HLTH CORP
Form 10-Q
May 11, 2009

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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, 2009

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

Yes o 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 (Do not check if a smaller reporting company)	Smaller reporting company o

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 4, 2009, there were 103,591,004 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, 2009

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WebMD®, WebMD Health and Benefits Manager℠, CME Circle®, eMedicine®, MedicineNet®, Medpulse®, Medscape®, Medsite®, POREX®, Publishers Circle®, RxList®, Select Quality Care®, Summex®, theheart.org® and The Little Blue Book™ are trademarks of HLTH Corporation 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

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:

- the failure to achieve sufficient levels of usage of www.webmd.com and our other public portals;
- failure to achieve sufficient levels of usage and market acceptance of new or updated products and services;
- difficulties in forming and maintaining relationships with customers and strategic partners;
- the inability to successfully deploy new or updated applications or services;
- the anticipated benefits from acquisitions not being fully realized or not being realized within the expected time frames;
- the inability to attract and retain qualified personnel;
- adverse economic conditions and disruptions in the capital markets;
- general 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.

PART I
FINANCIAL INFORMATION

ITEM 1. ***Financial Statements***

HLTH CORPORATION

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

	March 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 552,483	$ 629,848
Accounts receivable, net of allowance for doubtful accounts of $1,694 at March 31, 2009 and $1,301 at December 31, 2008	90,835	93,082
Prepaid expenses and other current assets	44,551	44,740
Assets of discontinued operations	129,253	131,350
Total current assets	817,122	899,020
Investments	275,885	288,049
Property and equipment, net	56,492	56,633
Goodwill	202,104	202,104
Intangible assets, net	30,570	32,328
Other assets	21,918	23,600
TOTAL ASSETS	$ 1,404,091	$ 1,501,734
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accrued expenses	$ 33,849	$ 54,595
Deferred revenue	84,574	79,613
Due to broker for repurchases of convertible notes	8,484	
Liabilities of discontinued operations	98,506	100,771
Total current liabilities	225,413	234,979
1.75% convertible subordinated notes due 2023	273,483	350,000
31/8% convertible notes due 2025, net of discount of $31,799 at March 31, 2009 and $35,982 at December 31, 2008	250,201	264,018
Other long-term liabilities	19,899	21,816
Commitments and contingencies		
Stockholders equity:		
HLTH 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; 458,376,157 shares issued at March 31, 2009; 458,284,729 shares issued at December 31, 2008	46	46
Additional paid-in capital	12,572,745	12,566,854
Treasury stock, at cost; 356,271,161 shares at March 31, 2009; 356,910,193 shares at December 31, 2008	(3,290,696)	(3,292,997)
Accumulated deficit	(8,776,203)	(8,776,618)
Accumulated other comprehensive loss	(11,888)	(587)
Total HLTH stockholders equity	494,004	496,698
Noncontrolling interest in WHC	141,091	134,223
Total stockholders equity	635,095	630,921
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,404,091	$ 1,501,734

See accompanying notes.

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HLTH CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data, unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Revenue	$ 90,264	$ 80,650
Costs and expenses:		
Cost of operations	36,565	30,927
Sales and marketing	27,561	25,149
General and administrative	21,848	20,849
Depreciation and amortization	7,103	6,775
Interest income	2,262	11,936
Interest expense	6,536	6,525
Gain on repurchases of convertible notes	6,647	
Gain on sale of EBS Master LLC		538,024
Impairment of auction rate securities		60,108
Other expense, net	269	4,144
(Loss) income from continuing operations before income tax (benefit) provision	(709)	476,133
Income tax (benefit) provision	(1,217)	25,602
Equity in earnings of EBS Master LLC		4,007
Consolidated income from continuing operations	508	454,538
Consolidated income from discontinued operations (net of tax of $1,277 in 2009 and $2,722 in 2008)	517	3,057
Consolidated net income before noncontrolling interest	1,025	457,595
(Income) loss attributable to noncontrolling interest	(610)	3,845
Net income attributable to HLTH stockholders	$ 415	$ 461,440
Amounts attributable to HLTH stockholders:		
(Loss) income from continuing operations	$ (194)	$ 458,322
Income from discontinued operations	609	3,118
Net income attributable to HLTH stockholders	$ 415	$ 461,440
Basic (loss) income per common share:		
(Loss) income from continuing operations	$ (0.00)	$ 2.52
Income from discontinued operations	0.00	0.01
Net income attributable to HLTH stockholders	$ 0.00	$ 2.53

Diluted (loss) income per common share:				
(Loss) income from continuing operations	$	(0.00)	$	2.03
Income from discontinued operations		0.00		0.01
Net income attributable to HLTH stockholders	$	0.00	$	2.04
Weighted-average shares outstanding used in computing (loss) income per common share:				
Basic		101,748		182,175
Diluted		101,748		228,159

See accompanying notes.

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HLTH CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Cash flows from operating activities:		
Consolidated net income before noncontrolling interest	$ 1,025	$ 457,595
Adjustments to reconcile consolidated net income before noncontrolling interest to net cash (used in) provided by operating activities:		
Consolidated income from discontinued operations, net of tax	(517)	(3,057)
Depreciation and amortization	7,103	6,775
Equity in earnings of EBS Master LLC		(4,007)
Non-cash interest expense	2,799	2,661
Non-cash advertising	1,753	1,558
Non-cash stock-based compensation	9,154	5,940
Deferred income taxes	(2,604)	5,132
Gain on repurchases of convertible notes	(6,647)	
Gain on sale of EBS Master LLC		(538,024)
Impairment of auction rate securities		60,108
Changes in operating assets and liabilities:		
Accounts receivable	2,247	10,449
Prepaid expenses and other, net	(1,224)	17,493
Accrued expenses and other long-term liabilities	(20,741)	10,479
Deferred revenue	4,961	11,231
Net cash (used in) provided by continuing operations	(2,691)	44,333
Net cash provided by (used in) discontinued operations	2,001	(1,966)
Net cash (used in) provided by operating activities	(690)	42,367
Cash flows from investing activities:		
Proceeds from maturities and sales of available-for-sale securities	600	104,518
Purchases of available-for-sale securities		(177,150)
Purchases of property and equipment	(5,309)	(2,651)
Proceeds related to the sales of EBS Master LLC, EPS and ACS/ACP, net of fees	250	598,935
Other		1,195
Net cash (used in) provided by continuing operations	(4,459)	524,847
Net cash used in discontinued operations	(829)	(1,449)
Net cash (used in) provided by investing activities	(5,288)	523,398
Cash flows from financing activities:		
Proceeds from issuance of HLTH and WHC common stock	7,041	1,777
Repurchases of convertible notes	(78,183)	

Net cash (used in) provided by continuing operations	(71,142)	1,777
Net cash used in discontinued operations		(46)
Net cash (used in) provided by financing activities	(71,142)	1,731
Effect of exchange rates on cash	(245)	1,753
Net (decrease) increase in cash and cash equivalents	(77,365)	569,249
Cash and cash equivalents at beginning of period	629,848	536,879
Cash and cash equivalents at end of period	$ 552,483	$ 1,106,128

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, to WebMD Corporation in September 2000, to Emdeon Corporation in October 2005 and to HLTH Corporation in May 2007.

WebMD Health Corp. s (WHC) 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, 2009, the Company owned 48,100,000 shares of WHC Class B Common Stock, which represented 83.5% of the total outstanding Class A Common Stock 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, 2009, 95.9% of the combined voting power of WHC s outstanding Common Stock. All shares of WHC Class B Common Stock outstanding on September 29, 2010 (the fifth anniversary of the closing date of WHC s initial public offering) will automatically be converted on a share-for-share basis for shares of WHC Class A 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 the noncontrolling stockholders of WHC are recorded as noncontrolling interest in WHC in the accompanying consolidated balance sheets.

In addition, the accompanying consolidated financial statements reflect the reclassification of the Company s Porex segment, ViPS segment and WebMD s Little Blue Book print directory business (LBB) as discontinued operations, as a result of the Company s intention to sell its Porex segment and LBB and due to the sale of its ViPS segment that was completed on July 22, 2008 (the ViPS Sale). See Note 2 for further details.

Effective January 1, 2009, the Company adopted Financial Accounting Standards Board s (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) (FSP APB 14-1) and Statement of Financial Accounting Standards (SFAS) No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). As required by FSP APB 14-1 and SFAS 160, the Company s historical consolidated financial statements have been retroactively adjusted to reflect the adoption of these standards. These accounting standards and the impact of their adoption on the historical financial statements are more fully described in Note 14, Adopted and Recently Issued Accounting Pronouncements.

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, 2009 are not necessarily indicative of the operating results to be expected for any

HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

subsequent period or for the entire year ending December 31, 2009. 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.

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, 2008, which are included in the Company s Annual Report on Form 10-K filed with the SEC.

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 long-lived assets (including goodwill and intangible assets), the amortization period of long-lived assets (excluding goodwill and indefinite lived intangible assets), the carrying value, capitalization and amortization of software and Web site development costs, the carrying value of investments in auction rate securities, 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.

Seasonality

The timing of the Company s revenue is affected by seasonal factors. 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. Additionally, 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.

Net Income Attributable to HLTH Stockholders Per Common Share

Basic (loss) income per common share and diluted (loss) income per common share are presented in conformity with SFAS No. 128, Earnings Per Share (SFAS 128). In accordance with SFAS 128, basic (loss) income per common share has been computed using the weighted-average number of shares of common stock outstanding during the period.

Diluted (loss) 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 (loss) 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 (loss) otherwise retained by the

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HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company. The following table presents the calculation of basic and diluted (loss) income per common share (shares in thousands) for amounts attributable to HLTH stockholders:

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Amounts Attributable to HLTH Stockholders:		
Numerator:		
(Loss) income from continuing operations Basic	$ (194)	$ 458,322
Interest expense on convertible notes, net of tax		3,921
(Loss) income from continuing operations Diluted	$ (194)	$ 462,243
Income from discontinued operations, net of tax Basic and Diluted	$ 609	$ 3,118
Denominator:		
Weighted-average shares Basic	101,748	182,175
Employee stock options, restricted stock and warrants		3,968
Convertible notes		42,016
Adjusted weighted-average shares after assumed conversions Diluted	101,748	228,159
Basic (loss) income per common share:		
(Loss) income from continuing operations	$ (0.00)	$ 2.52
Income from discontinued operations	0.00	0.01
Net income attributable to HLTH stockholders	$ 0.00	$ 2.53
Diluted (loss) income per common share:		
(Loss) income from continuing operations	$ (0.00)	$ 2.03
Income from discontinued operations	0.00	0.01
Net income attributable to HLTH stockholders	$ 0.00	$ 2.04

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 (loss) 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 (loss) 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,	
	2009	2008
Options, restricted stock and warrants	44,028	35,059
Convertible notes	35,887	
	79,915	35,059

Income Taxes

The income tax benefit of $1,217 and provision of $25,602 for the three months ended March 31, 2009 and 2008, respectively, represents taxes for federal, state and other jurisdictions. For the three months ended March 31, 2009, the gain on repurchases of convertible notes is provided for at a lower effective tax rate than

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HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the Company s ordinary operations, resulting in an income tax benefit. For the three months ended March 31, 2008, while the majority of the gain on the 2008 EBSCo Sale (as defined in Note 4) was offset by net operating loss carryforwards, certain alternative minimum taxes and other state taxes were not offset, resulting in a provision of approximately $24,000. Also, 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.

Reclassifications

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

2. Discontinued Operations

WebMD s Little Blue Book Print Directory Business

During March 2009, WebMD s Board of Directors decided to divest the Company s LBB as it is not strategic to the rest of WebMD s overall business, and initiated the process of seeking a buyer for LBB. Accordingly, the financial information for LBB has been reflected as discontinued operations in the accompanying consolidated financial statements. Summarized operating results for the discontinued operations of LBB are as follows:

	Three Months Ended March 31,	
	2009	**2008**
Revenue	$ 572	$ 1,032
Losses before taxes	715	700

The major classes of assets and liabilities of LBB are as follows:

	March 31, 2009	December 31, 2008
Assets of discontinued operations:		
Accounts receivable, net	$ 395	$ 1,058
Property and equipment, net	89	98
Goodwill	11,044	11,044
Intangible assets, net	298	362
Other assets	13	13
Total assets	$ 11,839	$ 12,575
Liabilities of discontinued operations:		

Accrued expenses	$	69	$	113
Deferred revenue		1,577		876
Deferred tax liability		1,570		1,570
Total liabilities	$	3,216	$	2,559

ViPS and Porex

In November 2007, the Company announced its intention to explore potential sales transactions for its ViPS and Porex businesses and in February 2008, the Company announced its intention to divest these segments. On July 22, 2008, the ViPS business was sold and the divestiture process for Porex remains ongoing. Accordingly, the financial information for ViPS and Porex is reflected as discontinued operations in the accompanying consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Porex

Summarized operating results for the discontinued operations of Porex are as follows:

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Revenue	$ 18,253	$ 23,761
Earnings before taxes	2,400	3,476

The major classes of assets and liabilities of Porex are as follows:

	March 31, 2009	December 31, 2008
Assets of discontinued operations:		
Accounts receivable, net	$ 11,297	$ 13,866
Inventory	11,835	11,978
Property and equipment, net	22,025	21,487
Goodwill	42,095	42,297
Intangible assets, net	24,700	24,724
Deferred tax asset	1,420	1,420
Other assets	4,042	3,003
Total assets	$ 117,414	$ 118,775
Liabilities of discontinued operations:		
Accounts payable	$ 2,326	$ 1,601
Accrued expenses and other	6,850	6,654
Deferred tax liability	12,134	12,095
Total liabilities	$ 21,310	$ 20,350

ViPS

On July 22, 2008, the Company completed the ViPS Sale to an affiliate of General Dynamics Corporation. The Company received cash proceeds of $223,175, net of a working capital adjustment, professional fees and other expenses associated with the ViPS Sale. In connection with the ViPS Sale, the Company recognized a pre-tax gain of $96,969 and incurred approximately $1,472 of professional fees and other expenses. Summarized operating results for the discontinued operations of ViPS are as follows:

		Three Months Ended March 31, 2008
Revenue	$	25,983
Earnings before taxes		2,851

EPS

On September 14, 2006, the Company completed the EPS Sale to Sage Software, Inc. (Sage Software), an indirect wholly owned subsidiary of The Sage Group plc. The Company has certain indemnity obligations to advance amounts for reasonable defense costs for initially ten, and now eight, 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 10 Commitments and Contingencies. In connection with the EPS Sale, the Company agreed to indemnify Sage

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HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Software relating to these indemnity obligations. During the year ended December 31, 2007, based on information available at that time, the Company determined a reasonable estimate of the range of probable costs with respect to its indemnification obligation and accordingly, recorded an aggregate pre-tax charge of $73,347, 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 three months ended June 30, 2008 and again during the three months ended December 31, 2008, the Company updated the estimated range of its indemnification obligation based on new information received during those periods, and as a result, recorded additional pre-tax charges of $16,980 and $12,098, respectively, each of which reflected increases in the low end of the probable range of costs related to this matter. The probable range of future costs with respect to this matter is estimated to be approximately $36,400 to $56,400 as of March 31, 2009, which includes costs that have been incurred prior to, but were not yet paid, as of March 31, 2009. The ultimate outcome of this matter is still uncertain, and the estimate of future costs includes assumptions as to the duration of the trial and the defense costs to be incurred during the remainder of the pre-trial period and during the trial period. 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 was $36,391 and $47,550 as of March 31, 2009 and December 31, 2008, respectively, and is included within liabilities of discontinued operations in the accompanying consolidated balance sheets.

As of March 31, 2009, also included within liabilities of discontinued operations related to this matter is $37,589, which represents reimbursements received from the Company s insurance carriers between July 31, 2008 and March 31, 2009. The Company deferred recognizing these insurance reimbursements within the consolidated statement of operations given the pending Coverage Litigation, which is described below in Note 10. During January 2008, the Company also received reimbursement of expense costs related to defense costs from two insurance carriers in the amount of $14,625 (see Note 10 for additional information). This amount was received through a settlement with these carriers, and accordingly, is not subject to the pending Coverage Litigation.

Also included in income from discontinued operations for the three months ended March 31, 2009 and 2008 is $109 and $152, respectively, related to the reversal of certain sales and use tax contingencies, which were indemnified by the Company for Sage Software, resulting from the expiration of statutes of limitations.

3. Repurchases of Convertible Notes

During the three months ended March 31, 2009, the Company repurchased $76,517 principal amount of its 1.75% Convertible Subordinated Notes Due 2023 (1.75% Notes) for $71,623 in cash, which includes $4,712 that was paid after March 31, 2009 and is included in due to broker for repurchases of convertible notes in the accompanying consolidated balance sheets as of March 31, 2009. Also during the three months ended March 31, 2009, the Company repurchased $18,000 principal amount of its 31/8% Convertible Notes Due 2025 (31/8% Notes) for $15,044 in cash, which includes $3,772 that was paid after March 31, 2009 and is included in due to broker for repurchases of convertible notes in the accompanying consolidated balance sheets as of March 31, 2009. The Company recognized an aggregate gain of $6,647 related to the repurchases of the 1.75% Notes and 31/8% Notes during the three months ended March 31, 2009, which is reflected as gain on repurchases of convertible notes in the accompanying consolidated statement of operations. The gain considers the write-off of remaining deferred issuance costs outstanding at the time these notes were repurchased.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Emdeon Business Services

On February 8, 2008, the Company entered into a Securities Purchase Agreement and simultaneously completed the sale of its 48% minority ownership interest in EBS Master LLC (EBSCo), which was reflected as an investment accounted for under the equity method, for $574,617 in cash, net of professional fees and other expenses, to an affiliate of General Atlantic LLC and affiliates of Hellman & Friedman, LLC (the 2008 EBSCo Sale). In connection with the 2008 EBSCo Sale, the Company recognized a gain of $538,024 during the three months ended March 31, 2008.

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:

	For the Period January 1, 2008 Through February 8, 2008
Revenue	$ 94,481
Cost of operations	44,633
Net income	5,551

5. Segment Information

Segment information has been prepared in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS 131). The accounting policies of the segments are the same as the accounting policies for the consolidated Company. The performance of the Company s business is monitored based on earnings before interest, taxes, non-cash and other items. Other items include: a gain on the sale of our investment in EBS, an impairment charge related to investments in auction rate securities, 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; the gain on the repurchases of the Company s convertible notes; income related to the reduction of certain sales and use tax contingencies; and professional fees, primarily consisting of legal, accounting and financial advisory services related to the merger between HLTH and WHC, which was terminated in October 2008.

The WebMD segment and Corporate segment are described as follows:

WebMD provides health information services to consumers, physicians and other healthcare professionals, employers and health plans through WebMD s public and private online portals and health-focused publications. WebMD s public portals for consumers enable them to obtain health and wellness information (including information on specific diseases or conditions), check symptoms, locate physicians, store individual healthcare information, receive periodic e-newsletters on topics of individual interest and participate in online communities with peers and experts. 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 public portals generate revenue primarily through the sale of advertising and sponsorship products, including CME services. The sponsors and advertisers include pharmaceutical, biotechnology, medical device and consumer products companies. 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

HLTH CORPORATION

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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 generates revenue from its private portals through the licensing of these portals to employers and health plans either directly or through distributors. WebMD also provides e-detailing promotion and physician recruitment services for use by pharmaceutical, medical device and healthcare companies. WebMD also publishes *WebMD the Magazine,* a consumer magazine distributed to physician office waiting rooms.

Corporate includes personnel costs and other expenses related to executive personnel, legal, accounting, tax, internal audit, risk management, human resources and certain information technology functions, as well as other costs and expenses, such as 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 $1,035 and $873 for the three months ended March 31, 2009 and 2008, respectively, which are costs allocated to WHC for services provided by the Corporate segment. In connection with the sale of a 52% interest in the Company s Emdeon Business Services segment during 2006 and the ViPS Sale, the Company entered into transition services agreements whereby the Company provided ViPS 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. These services were provided through the Corporate segment, and the related transition services fees that the Company charged to ViPS and EBSCo, net of the fee the Company paid to EBSCo, were also included in the Corporate segment, which were intended to approximate the cost of providing these services.

As a result of the Company s decision to divest LBB, the Company eliminated the separate segment presentation for WebMD Publishing and Other Services.

HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summarized financial information for the WebMD segment and the Corporate segment and a reconciliation to consolidated income from continuing operations are presented below:

	Three Months Ended March 31,	
	2009	**2008**
Revenue		
WebMD:		
Advertising and sponsorship	$ 65,428	$ 56,482
Licensing	22,975	21,923
Print	1,861	2,245
	$ 90,264	$ 80,650
Earnings before interest, taxes, non-cash and other items		
WebMD	$ 18,688	$ 16,332
Corporate	(3,427)	(5,059)
	15,261	11,273
Interest, taxes, non-cash and other items		
Interest income	2,262	11,936
Interest expense	(6,536)	(6,525)
Income tax benefit (provision)	1,217	(25,602)
Depreciation and amortization	(7,103)	(6,775)
Non-cash stock-based compensation	(9,154)	(5,940)
Non-cash advertising	(1,753)	(1,558)
Gain on repurchases of convertible notes	6,647	
Equity in earnings of EBS Master LLC		4,007
Gain on sale of EBS Master LLC		538,024
Impairment of auction rate securities		(60,108)
Other expense, net	(333)	(4,194)
Consolidated income from continuing operations	508	454,538
Consolidated income from discontinued operations, net of tax	517	3,057
Consolidated net income before noncontrolling interest	1,025	457,595
(Income) loss attributable to noncontrolling interest	(610)	3,845
Net income attributable to HLTH Corporation	$ 415	$ 461,440

6. 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 maintained an Employee Stock Purchase Plan through April 30, 2008, which provided 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.

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HLTH Plans

The Company had an aggregate of 2,745,547 shares of HLTH Common Stock available for future grants under the Plans as of March 31, 2009. 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, 2009, there were options to purchase 4,104,881 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. Shares are issued from treasury stock when options are exercised or restricted stock is granted.

Stock Options

Generally, options under the Plans vest and become exercisable ratably over periods ranging from three to five years 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:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value (1)
Outstanding as of January 1, 2009	44,481,624	$ 14.41		
Granted	137,500	10.39		
Exercised	(639,032)	8.58		
Cancelled	(1,063,123)	19.31		
Outstanding as of March 31, 2009	42,916,969	$ 14.36	3.1	$ 22,818
Vested and exercisable at the end of the period	37,814,764	$ 14.96	2.3	$ 18,182

(1) The aggregate intrinsic value is based on the market price of HLTH s Common Stock on March 31, 2009, which was $10.35, 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, 2009.

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.