, related to the WHC Merger; the gain on the 2008 EBSCo Sale; the

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gain recognized in connection with the working capital adjustment associated with the 2006 EBS Sale; and the impairment charge related to our auction rate securities. Inter-segment revenue primarily represents certain services provided by our WebMD Segments to our Corporate segment.

Summarized financial information for each of our WebMD Segments and Corporate segment and a reconciliation to net income are presented below:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Revenue		
WebMD Online Services:		
Advertising and sponsorship	$ 56,065	$ 47,421
Licensing	21,923	20,115
Content syndication and other	417	884
Total WebMD Online Services	78,405	68,420
WebMD Publishing and Other Services	3,277	3,524
Inter-segment eliminations		(63)
	$ 81,682	$ 71,881
Earnings (loss) before interest, taxes, non-cash and other items		
WebMD Online Services	$ 16,531	$ 12,992
WebMD Publishing and Other Services	(754)	(358)
Corporate	(5,059)	(6,726)
	10,718	5,908
Interest, taxes, non-cash and other items		
Depreciation and amortization	(6,888)	(6,325)
Non-cash stock-based compensation	(5,972)	(9,182)
Non-cash advertising	(1,558)	(2,320)
Gain on sale of EBS Master LLC	538,024	
Interest income	11,936	9,674
Interest expense	(4,607)	(4,709)
Income tax (provision) benefit	(25,614)	231
Minority interest in WHC loss (income)	3,845	(115)
Equity in earnings of EBS Master LLC	4,007	7,099
Impairment of auction rate securities	(60,108)	
Other (expense) income, net	(4,194)	426
Income from continuing operations	459,589	687
Income from discontinued operations, net of tax	3,569	5,015
Net income	$ 463,158	$ 5,702

The following discussion is a comparison of the results of operations for our WebMD Segments and Corporate segments for the three months ended March 31, 2008 to the three months ended March 31, 2007.

WebMD Online Services. Revenue was $78,405 for the three months ended March 31, 2008, an increase of $9,985 or 14.6% compared to the prior year period. Advertising and sponsorship revenue increased $8,644 or 18.2% compared to the prior year period. The increase in advertising and sponsorship revenue was primarily attributable to an increase in the number of brands and sponsored programs promoted on WebMD s Web sites. The number of such programs grew to approximately 600 compared to approximately 500 last year. In general, pricing remained relatively stable for WebMD s advertising and sponsorship programs and was not a significant source of the revenue increase. Licensing revenue increased $1,808 or 9.0% compared to the prior year period. This increase was due to an increase in the number of companies using WebMD s private portal platform to 122 from 103 last year. In general, pricing remained relatively stable for WebMD s private portal licenses and was not a significant source of the revenue increase. WebMD also had approximately 140 additional customers who purchase stand-alone decision support services from them. Content syndication and other revenue decreased to $417 for the three months ended March 31, 2008 from $884 in the prior year period, primarily as a result of the completion of certain contracts and WebMD s decision not to seek new content syndication business.

WebMD Online Services earnings before interest, taxes, non-cash and other items was $16,531 or 21.1% of revenue for the three months ended March 31, 2008, compared to $12,992 or 19.0% of revenue in the prior year period. This increase as a percentage of revenue was primarily due to higher revenue from the increase in number of brands and sponsored programs in WebMD s public portals as well as the increase in companies using WebMD s private online portal without incurring a proportionate increase in overall expenses.

WebMD Publishing and Other Services. Revenue was $3,277 for the three months ended March 31, 2008, a decrease of $247 or 7.0% in the prior year period. The decrease was primarily attributable to $570 of lower advertising revenue in *The Little Blue Book*, offset by $323 of higher advertising revenue in *WebMD the Magazine*.

WebMD Publishing and Other Services loss before interest, taxes, non-cash and other items was $754 or 23.0% of revenue for the three months ended March 31, 2008, compared to $358 or 10.2% of revenue in the prior year period. This change was primarily attributable to a change in mix of revenues. In general, pricing remained relatively stable for advertising in both *The Little Blue Book* and *WebMD the Magazine* and was not a significant source for changes in revenue.

Corporate. Corporate includes costs and expenses for functions not directly managed by our segments, including the Porex and ViPS segments which are reflected within discontinued operations. Corporate expenses decreased to $5,059, or 6.2% of consolidated revenue for the three months ended March 31, 2008, compared to $6,726, or 9.4% of revenue for the prior year period. The decrease in our Corporate segment, in whole dollars, is due to lower personnel and other costs and expenses associated with our overall management of HLTH and subsidiaries, which includes certain insurance, professional and information technology costs. These lower costs and expenses were attributable to the sales of EPS and EBS during the third and fourth quarters of 2006. Offsetting the reduction in expenses is a net reduction of transaction service income of approximately $2,400 when comparing the three months ended March 31, 2008 to the same period in 2007. The transition services agreement with Sage Software was terminated during the fourth quarter of 2007, therefore, net transaction services fees are for services related to EBSCo for the three months ended March 31, 2008.

Inter-Segment Eliminations. Inter-segment eliminations primarily represents certain services provided by the WebMD Segments to our Corporate segment.

Liquidity and Capital Resources

Cash provided by operating activities from our continuing operations was $46,118 for the three months ended March 31, 2008, compared to cash used in operating activities from our continuing operations of $24,020 for the prior year period. The $70,138 increase in cash provided by operating activities from our continuing operations when compared to a year ago primarily relates to higher estimated tax payments during the three months ended March 31, 2007, as compared to the three months ended March 31, 2008 as a result of the sale of 52% of our EBS segment which occurred during the later part of 2006. Additionally, while we accrued estimated taxes in connection with the 2008 EBSCo Sale that occurred in February 2008, we did not yet pay the full amount of these taxes as of March 31, 2008, which is expected to be paid during 2008. In addition, the increase in cash provided by operating activities from continuing operations is due to the timing of the cutoff of certain accruals and the billing and collections of receivables of our WebMD Segments and the receipt of $14,625 of insurance settlements related to our Director and Officer insurance policies.

Cash provided by investing activities from our continuing operations was $524,836 for the three months ended March 31, 2008, compared to $19,799 for the prior year period. Cash provided by investing activities from our continuing operations for the three months ended March 31, 2008 included $574,617 of proceeds received from the 2008 EBSCo Sale, as well as the $23,333 we received, which was released from escrow, from the sale of our EPS segment, which was sold in the later part of 2006. Also included in cash provided by investing activities from our continuing operations for the three months ended March 31, 2008 is net disbursements of $72,632 from purchases, net of maturities and sales, of available for sale securities, compared to $1,990 of proceeds from maturities and sales, net of purchases, in the prior year period. Cash provided by investing activities for the three months ended March 31, 2007, included $19,691 of repayment of advances to EBSCo, which primarily consisted of $10,000 advanced to EBSCO at closing on November 16, 2006 to support working capital needs and $10,106 of expenses paid by us on EBSCo s behalf through December 31, 2006.

Cash provided by financing activities from our continuing operations was $1,777 for the three months ended March 31, 2008, compared to $52,082 for the prior year period. Cash provided by financing activities for the three months ended March 31, 2008 and 2007 principally related to proceeds of $1,777 and $63,404, respectively, from the issuance of HLTH Common Stock and WHC Class A Common Stock resulting from the exercises of employee stock options, partially offset by the repurchases of HLTH Common Stock for $11,322 in the prior year period.

Included in our consolidated statements of cash flows are cash flows from discontinued operations of the ViPS and Porex segments and the ACS/ACP Business. Our cash flows provided by operating activities from discontinued operations for the three months ended March 31, 2008 included $2,557 and $457 related to our ViPS and Porex segments, respectively, while cash flows provided by operating activities from discontinued operations for the three months ended March 31, 2007 included $3,245, $3,413 and $54 related to our ViPS segment, Porex segment and the ACS/ACP Business, respectively. Also included in cash flows from discontinued operations used in operating activities for the three months ended March 31, 2008 is $6,765 in payments made in connection with legal costs and expenses incurred related to the investigation by the United States Attorney for the District of South Carolina and the SEC.

As of March 31, 2008, we had approximately $1.1 billion in consolidated cash and cash equivalents, and we owned investments in auction rate securities with a face value of $362,950 and a fair value of $302,842. While liquidity for our ARS investments is currently limited, HLTH and WebMD recently entered into non-recourse credit facilities with Citigroup that will allow us to borrow up to 75% of the face amount of our ARS holdings. See Introduction Other Significant Developments and Trends Impairment of Auction Rate Securities and Introduction Other Recent Transactions Credit Facilities above.

Our liquidity during 2008 is expected to be significantly impacted as a result of the planned WHC Merger, and also as a result of the planned divestitures of ViPS and Porex, see Introduction Pending Corporate Transactions Merger with WHC above. The planned merger with WebMD will result in the payment of up to $6.89 in cash for each outstanding share of HLTH Common Stock as of the closing date of the merger. We expect the combined company to use available cash on hand, as well as cash proceeds to be received from the divestitures of Porex and ViPS to fund the cash portion of the merger consideration. Additionally, if either Porex or ViPS has not been sold at the time the WHC Merger is ready to be consummated, WebMD could issue up to $250,000 in redeemable notes to the HLTH stockholders in lieu of a portion of the cash consideration otherwise payable in the merger, or could draw proceeds from the non-recourse credit facilities we entered into with Citigroup.

We believe that our available cash resources and future cash flow from operations, will provide sufficient cash resources to meet the commitments described above and to fund our currently anticipated working capital and capital expenditure requirements, for up to twenty-four months. Our future liquidity and capital requirements will depend upon numerous factors, including retention of customers at current volume and revenue levels, our existing and new 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 the relevance of our online services to our audience and sponsors and will 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

On May 9, 2008, the Financial Accounting Standards Board (which we refer to as the FASB) issued FASB Staff Position (which we refer to as FSP) Accounting Principles Board (which we refer to as APB) Opinion No. 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (which we refer to as FSP APB 14-1). The FSP will require cash settled convertible debt to be separated into debt and equity components at issuance and a value to be assigned to each. The value assigned to the debt component will be the estimated fair value, as of the issuance date, of a similar bond without the conversion feature. The difference between the bond cash proceeds and this estimated fair value will be recorded as a debt discount and amortized to interest expense over the life of the bond. Although FSP APB 14-1 would have no impact on our actual past or future cash flows, it will require us to record a significant amount of non-cash interest expense as the debt discount is amortized. As a result, there will be a material adverse impact on the results of operations and earnings per share. In addition, if the convertible debt is redeemed or converted prior to maturity, any unamortized debt discount will result in a loss on extinguishment. FSP APB 14-1 will become effective January 1, 2009, and will require retrospective application.

On April 25, 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets (which we refer to as SFAS 142). The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141 (Revised 2007), Business Combinations, and other U.S. GAAP. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. We are currently evaluating the impact that this FSP will have on our operations, financial position and cash flows.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), Business Combinations (which we refer to as SFAS 141R), a replacement of FASB Statement No. 141. SFAS 141R is effective for fiscal years beginning on or after December 15, 2008 and applies to all business combinations. SFAS 141R provides that, upon initially obtaining control, an acquirer shall recognize 100 percent of the fair values of acquired assets, including goodwill, and assumed liabilities, with only limited exceptions, even if the acquirer has not acquired 100 percent of its target. As a consequence, the current step acquisition model will be eliminated. Additionally, SFAS 141R changes current practice, in part, as follows: (1) contingent consideration arrangements will be fair valued at the acquisition date and included on that basis in the purchase price consideration; (2) transaction costs will be expensed as incurred, rather than capitalized as part of the purchase price; (3) pre-acquisition contingencies, such as legal issues, will generally have to be accounted for in purchase accounting at fair value; and (4) in order to accrue for a restructuring plan in purchase accounting, the requirements in FASB Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities, would have to be met at the acquisition date. While there is no expected impact to our consolidated financial statements on the accounting for acquisitions completed prior to December 31, 2008, the adoption of SFAS 141R on January 1, 2009 could materially change the accounting for business combinations consummated subsequent to that date.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51, (which we refer to as SFAS 160). SFAS 160 requires the recognition of a noncontrolling interest (minority interest) as equity in the financial statements and separate

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from the parent s equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the results of operations. SFAS 160 clarifies that changes in a parent s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. SFAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and is to be applied prospectively as of the beginning of the fiscal year in which the statement is applied. Early adoption is not permitted. We are currently evaluating the impact that SFAS 160 will have on its operations, financial position and cash flows.

Factors That May Affect Our Future Financial Condition or Results of Operations

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 the common stock and convertible notes that we have issued or securities we may issue in the future. The risks and uncertainties described in this Quarterly Report are not the only ones facing us. Additional risks and uncertainties that are not currently known to us or that we currently believe are immaterial may also adversely affect our business and operations.

Risks Related to WebMD

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

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

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

We cannot assure you that WebMD will be able to continue to develop or acquire needed content, applications and tools at a reasonable cost. In addition, since consumer users of WebMD s public portals may be attracted to *The WebMD Health Network* as a result of a specific condition or for a specific purpose, it is difficult for WebMD to predict the rate at which they will return to the public portals. Because WebMD generates 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 WebMD s revenue to decrease and could have a material adverse effect on its results of operations.

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

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

WebMD relies on a combination of internal development, strategic relationships, licensing and acquisitions to develop its portals and related applications, features and services. WebMD s development and/or implementation of new technologies, applications, 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.

WebMD faces significant competition for its products and services

The markets in which WebMD operates are intensely competitive, continually evolving and, in some cases, subject to rapid change.

- WebMD s public portals face competition from numerous other companies, both in attracting users and in generating revenue from advertisers and sponsors. WebMD competes for users with online services and Web sites that provide health-related information, including commercial sites as well as public sector and not-for-profit sites. WebMD competes for advertisers and sponsors with: health-related Web sites; general purpose consumer Web sites that offer specialized health sub-channels; other high-traffic Web sites that include both healthcare-related and non-healthcare-related content and services; search engines that provide specialized health search; and advertising networks that aggregate traffic from multiple sites.

WebMD s private portals compete with: providers of healthcare decision-support tools and online health management applications; wellness and disease management vendors; and health information services and health management offerings of healthcare benefits companies and their affiliates.

WebMD s offline publications compete with numerous other offline publications, some of which have better access to traditional distribution channels than WebMD has, and also compete with online information sources.

Many of WebMD s competitors have greater financial, technical, product development, marketing and other resources than it does. These organizations may be better known than WebMD and have more customers or users than WebMD does. WebMD cannot provide assurance that it will be able to compete successfully against these organizations or any alliances they have formed or may form. Since there are no substantial barriers to entry into the markets in which WebMD s public portals participate, we expect that competitors will continue to enter these markets.

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

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

WebMD s online businesses have a limited operating history

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

WebMD s success depends, in part, on its attracting and retaining qualified executives and employees

The success of WebMD depends, in part, on its ability to attract and retain qualified executives, writers and editors, software developers and other technical and professional personnel and sales and marketing personnel. WebMD anticipates a continuing need to hire and retain qualified employees in these areas. Competition for qualified personnel in the healthcare information technology and healthcare information services industries is intense, and we cannot assure you that WebMD will be able to hire or retain a sufficient number of qualified personnel to meet its requirements, or that it will be able to do so at salary, benefit and other compensation costs that are acceptable to it. Failure to do so may have an adverse effect on its business.

If WebMD is unable to provide healthcare content for its offline publications that attracts and retains users, its revenue will be reduced

Interest in WebMD s offline publications, such as *The Little Blue Book,* is based upon WebMD s ability to make available up-to-date health content that meets the needs of its physician users. Although WebMD has been able to continue to update and maintain the physician practice information that it publishes in *The Little*

Blue Book, if WebMD is unable to continue to do so for any reason, the value of *The Little Blue Book* would diminish and interest in this publication and advertising in this publication would be adversely affected.

WebMD the Magazine was launched in April 2005 and, as a result, has a very short operating history. We cannot assure you that *WebMD the Magazine* will be able to attract and retain the advertisers needed to make this publication successful in the future.

The timing of WebMD s advertising and sponsorship revenue may vary significantly from quarter to quarter

WebMD s advertising and sponsorship revenue may vary significantly from quarter to quarter due to a number of factors, many of which are not in WebMD s control, and some of which may be difficult to forecast accurately. The majority of WebMD s advertising and sponsorship programs are for terms of approximately four to twelve months. WebMD has relatively few longer term advertising and sponsorship programs. In addition, WebMD has recently noted a trend, among some of its advertisers and sponsors, of seeking to enter into shorter term contracts than they had entered into in the past. We cannot assure you that WebMD s current advertisers and sponsors will continue to use its services beyond the terms of their existing contracts or that they will enter into any additional contracts.

In addition, the time between the date of initial contact with a potential advertiser or sponsor regarding a specific program and the execution of a contract with the advertiser or sponsor for that program may be lengthy, especially for larger contracts, and may be subject to delays over which WebMD has little or no control, including as a result of budgetary constraints of the advertiser or sponsor or their need for internal approvals. Other factors that could affect the timing of contracting for specific programs with advertisers and sponsors, or receipt of revenue under such contracts, include:

- the timing of FDA approval for new products or for new approved uses for existing products;
- the timing of FDA approval of generic products that compete with existing brand name products;
- the timing of withdrawals of products from the market;
- 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.

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

The period from WebMD s initial contact with a potential client for a private online portal and the first purchase of its 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. These sales may be subject to delays due to a client s internal procedures for approving large expenditures and other factors beyond WebMD s control. The time it takes to implement a private online portal is also difficult to predict and has lasted as long as six months from contract execution to the commencement of live operation. Implementation may be subject to delays based on the availability of the internal resources of the client that are needed and other factors outside of WebMD s control. As a result, we have limited ability to forecast the timing of revenue from new clients. This, in turn, makes it more difficult to predict WebMD s financial performance from quarter to quarter.

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

WebMD s ability to provide comparative information on hospital cost and quality depends on its ability to obtain the required data on a timely basis and, if it is unable to do so, its private portal services would be less attractive to clients

WebMD provides, in connection with its private portal services, comparative information about hospital cost and quality. WebMD s ability to provide this information depends on its ability to obtain comprehensive, reliable data. WebMD currently obtains this data from a number of public and private sources, including CMS, 24 individual states and the Leapfrog Group. We cannot provide assurance that WebMD would be able to find alternative sources for this data on acceptable terms and conditions. Accordingly, WebMD s business could be negatively impacted if CMS or our other data sources cease to make such information available or impose terms and conditions for making it available that are not consistent with WebMD s planned usage. In addition, the quality of the comparative information services that WebMD provides depends on the reliability of the information that it is able to obtain. If the information WebMD uses to provide these services contains errors or is otherwise unreliable, WebMD could lose clients and its reputation could be damaged.

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

In a healthcare market where a greater share of the responsibility for healthcare costs and decision-making has been increasingly shifting to consumers, use of information technology (including personal health records) to assist consumers in making informed decisions about healthcare has also increased. WebMD believes that through WebMD s Health and Benefits Manager tools, including WebMD s personal health record application, WebMD is well positioned to play a role in this consumer-directed healthcare environment, and these services will be a significant driver for the growth of WebMD s private portals during the next several years. However, WebMD s growth strategy depends, in part, on increasing usage of WebMD s private portal services by WebMD s employer and health plan clients employees and members, respectively. Increasing usage of WebMD s services requires WebMD to continue to deliver and improve the underlying technology and develop new and updated applications, features and services. In addition, WebMD faces competition in the area of healthcare decision-support tools and online health management applications and health information services. Many of WebMD s competitors have greater financial, technical, product development, marketing and other resources than WebMD does, and may be better known than we are. WebMD cannot provide assurance that WebMD will be able to meet WebMD s development and implementation goals, nor that WebMD will be able to compete successfully against other vendors offering competitive services and, as a result, may experience static or diminished usage for WebMD s private portal services and possible non-renewals of WebMD s license agreements.

WebMD may be unsuccessful in its efforts to increase advertising and sponsorship revenue from consumer products companies

Most of WebMD s advertising and sponsorship revenue has, in the past, come from pharmaceutical, biotechnology and medical device companies. WebMD has been focusing on increasing sponsorship revenue from consumer products companies that are interested in communicating health-related or safety-related information about their products to WebMD s audience. However, while a number of consumer products companies have indicated an intent to increase the portion of their promotional spending used on the Internet, we cannot assure you that these advertisers and sponsors will find WebMD s consumer Web sites to be as effective as other Web sites or traditional media for promoting their products and services. If WebMD encounters difficulties in competing with the other alternatives available to consumer products companies, this portion of WebMD s business may develop more slowly than we expect or may fail to develop.

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

Errors in the software and systems WebMD uses could cause serious problems for clients of its online portals. WebMD may fail to meet contractual performance standards or client expectations. Clients of

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WebMD s online portals may seek compensation from WebMD or may seek to terminate their agreements with WebMD, withhold payments due to WebMD, seek refunds from WebMD of part or all of the fees charged under those agreements or initiate litigation or other dispute resolution procedures. In addition, WebMD could face breach of warranty or other claims by clients or additional development costs. WebMD s software and systems are inherently complex and, despite testing and quality control, we cannot be certain that they will perform as planned.

WebMD attempts to limit, by contract, its liability to its clients for damages arising from its negligence, errors or mistakes. However, contractual limitations on liability may not be enforceable in certain circumstances or may otherwise not provide sufficient protection to WebMD from liability for damages. WebMD maintains liability insurance coverage, including coverage for errors and omissions. However, it is possible that claims could exceed the amount of WebMD s 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 WebMD, investigating and defending against them could be expensive and time consuming and would divert management s attention away from WebMD s operations. In addition, negative publicity caused by these events may delay or hinder market acceptance of WebMD s services, including unrelated services.

Any service interruption or failure in the systems that WebMD uses to provide online services could harm WebMD s business

WebMD s online services are designed to operate 24 hours a day, seven days a week, without interruption. However, WebMD has experienced and expects that it will in the future experience interruptions and delays in services and availability from time to time. WebMD relies on internal systems as well as third-party vendors, including data center providers and bandwidth providers, to provide its online services. WebMD 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, WebMD may experience an extended period of system unavailability, which could negatively impact its relationship with users. To operate without interruption, both WebMD and its service providers must guard against:

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

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

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

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

WebMD s ability to deliver its 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

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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 WebMD s services or increases in response time could, if significant, result in a loss of potential or existing users of and advertisers and sponsors on WebMD s Web sites and, if sustained or repeated, could reduce the attractiveness of WebMD s services.

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

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

From time to time, WebMD implements additions to or changes in the hardware and software platforms that it uses for providing its 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, WebMD may move their operations to its hardware and software platforms or make other changes, any of which could result in interruptions in those operations. Any significant interruption in WebMD s ability to operate any of its online services could have an adverse effect on its relationships with users and clients and, as a result, on its financial results. WebMD relies on a combination of purchasing, licensing, internal development, and acquisitions to develop its hardware and software platforms. WebMD s 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 WebMD uses to provide online portals experience security breaches or are otherwise perceived to be insecure, WebMD s business could suffer

WebMD retains and transmits confidential information, including personal health records, in the processing centers and other facilities it uses to provide online services. It is critical that these facilities and infrastructure remain secure and be perceived by the marketplace as secure. A security breach could damage WebMD s reputation or result in liability. WebMD 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 WebMD interfaces with, including the Internet and related systems, may be vulnerable to physical break-ins, hackers, improper employee or contractor access, computer viruses, programming errors, denial-of-service attacks or other attacks by third parties or similar disruptive problems. Any compromise of WebMD s security, whether as a result of its own systems or the systems that they interface with, could reduce demand for its services and could subject WebMD to legal claims from its clients and users, including for breach of contract or breach of warranty.

WebMD faces potential liability related to the privacy and security of personal information it collects from or on behalf of users of its services

Privacy of personal health information, particularly personal health information stored or transmitted electronically, is a major issue in the United States. The Privacy Standards under the Health Insurance Portability and Accountability Act of 1996 (or HIPAA) establish a set of basic national privacy standards for the protection of individually identifiable health information by health plans, healthcare clearinghouses and healthcare providers (referred to as covered entities) and their business associates. Only covered entities are directly subject to potential civil and criminal liability under the Privacy Standards. Accordingly, the Privacy

Standards do not apply directly to WebMD. However, portions of WebMD s business, such as those managing employee or plan member health information for employers or health plans, are or may be business associates of covered entities and are bound by certain contracts and agreements to use and disclose protected health information in a manner consistent with the Privacy Standards. Depending on the facts and circumstances, WebMD could potentially be subject to criminal liability for aiding and abetting or conspiring with a covered entity to violate the Privacy Standards. We cannot assure you that WebMD will adequately address the risks created by the Privacy Standards. In addition, we are unable to predict what changes to the Privacy Standards might be made in the future or how those changes could affect our business. Any new legislation or regulation in the area of privacy of personal information, including personal health information, could also affect the way WebMD operates its business and could harm its business.

In addition, Internet user privacy and the use of consumer information to track online activities are major issues both in the United States and abroad. For example, in December 2007, the FTC published for comment proposed principles to govern tracking of consumers activities online in order to deliver advertising targeted to the interests of individual consumers. WebMD has privacy policies posted on its Web sites that it believes comply with applicable laws requiring notice to users about WebMD s information collection, use and disclosure practices. However, whether and how existing privacy and consumer protection laws in various jurisdictions apply to the Internet is still uncertain. WebMD also notifies users about its information collection, use and disclosure practices relating to data it receives through offline means such as paper health risk assessments. We cannot assure you that the privacy policies and other statements WebMD provides to users of its products and services, or WebMD s practices will be found sufficient to protect it from liability or adverse publicity in this area. A determination by a state or federal agency or court that any of WebMD s practices do not meet applicable standards, or the implementation of new standards or requirements, could adversely affect WebMD s business.

Failure to comply with regulations related to advertising and promotion may result in enforcement action and loss of sponsorship

The WebMD Health Network provides services involving advertising and promotion of prescription and over-the-counter drugs and medical devices. If the FDA or the FTC finds that any information on *The WebMD Health Network* or in the *WebMD the Magazine* violates FDA or FTC regulations, they may take regulatory or judicial action against WebMD and/or the advertiser or sponsor of that information. State attorneys general may also take similar action based on their state s consumer protection statutes. Any increase or change in regulation of drug or medical device advertising and promotion could make it more difficult for WebMD to contract for sponsorships and advertising. Members of Congress, physician groups and others have criticized the FDA s current policies, and have called for restrictions on advertising of prescription drugs and medical devices to consumers and increased FDA enforcement. We cannot predict what actions the FDA or industry participants may take in response to these criticisms. It is also possible that new laws will be enacted that impose restrictions on such advertising and promotion. WebMD s advertising and sponsorship revenue could be materially reduced by additional restrictions on the advertising of prescription drugs and medical devices to consumers, whether imposed by law or regulation or required under policies adopted by industry members.

Failure to maintain its CME accreditation could adversely affect WebMD s ability to provide online CME offerings

Medscape s CME activities are planned and implemented in accordance with the current Essential Areas and Policies of the Accreditation Council for Continuing Medical Education, or ACCME, which oversees providers of CME credit, and other applicable accreditation standards. In 2007, ACCME revised its standards for commercial support of CME. The revised standards are intended to ensure, among other things, that CME activities of ACCME-accredited providers, such as Medscape, are independent of commercial interests, which are now defined as entities that produce, market, re-sell or distribute health care goods and services, excluding certain organizations. Commercial interests, and entities owned or controlled by commercial interests, are ineligible for accreditation by ACCME. The revised standards also provide that accredited CME providers may not place their CME content on Web sites owned or controlled by a commercial interest. In addition, accredited CME providers may no longer ask commercial interests for speaker or topic suggestions, and are also prohibited from asking commercial interests to review CME content prior to delivery.

As a result of the revised standards, WebMD has made certain adjustments to its corporate structure, management and operations intended to ensure that Medscape will continue to provide CME activities that are developed independently from those programs developed by its sister companies, which may not be independent of commercial interests. ACCME required accredited providers to implement changes relating to placing CME content on websites owned or controlled by commercial interests by January 1, 2008, and is requiring accredited providers to implement any corporate structural changes necessary to meet the revised standards regarding the definition of commercial interest by August 2009. WebMD believes that the adjustments that it and Medscape have made to their structure and operations satisfy the revised standards.

Medscape s current ACCME accreditation expires at the end of July 2010. In order for Medscape to renew its accreditation, it will be required to demonstrate to the ACCME that it continues to meet ACCME requirements. If Medscape 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 additional ACCME standards), it would not be permitted to accredit ACCME activities for physicians and other healthcare professionals. Instead, it would be required to use third parties to provide such CME-related services. That, in turn, could discourage potential sponsors from engaging Medscape to develop CME or education-related activities, which could have a material adverse effect on our business.

Government regulation and industry initiatives could adversely affect the volume of sponsored online CME programs implemented through WebMD s Web sites or require changes to how WebMD offers CME

CME activities may be subject to government regulation by Congress, the FDA, the OIG, HHS, the federal agency responsible for interpreting certain federal laws relating to healthcare, and by state regulatory agencies. Medscape and/or the sponsors of the CME activities that Medscape accredits may be subject to enforcement actions if any of these CME activities are deemed improperly promotional, potentially leading to the termination of sponsorships.

During the past several years, educational activities, including CME, directed to physicians have been subject to increased governmental scrutiny to ensure that sponsors do not influence or control the content of the activities. In response, pharmaceutical companies and medical device companies have developed and implemented internal controls and procedures that promote adherence to applicable regulations and requirements. In implementing these controls and procedures, Medscape s various sponsors may interpret the regulations and requirements differently and may implement varying procedures or requirements. These controls and procedures:

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

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

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Risks Related to ViPS

ViPS is heavily dependent on CMS contract programs as its primary source of revenue and, if ViPS relationship with CMS were harmed, ViPS financial results could be materially adversely affected

ViPS is heavily dependent upon The Centers for Medicare & Medicaid Services, or CMS, as its primary source of revenue (directly as a prime contractor or indirectly as a subcontractor) and we believe that the success and development of its business will continue to depend on its successful participation in CMS contract programs. ViPS generated approximately 72% of its revenue from CMS (as prime contractor or as a subcontractor) in 2007, approximately 71% in 2006, and approximately 72% in 2005. ViPS reputation and relationship with CMS is a key factor in maintaining and growing revenues under CMS contract programs. Poor contract performance, employee misconduct, information security breaches or other performance issues could harm ViPS reputation, as could negative press reports regarding ViPS or regarding other parts of HLTH s business that are unrelated to ViPS. If ViPS reputation with CMS were negatively affected, or if its performance were perceived and/or documented as being less than satisfactory, current contracts could be terminated and ViPS could find it difficult to get future contracts, which could materially adversely affect its financial results. If ViPS were suspended or debarred from contracting with government agencies, the material adverse effect on ViPS financial results could be even greater.

In September 2007, ViPS was selected as an information technology partner by CMS in its new contracting vehicle named Enterprise Systems Development, or ESD. CMS is expected to procure a majority of its information technology development work for the next ten years under this new contract. The ESD contract is a master agreement that provides ViPS with the opportunity to submit bids on future task orders issued by CMS, but does not specifically allocate any task orders to ViPS. There can be no assurance that bids submitted by ViPS under ESD will be accepted or that ViPS will be awarded any specific amount of work under ESD.

ViPS depends on being retained as a subcontractor by other CMS contractors for a significant portion of its revenues and, if ViPS reputation or relationships with CMS or such contractors were harmed, ViPS financial results would be adversely affected

ViPS depends on being retained as a subcontractor by other CMS contractors for a significant portion of its revenues. ViPS generated approximately 15% of its revenue in 2007, approximately 17% of its revenue in 2006, and approximately 18% of its revenue in 2005 from acting as a subcontractor for other CMS contractors. ViPS financial results could be adversely affected if other CMS contractors eliminate or reduce their subcontracts with ViPS (which could occur if, for example, ViPS reputation or relationship with CMS is negatively affected as discussed above) or if CMS terminates or reduces these other contractors programs, does not award them new contracts or refuses to pay under a contract.

CMS may modify, curtail or terminate contracts prior to their completion and, if ViPS does not replace them, its financial results may suffer

Many of the CMS contracts in which ViPS participates as a contractor or subcontractor may extend for several years. These programs are normally funded on an annual basis. Under these contracts, CMS generally has the right not to exercise options to extend or expand ViPS contracts and may modify, curtail or terminate the contracts and subcontracts at its convenience under standard government contract clauses included in the contracts.

Any decision by CMS not to exercise contract options or to modify, curtail or terminate ViPS major programs or contracts would adversely affect ViPS financial results.

Procurement rules and regulations applicable to CMS contracts may be costly to comply with and failure to comply may result in termination of those contracts or other penalties

ViPS must comply with laws and regulations relating to the formation, administration and performance of CMS contracts. Such laws and regulations impose costs on ViPS business and any failure to comply with them by ViPS could potentially lead to liability under the contracts, penalties, and termination of its CMS contracts. Some significant regulations that affect ViPS include the following:

the Federal Acquisition Regulation and supplements, which regulate the formation, administration and performance of U.S. Government contracts;

the Truth in Negotiations Act, which requires certification and disclosure of cost and pricing data in connection with contract negotiations; and

the Cost Accounting Standards, which impose accounting requirements that govern ViPS right to reimbursement under certain cost-based government contracts.

In addition, contracts under ESD have significantly greater compliance obligations for prime contractors and subcontractors than contracts issued under the predecessor Professional Technology Services or PITS contracting vehicle. These compliance obligations may make performance under ESD more difficult and costly than performance under PITS, which could adversely affect ViPS financial results.

ViPS contracts with CMS are subject to periodic review, investigation and audit by the government. If such a review, investigation or audit identifies improper or illegal activities, ViPS (or possibly HLTH as a whole) may be subject to civil or criminal penalties or administrative sanctions, including the termination of contracts, forfeiture of profits, liability for defective pricing, liability for overcharges pursuant to price reduction or other similar clauses, suspension of payments, fines and suspension or debarment from doing business with U.S. Government agencies. ViPS could also suffer harm to its reputation if allegations of impropriety were made against it, which could impair its or HLTH s ability to obtain Federal contract awards in the future or to receive renewals of existing contracts. If ViPS incurs a material penalty or administrative sanction or otherwise suffers harm to its reputation, ViPS financial results could be adversely affected.

For additional information regarding risks relating to government contracting, see *Risks Applicable to Our Entire Company and to Ownership of Our Securities Contractual relationships with governmental customers may impose special burdens and additional risks on us that are not generally found in contracts with other customers* below.

ViPS is subject to routine audits and cost adjustments by the U.S. government, which, if resolved unfavorably to ViPS, could adversely affect its profitability

U.S. government agencies routinely audit and review their contractors performance on contracts, cost structure, pricing practices and compliance with applicable laws, regulations and standards. They also review the adequacy of, and a contractor s compliance with, its internal control systems and policies, including the contractor s purchasing, property, estimating, compensation and management information systems. Such audits may result in adjustments to ViPS contract costs, and any costs found to be improperly allocated will not be reimbursed. ViPS records contract revenues based upon costs it expects to realize upon final audit. However, ViPS may not be able to accurately predict the outcome of future audits and adjustments and, if future audit adjustments exceed its estimates, ViPS profitability could be adversely affected.

Changes in government regulations or practices could adversely affect ViPS financial results

The U.S. Government and/or CMS may revise procurement practices or adopt new contract rules and regulations at any time. Any changes could impair ViPS ability to obtain new contracts or contracts under which it currently performs when those contracts are put up for re-competition. In addition, new contracting methods could be costly or administratively difficult for ViPS to implement and could adversely affect its financial results.

If subcontractors with which ViPS works fail to satisfy their obligations to ViPS or to the customers, ViPS reputation and financial results could be adversely affected

ViPS depends on subcontractors in conducting its business. There is a risk that ViPS may have disputes with its subcontractors arising from, among other things, the quality and timeliness of work performed by the subcontractor, customer concerns about the subcontractor, and ViPS failure to extend existing task orders or issue new task orders under a subcontract. In addition, if any of ViPS subcontractors fail to perform the agreed-upon services, ViPS ability to fulfill its obligations may be jeopardized. If that happens, it could result in a customer terminating a contract for default. A termination for default could expose ViPS to liability and have an adverse effect on ViPS ability to compete for future contracts and orders, especially if the customer is CMS.

If ViPS systems experience security breaches or are otherwise perceived to be insecure, its business could suffer

A security breach could damage ViPS reputation or result in liability. ViPS designs and manages systems that retain and transmit confidential information, including patient health information, in its business operations with CMS and commercial health payers and other facilities. It is critical that ViPS systems and infrastructure remain secure and be perceived by the marketplace as secure. ViPS may be required to expend significant capital and other resources to protect against security breaches and hackers or to alleviate problems caused by breaches or to undergo external audit testing of its security programs. Despite the implementation of security measures, ViPS infrastructure or other systems with which it interfaces, including the Internet and related systems, may be vulnerable to physical break-ins, hackers, improper employee or contractor access, computer viruses, programming errors, denial-of-service attacks or other attacks by third parties or similar disruptive problems. Any compromise of ViPS security, whether as a result of its own systems or interfacing systems, could reduce demand for ViPS services and, as a result, have an adverse effect on ViPS financial results.

Lengthy sales, installation and implementation cycles for some ViPS applications may result in unanticipated fluctuations in its revenues

ViPS provides licensed software products and related services to commercial payers and information technology services to government customers. The period from ViPS initial contact with a potential client and the purchase of a ViPS solution by the client is difficult to predict. In the past, this period has generally ranged from 6 to 12 months, but in some cases has extended much longer. Sales by ViPS may be subject to delays due to customers internal procedures for approving large expenditures, to delays in government funding and to delays resulting from other factors outside of our control. The time it takes to implement a licensed software solution is also difficult to predict and has lasted as long as 12 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 ViPS control. As a result, ViPS has only limited ability to forecast the timing of revenue from new sales. During the sales cycle and the implementation period, ViPS may expend substantial time, effort and money preparing contract proposals and negotiating contracts without receiving any related revenue.

ViPS could be subject to breach of warranty, product liability or other claims if software or services it provides contain errors or do not meet contractual performance standards

ViPS software products and the services ViPS provides are inherently complex and, despite testing and quality control, ViPS cannot be certain that errors will not be found. Errors in the software or services that ViPS provides to customers could cause serious problems for its customers. If problems like these occur, ViPS customers may seek compensation from ViPS or may seek to terminate their agreements with ViPS, withhold payments due to ViPS, seek refunds from ViPS of part or all of the fees charged under those agreements or initiate litigation or other dispute resolution procedures. In addition, ViPS may be subject to claims against it by others affected by any such problems. In addition, ViPS could face breach of warranty or other claims or additional development costs if its software and services do not meet contractual performance standards, do not perform in accordance with their documentation, or do not meet the expectations that its customers have for them.

ViPS attempts to limit, by contract, its liability for damages arising from its negligence, errors or mistakes. However, contractual limitations on liability may not be enforceable in certain circumstances or may otherwise not provide sufficient protection to ViPS from liability for damages. ViPS maintains liability insurance coverage, including coverage for errors and omissions. However, it is possible that claims could exceed the amount of the 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 ViPS, investigating and defending against them could be expensive and time consuming and could divert management s attention away from operations. In addition, negative publicity caused by these events may delay market acceptance of ViPS products and services, including unrelated products and services, or may harm its reputation and business.

ViPS HealthPayer Solutions Group depends on Blue Cross Blue Shield Plans and the Blue Cross Blue Shield Association for a significant portion of its revenue and, if its reputation or relationship with the BCBS business community were harmed, that business would be adversely affected

ViPS s HealthPayer Solutions Group depends on Blue Cross Blue Shield (BCBS) Plans and the Blue Cross Blue Shield Association (BCBSA) for a significant portion of its revenue. The HealthPayer Solutions Group s reputation and relationship with BCBS Plans and BCBSA is a key factor in maintaining and growing these revenues. Negative press reports, employee misconduct, information security breaches or performance problems with one or more of the HealthPayer Solutions Group s products or services could harm the HealthPayer Solutions Group s reputation and cause BCBS Plans or BCBSA to reduce or terminate their use of its products and services. In addition, similar problems involving other businesses of HLTH (including other businesses of ViPS) could also have an adverse effect on the HealthPayer Solutions Group s reputation and its relationships with BCBS Plans or BCBSA.

In order to attract and retain customers, ViPS HealthPayer Solutions Group must develop and implement new and updated software products

ViPS HealthPayer Solutions Group must introduce new software products and improve the functionality of its existing products in a timely manner in order to retain existing customers and attract new ones. If ViPS does not respond successfully to technological and regulatory changes and evolving industry standards, its products may become obsolete.

The development and/or implementation by ViPS of new software applications and features 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 applications or features will justify the amounts spent or that ViPS will be able to successfully develop and implement these applications and features.

ViPS faces significant competition for its services

The markets in which ViPS operates are intensely competitive. Competition for work for CMS is, in general, subject to formal competitive bidding processes. ViPS primary competitors for work for CMS are: Northrop Grumman Corporation; Computer Sciences Corporation; CGI Federal Group, Inc./CGI-AMS; Electronic Data Systems, or EDS; Lockheed Martin Corporation; IBM Corporation; and Science Applications International Corporation, or SAIC. These organizations are all larger and better known than ViPS. ViPS cannot provide assurance that it will be able to compete successfully against these organizations. Additionally, in recent years, CMS has been required to increase the amount of business it does with small businesses. This trend is expected to continue and could result in a decrease to the amount of business that CMS does with ViPS and adversely affect ViPS financial results. ViPS primary competitors for ViPS HealthPayer Solutions Group include: DST Health Solutions; Ingenix, a wholly owned subsidiary of UnitedHealth Group; IBM; Milliman; McKesson Corporation; Thomson Corporation/MedStat; and Trizetto Group. Most of these competitors are larger and better known than ViPS and have greater resources than ViPS does, including for marketing their products and services. ViPS cannot provide assurance that it will be able to compete successfully against them.

Risks Related to Porex

Porex s success depends upon demand for its products, which in some cases ultimately depends upon end-user demand for the products of its customers

Demand for our Porex products may change materially as a result of economic or market conditions and other trends that affect the industries in which Porex participates. In addition, because a significant portion of our Porex products are components that are eventually integrated into or used with products manufactured by customers for resale to end-users, the demand for these product components is dependent on product development cycles and marketing efforts of these other manufacturers, as well as variations in their inventory levels, which are factors that we are unable to control. Accordingly, the amount of Porex s sales to manufacturer customers can be difficult to predict and subject to wide quarter-to-quarter variances.

Porex faces significant competition for its products

Porex operates in competitive markets and its products are, in general, used in applications that are affected by technological change and product obsolescence. The competitors for Porex s porous plastic products include other producers of porous plastic materials as well as companies that manufacture and sell products made from materials other than porous plastics that can be used for the same purposes as Porex s products. For example, Porex s porous plastic pen nibs compete with felt and fiber tips manufactured by a variety of suppliers worldwide. Other Porex porous plastic products compete, depending on the application, with membrane material, porous metals, metal screens, fiberglass tubes, pleated paper, resin-impregnated felt, ceramics and other substances and devices. Some of Porex s competitors may have greater financial, technical, product development, marketing and other resources than Porex does. We cannot provide assurance that Porex will be able to compete successfully against these companies or against particular products they provide or may provide in the future.

Porex s product offerings must meet changing customer requirements

A significant portion of our Porex products are integrated into end products used by manufacturing companies in various industries, some of which are characterized by rapidly changing technology, evolving industry standards and frequent new product introductions. Accordingly, to satisfy its customers, Porex must develop and introduce, in a timely manner, products that meet changing customer requirements at competitive prices. To do this, Porex must:

- develop new uses of existing porous plastics technologies and applications;
- innovate and develop new porous plastics technologies and applications;
- commercialize those technologies and applications;
- manufacture at a cost that allows it to price its products competitively;
- manufacture and deliver its products in sufficient volumes and on time;
- accurately anticipate customer needs; and
- differentiate its offerings from those of its competitors.

We cannot assure you that Porex will be able to develop new or enhanced products or that, if it does, those products will achieve market acceptance. If Porex does not introduce new products in a timely manner and make enhancements to existing products to meet the changing needs of its customers, some of its products could become obsolete over time, in which case Porex s customer relationships, revenue and operating results would be negatively impacted.

Potential new or enhanced Porex products may not achieve sufficient sales to be profitable or justify the cost of their development

We cannot be certain, when we engage in Porex research and development activities, whether potential new products or product enhancements will be accepted by the customers for whom they are intended. Achieving market acceptance for new or enhanced products may require substantial marketing efforts and expenditure of significant funds to create awareness and demand by potential customers. In addition, sales and marketing efforts with respect to these products may require the use of additional resources for training our existing Porex sales forces and customer service personnel and for hiring and training additional salespersons and customer service personnel.

There can be no assurance that the revenue opportunities from new or enhanced products will justify amounts spent for their development and marketing. In addition, there can be no assurance that any pricing strategy that we implement for any new or enhanced Porex products will be economically viable or acceptable to the target markets.

Porex may not be able to source the raw materials it needs or may have to pay more for those raw materials

Some of Porex s products require high-grade plastic resins with specific properties as raw materials. While Porex has not experienced any material difficulty in obtaining adequate supplies of high-grade plastic resins that meet its requirements, it relies on a limited number of sources for some of these plastic resins. If Porex experiences a reduction or interruption in supply from these sources, it may not be able to access alternative sources of supply within a reasonable period of time or at commercially reasonable rates, which could have a material adverse effect on its business and financial results.

In addition, the prices of some of the raw materials that Porex uses depend, to a great extent, on the price of petroleum. As a result, increases in the price of petroleum could have an adverse effect on Porex s margins and on the ability of Porex s porous plastics products to compete with products made from other raw materials.

Disruptions in Porex s manufacturing operations could have a material adverse effect on its business and financial results

Any significant disruption in Porex s manufacturing operations, including as a result of fire, power interruptions, equipment malfunctions, labor disputes, material shortages, earthquakes, floods, computer viruses, sabotage, terrorist acts or other force majeure, could have a material adverse effect on Porex s ability to deliver products to customers and, accordingly, its financial results.

Porex may not be able to keep third parties from using technology it has developed

Porex uses proprietary technology for manufacturing its porous plastics products and its success is dependent, to a significant extent, on its ability to protect the proprietary and confidential aspects of its technology. Although Porex owns certain patents, it relies primarily on non-patented proprietary manufacturing processes. To protect its proprietary processes, Porex relies on a combination of trade secret laws, license agreements, nondisclosure and other contractual provisions and technical measures, including designing and manufacturing its porous molding equipment and most of its molds in-house. Trade secret laws do not afford the statutory exclusivity possible for patented processes. There can be no assurance that the legal protections afforded to Porex or the steps taken by Porex will be adequate to prevent misappropriation of its technology. In addition, these protections do not prevent independent third-party development of competitive products or services.

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The nature of Porex s products exposes it to product liability claims that may not be adequately covered by indemnity agreements or insurance

The products sold by Porex, whether sold directly to end-users or sold to other manufacturers for inclusion in the products that they sell, expose it to potential risk of product liability claims, particularly with respect to Porex s life sciences, clinical, surgical and medical products. In addition, Porex is subject to the risk that a government authority or third party may require it to recall one or more of its products. Some of Porex s products are designed to be permanently implanted in the human body. Design defects and manufacturing defects with respect to such products sold by Porex or failures that occur with the products of Porex s manufacturer customers that contain components made by Porex could result in product liability claims and/or a recall of one or more of Porex s products. Porex believes that it carries adequate insurance coverage against product liability claims and other risks. We cannot assure you, however, that claims in excess of Porex s insurance coverage will not arise. In addition, Porex s insurance policies must be renewed annually. Although Porex has been able to obtain adequate insurance coverage at an acceptable cost in the past, we cannot assure you that Porex will continue to be able to obtain adequate insurance coverage at an acceptable cost.

In most instances, Porex enters into indemnity agreements with its manufacturing customers. These indemnity agreements generally provide that these customers would indemnify Porex from liabilities that may arise from the sale of their products that incorporate Porex components to, or the use of such products by, end-users. While Porex generally seeks contractual indemnification from its customers, any such indemnification is limited, as a practical matter, to the creditworthiness of the indemnifying party. If Porex does not have adequate contractual indemnification available, product liability claims, to the extent not covered by insurance, could have a material adverse effect on its business and its financial results.

Porex s manufacturing of medical devices is subject to extensive regulation by the U.S. Food and Drug Administration and its failure to meet strict regulatory requirements could require it to pay fines, incur other costs or close facilities

Porex s Surgical Products Group manufactures and markets medical devices, such as reconstructive and aesthetic surgical implants used in craniofacial applications and post-surgical drains. In addition, Porex manufactures and markets blood serum filters as a medical device for use in laboratory applications. These products are subject to extensive regulation by the FDA under the FDC Act. The FDA s regulations govern, among other things, product development, testing, manufacturing, labeling, storage, premarket clearance (referred to as 510(k) clearance), premarket approval (referred to as PMA approval), advertising and promotion, and sales and distribution. In addition, the Porex facilities and manufacturing techniques used for manufacturing medical devices generally must conform to standards that are established by the FDA and other government agencies, including those of European and other foreign governments. These regulatory agencies may conduct periodic audits or inspections of such facilities or processes to monitor Porex s compliance with applicable regulatory standards. If the FDA finds that Porex has failed to comply with applicable regulations, the agency can institute a wide variety of enforcement actions, including: warning letters or untitled letters; fines and civil penalties; unanticipated expenditures to address or defend such actions; delays in clearing or approving, or refusal to clear or approve, products; withdrawal or suspension of approval of products; product recall or seizure; orders for physician notification or device repair, replacement or refund; interruption of production; operating restrictions; injunctions; and criminal prosecution. Any adverse action by an applicable regulatory agency could impair Porex s ability to produce its medical device products in a cost-effective and timely manner in order to meet customer demands. Porex may also be required to bear other costs or take other actions that may have a negative impact on its future sales of such products and its ability to generate profits.

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Economic, political and other risks associated with Porex s international sales and geographically diverse operations could adversely affect Porex s operations and financial results

Since Porex sells its products worldwide, its business is subject to risks associated with doing business internationally. In addition, Porex has manufacturing facilities in the United Kingdom, Germany and Malaysia. Accordingly, Porex s operations and financial results could be harmed by a variety of factors, including:

- changes in foreign currency exchange rates;
- changes in a specific country s or region s political or economic conditions, particularly in emerging markets;
- trade protection measures and import or export licensing requirements;
- changes in tax laws;
- differing protection of intellectual property rights in different countries; and
- changes in regulatory requirements.

Environmental regulation could adversely affect Porex s business

Porex is subject to foreign and domestic environmental laws and regulations and is subject to scheduled and random checks by environmental authorities. Porex s business involves the handling, storage and disposal of materials that are classified as hazardous. Although Porex s safety procedures for handling, storage and disposal of these materials are designed to comply with the standards prescribed by applicable laws and regulations, Porex may be held liable for any environmental damages that result from Porex s operations. Porex may be required to pay fines, remediation costs and damages, which could have a material adverse effect on its results of operations.

Risks Related to Providing Products and Services to the Healthcare Industry

Developments in the healthcare industry and its funding could adversely affect our businesses

Most of the revenue of WebMD and ViPS is derived from healthcare industry participants and could be affected by changes affecting healthcare spending. In addition, a significant portion of Porex s revenue comes from products used in healthcare or related applications. WebMD s advertising and sponsorship revenue is particularly dependent on pharmaceutical, biotechnology and medical device companies. General reductions in expenditures by healthcare industry participants could result from, among other things:

government regulation or private initiatives that affect the manner in which healthcare providers interact with patients, payers or other healthcare industry participants, including changes in pricing or means of delivery of healthcare products and services;

consolidation of healthcare industry participants;

reductions in governmental funding for healthcare or in tax benefits applicable to healthcare expenditures; and

adverse changes in business or economic conditions affecting healthcare payers or providers, pharmaceutical companies, medical device manufacturers or other healthcare industry participants.

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

changes in the design of health insurance plans;

a decrease in the number of new drugs or medical devices coming to market; and

decreases in marketing expenditures by pharmaceutical companies or medical device manufacturers, including as a result of governmental regulation or private initiatives that discourage or prohibit promotional activities by pharmaceutical or medical device companies.

In addition, healthcare industry participants 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. Furthermore, because ViPS derives a substantial amount of its revenue from government contracts and subcontracts, a general reduction in government spending or a reduction in government spending on healthcare or information technology projects could adversely affect ViPS.

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 provide assurance 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.

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

The healthcare industry is highly regulated and is subject to changing political, legislative, regulatory and other influences. Existing and new laws and regulations affecting the healthcare industry could create unexpected liabilities for us, could cause us to incur additional costs and could restrict our operations. Many healthcare laws are complex and their application to specific products and services may not be clear. In particular, many existing healthcare laws and regulations, when enacted, did not anticipate the healthcare information services and technology solutions that we provide. However, these laws and regulations may nonetheless be applied to our products and services. Our failure to accurately anticipate the application of

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these laws and regulations, or other failure to comply, could create liability for us, result in adverse publicity and negatively affect our businesses. Some of the risks that we face from healthcare regulation are as follows:

because WebMD s public portals business involves advertising and promotion of prescription and over-the-counter drugs and medical devices, any increase in regulation of these areas could make it more difficult for WebMD to contract for sponsorships and advertising;

because WebMD is the leading distributor of online CME to healthcare professionals, any failure to maintain its status as an accredited CME provider or any change in government regulation of CME or in industry practices could adversely affect WebMD s business;

because Porex manufactures medical devices for implantation, it is subject to extensive FDA regulation, as well as foreign regulatory requirements;

because we provide products and services to healthcare providers, our sales and promotional practices must comply with federal and state anti-kickback laws; and

in providing health information to consumers, we must not engage in activities that could be deemed to be practicing medicine and a violation of applicable laws.

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

The ongoing investigations by the United States Attorney for the District of South Carolina and the SEC could negatively impact our company and divert management attention from our business operations

The United States Attorney for the District of South Carolina is conducting an investigation of our company. Based on the information available to HLTH as of the date of this Annual Report, we believe that the investigation relates principally to issues of financial accounting improprieties for Medical Manager Corporation, a predecessor of HLTH (by its merger into HLTH in September 2000), and Medical Manager Health Systems, a former subsidiary of HLTH; however, we cannot be sure of the investigation s exact scope or how long it may continue. In addition, HLTH understands that the SEC is conducting a formal investigation into this matter. Adverse developments in connection with the investigations, if any, including as a result of matters that the authorities or HLTH may discover, could have a negative impact on our company and on how it is perceived by investors and potential investors and customers and potential customers. In addition, the management effort and attention required to respond to the investigations and any such developments could have a negative impact on our business operations.

HLTH intends to continue to fully cooperate with the authorities in this matter. We believe that the amount of the expenses that we will incur in connection with the investigations will continue to be significant and we are not able to determine, at this time, what portion of those amounts may ultimately be covered by insurance or may ultimately be repaid to us by individuals to whom we are advancing amounts for their defense costs. In connection with the sale of Emdeon Practice Services to Sage Software, we have agreed to indemnify Sage Software with respect to this matter.

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

As of December 31, 2007, we had net operating loss carryforwards of approximately $1.3 billion for federal income tax purposes and federal tax credits of approximately $35.7 million, which excludes the impact of any unrecognized tax benefits. If certain transactions occur with respect to our 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 our capital stock, over a three-year period, as determined under rules prescribed by the U.S. Internal Revenue Code and applicable Treasury regulations, an annual limitation would be imposed with respect to our ability to utilize our net operating loss carryforwards and federal tax credits. We expect the WHC Merger to result in a cumulative change of more than 50% of the ownership of our capital, as determined under rules prescribed by the U.S. Internal Revenue Code and applicable Treasury regulations. However, we are currently unable to calculate the annual limitation that would be imposed on our ability to utilize our net operating loss carryforwards and federal tax credits.

Recent and pending management changes may disrupt our operations and our ability to recruit and retain other personnel

In the past two years, we have experienced changes in our senior management. We hired a new Chief Financial Officer in November 2006, after our previous Chief Financial Officer took a position with Sage Software in connection with our sale of Emdeon Practice Services to Sage Software. Our Chief Executive Officer went on medical leave in February 2008 and our Chairman is serving as Acting CEO. Changes in senior management and uncertainty regarding pending changes may disrupt the operations of our business and may impair our ability to recruit and retain needed personnel. Any such disruption or impairment may have an adverse affect on our company.

Contractual relationships with governmental customers may impose special burdens and additional risks on us that are not generally found in contracts with other customers

A significant portion of ViPS revenue and a portion of the revenue of WebMD comes from customers that are governmental 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;
- 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 customer price disclosure requirements and/or requirements to submit proprietary cost or pricing data (both such disclosure requirements being designed to ensure that the government will receive contract pricing that 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: conflicts of interest, equal employment opportunity, affirmative action for veterans and for workers with disabilities, accessibility for the disabled, product origin and small business subcontracting;
- broader audit rights than we would usually grant to non-governmental customers; and
- specialized remedies for breach and default, 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.