

HLTH CORP  
Form 10-Q  
August 09, 2007

Table of Contents

**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 June 30, 2007**
- 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**

*(State of incorporation)*

**94-3236644**

*(I.R.S. employer identification no.)*

**669 River Drive, Center 2  
Elmwood Park, New Jersey**

*(Address of principal executive office)*

**07407-1361**

*(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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Yes  No

As of August 6, 2007, there were 181,359,994 shares of  
HLTH Common Stock outstanding (including unvested shares of restricted  
HLTH Common Stock issued under our equity compensation plans).

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**HLTH CORPORATION**  
**QUARTERLY REPORT ON FORM 10-Q**  
**For the period ended June 30, 2007**

**TABLE OF CONTENTS**

	<b>Page Number</b>
<u>Forward-Looking Statements</u>	3
<u>Part I</u>	
<u>Item 1.</u>	
<u>Financial Information</u>	
<u>Financial Statements:</u>	
<u>Consolidated Balance Sheets as of June 30, 2007 (unaudited) and December 31, 2006</u>	4
<u>Unaudited Consolidated Statements of Operations for the three and six months ended</u>	
<u>June 30, 2007 and 2006 (Restated)</u>	5
<u>Unaudited Consolidated Statements of Cash Flows for the six months ended June 30,</u>	
<u>2007 and 2006 (Restated)</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of</u>	
<u>Operations</u>	34
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	72
<u>Item 4.</u>	
<u>Controls and Procedures</u>	73
<u>Part II</u>	
<u>Other Information</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	74
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	74
<u>Item 6.</u>	
<u>Exhibits</u>	74
<u>Signatures</u>	75
<u>Exhibit Index</u>	E-1
<u>EX-31.1 SECTION 302, CERTIFICATION OF THE CEO</u>	
<u>EX-31.2 SECTION 302, CERTIFICATION OF THE CFO</u>	
<u>EX-32.1 SECTION 906, CERTIFICATION OF THE CEO</u>	
<u>EX-32.2 SECTION 906, CERTIFICATION OF THE CFO</u>	

WebMD®, WebMD Health®, CME Circle®, eMedicine®, MedicineNet®, Medscape®, MEDPOR®, Medsite®, POREX®, Publishers' Circle®, RxList®, Subimo®, Summex®, theheart.org®, The Little Blue Book™ and ViPS<sup>sm</sup> 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.

***Note Regarding Our Name Change***

*As previously announced, we changed our name from Emdeon Corporation to HLTH Corporation in May 2007. The ticker symbol for our Common Stock, which is listed on the Nasdaq Global Select Market, remains HLTH. In connection with the name change, the CUSIP number for the Registrant's Common Stock changed to: 40422Y 101. Stockholders were not required to exchange currently outstanding stock certificates for new stock certificates.*

*We had agreed to change our name in connection with the November 2006 sale of a 52% interest in our Emdeon Business Services segment. In that sale, we transferred our rights to the name Emdeon and related intellectual property to Emdeon Business Services. Emdeon Business Services owns and continues to use the Emdeon name and related trademarks.*

**Table of Contents**

**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 tense.

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

the inability to successfully deploy new or updated applications or services;

the failure to achieve sufficient levels of customer utilization and market acceptance of new or updated products and services;

difficulties in forming and maintaining relationships with customers and strategic partners;

the inability to attract and retain qualified personnel;

the 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.

**Table of Contents**

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

**ITEM 1. *Financial Statements***

**HLTH CORPORATION**

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

	<b>June 30, 2007 (Unaudited)</b>	<b>December 31, 2006</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 509,969	\$ 614,691
Short-term investments	228,922	34,140
Accounts receivable, net of allowance for doubtful accounts of \$1,690 at June 30, 2007 and \$1,296 at December 31, 2006	117,045	121,608
Inventory	9,709	9,922
Due from EBS Master LLC	286	30,716
Prepaid expenses and other current assets	62,232	31,871
Total current assets	928,163	842,948
Marketable equity securities	3,166	2,633
Property and equipment, net	74,376	72,040
Goodwill	333,412	337,669
Intangible assets, net	121,260	129,473
Investment in EBS Master LLC	20,820	1,521
Other assets	39,607	65,659
<b>TOTAL ASSETS</b>	<b>\$ 1,520,804</b>	<b>\$ 1,451,943</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 3,960	\$ 3,996
Accrued expenses	58,043	113,175
Deferred revenue	100,154	87,438
Liabilities of discontinued operations	55,893	
Total current liabilities	218,050	204,609
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	32,357	24,179

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Minority interest in WHC	111,876	101,860
Convertible redeemable exchangeable preferred stock, \$0.0001 par value; 10,000 shares authorized; no shares issued and outstanding at June 30, 2007; 10,000 shares issued and outstanding at December 31, 2006		98,768
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.0001 par value; 4,990,000 shares authorized; no shares issued		
Common stock, \$0.0001 par value; 900,000,000 shares authorized; 457,384,368 shares issued at June 30, 2007; 449,600,747 shares issued at December 31, 2006	46	45
Additional paid-in capital	12,442,859	12,290,126
Treasury stock, at cost; 277,737,447 shares at June 30, 2007; 287,770,823 shares at December 31, 2006	(2,568,966)	(2,585,769)
Accumulated deficit	(9,380,388)	(9,341,985)
Accumulated other comprehensive income	14,970	10,110
Total stockholders' equity	508,521	372,527
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,520,804</b>	<b>\$ 1,451,943</b>

See accompanying notes.



**Table of Contents****HLTH CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share data, unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
		<b>(Restated)</b>		<b>(Restated)</b>
Revenue:				
Services	\$ 102,129	\$ 265,606	\$ 200,072	\$ 518,351
Products	27,165	26,025	51,247	50,474
Total revenue	129,294	291,631	251,319	568,825
Cost of operations:				
Services	44,129	157,625	88,643	313,984
Products	10,772	11,416	20,687	22,231
Total cost of operations	54,901	169,041	109,330	336,215
Development and engineering	4,767	9,057	9,341	17,921
Sales, marketing, general and administrative	58,340	72,033	118,739	142,213
Depreciation and amortization	11,678	17,221	22,405	33,775
Interest income	10,100	4,433	19,774	8,851
Interest expense	4,619	4,668	9,336	9,359
Other income (expense), net	1,396	(2,347)	4,278	(2,889)
Income from continuing operations before income tax provision	6,485	21,697	6,220	35,304
Income tax provision	2,031	6,288	3,021	10,344
Minority interest in WHC income (loss)	843	(121)	958	(593)
Equity in earnings of EBS Master LLC	7,575		14,674	
Income from continuing operations	11,186	15,530	16,915	25,553
(Loss) income from discontinued operations, net of tax	(56,649)	6,556	(56,676)	12,123
Net (loss) income	\$ (45,463)	\$ 22,086	\$ (39,761)	\$ 37,676
Basic (loss) income per common share:				
Income from continuing operations	\$ 0.06	\$ 0.05	\$ 0.10	\$ 0.09
(Loss) income from discontinued operations	(0.31)	0.03	(0.32)	0.04
Net (loss) income	\$ (0.25)	\$ 0.08	\$ (0.22)	\$ 0.13
Diluted (loss) income per common share:				
Income from continuing operations	\$ 0.06	\$ 0.05	\$ 0.09	\$ 0.09
(Loss) income from discontinued operations	(0.30)	0.02	(0.30)	0.04

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Net (loss) income	\$ (0.24)	\$ 0.07	\$ (0.21)	\$ 0.13
Weighted-average shares outstanding used in computing (loss) income per common share:				
Basic	180,219	285,086	178,115	286,141
Diluted	191,032	296,722	188,693	296,107

See accompanying notes.

**Table of Contents**

**HLTH CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands, unaudited)

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>
		<b>(Restated)</b>
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (39,761)	\$ 37,676
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Loss (income) from discontinued operations, net of tax	56,676	(12,123)
Depreciation and amortization	22,405	33,775
Minority interest in WHC income (loss)	958	(593)
Equity in earnings of EBS Master LLC	(14,674)	
Amortization of debt issuance costs	1,447	1,461
Non-cash advertising	2,320	2,794
Non-cash stock-based compensation	18,146	24,009
Deferred income taxes	1,052	1,736
EBS working capital adjustment	(399)	
Reversal of income tax valuation allowance applied to goodwill	760	4,043
Changes in operating assets and liabilities:		
Accounts receivable	4,922	(5,233)
Inventory	272	(138)
Prepaid expenses and other, net	(514)	(3,700)
Accounts payable	(36)	3,980
Accrued expenses and other long-term liabilities	(45,430)	3,572
Deferred revenue	12,716	8,137
Net cash provided by continuing operations	20,860	99,396
Net cash (used in) provided by discontinued operations	(1,880)	15,825
Net cash provided by operating activities	18,980	115,221
<b>Cash flows from investing activities:</b>		
Proceeds from maturities and sales of available-for-sale securities	194,096	398,870
Purchases of available-for-sale securities	(388,942)	(426,470)
Purchases of property and equipment	(12,558)	(27,429)
Cash paid in business combinations, net of cash acquired		(84,846)
Proceeds from the sale of EBS	2,898	
Proceeds from advances to EBS Master LLC	19,730	
Other changes in equity of discontinued operations		15,467
Net cash used in continuing operations	(184,776)	(124,408)
Net cash used in discontinued operations		(17,009)

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Net cash used in investing activities	(184,776)	(141,417)
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of HLTH and WHC common stock	103,263	30,433
Tax benefit on stock-based awards	457	
Purchases of treasury stock under repurchase program	(42,906)	(71,843)
Payments of notes payable and other	(101)	(173)
Net cash provided by (used in) financing activities	60,713	(41,583)
Effect of exchange rates on cash	361	479
Net decrease in cash and cash equivalents	(104,722)	(67,300)
Changes in cash of discontinued operations		1,184
Cash and cash equivalents at beginning of period	614,691	155,616
Cash and cash equivalents at end of period	\$ 509,969	\$ 89,500

See accompanying notes.

**Table of Contents**

**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 Healthcon 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 Healthcon/WebMD Corporation in November 1999, to WebMD Corporation in September 2000 and to Emdeon Corporation in October 2005 in connection with the initial public offering of equity securities of the Company s subsidiary, 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, and agreed to change its name within six months of the sale of 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 June 30, 2007, the Company owned 48,100,000 shares of WHC Class B Common Stock, which represented 84.2% 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 June 30, 2007, 96.4% of the combined voting power of WHC s outstanding Common Stock.

The Company owns 48% of EBS Master LLC ( EBSCo ), which owns Emdeon Business Services LLC. Emdeon Business Services LLC conducts the business that comprised the Company s Emdeon Business Services segment until the Company sold a 52% interest in that business to an affiliate of General Atlantic LLC on November 16, 2006 ( EBS Sale ). Emdeon Business Services and EBS are used below to refer to the business owned by EBSCo and, with respect to periods prior to the consummation of the EBS Sale, to the reporting segment of HLTH.

The Company s consolidated financial statements for the three and six months ended June 30, 2006 have been restated to correct the previously reported income tax provision which is more fully described in Note 15, Restatement of Consolidated Financial Statements.

**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. Additionally, the minority stockholders proportionate share of the equity in WHC is recorded as minority interest in WHC in the accompanying consolidated balance sheets and the minority stockholders proportionate share of net income or net loss is reflected as minority interest in WHC income (loss) in the accompanying consolidated statements of operations.

The Company's 48% ownership in EBSCO is being accounted for under the equity method since November 16, 2006, the transaction date. Accordingly, prior to the transaction date, the historical results of operations of EBS are reflected in the consolidated results of operations of the Company. See Note 4 for further details.

**Table of Contents**

**HLTH CORPORATION**

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

As described in Note 3, on September 14, 2006, the Company completed the sale of its Emdeon Practice Services segment ( EPS ). Accordingly, the historical results of EPS have been presented as discontinued operations in the accompanying consolidated financial statements.

**Interim Financial Statements**

The unaudited consolidated financial statements of the Company have been prepared by management and reflect all adjustments (consisting of only normal recurring adjustments) that, in the opinion of management, are necessary for a fair presentation of the interim periods presented. The results of operations for the three and six months ended June 30, 2007 are not necessarily indicative of the results to be expected for any subsequent period or for the entire year ending December 31, 2007. Certain information and footnote 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, 2006, which were included in the Company's Annual Report on Form 10-K, as amended, 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 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. 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 inventory, 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 tax contingencies, 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 in both the WebMD and Porex segments. Advertising and sponsorship revenue within the WebMD segment 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 also 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



**Table of Contents****HLTH CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

the second and third quarter of each calendar year. Porex's business is also impacted by seasonal factors, primarily in its writing instrument product lines as a result of back-to-school season, which favorably impacts Porex's revenue during the second quarter.

**Net (Loss) Income Per Common Share**

Basic (loss) income per common share and diluted (loss) 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 (loss) income per common share has been computed using the weighted-average number of shares of common stock outstanding during the periods, increased to give effect to the participating rights of the Convertible Redeemable Exchangeable Preferred Stock during the periods in which that preferred stock was outstanding. Diluted (loss) income per common share has been computed using the weighted-average number of shares of common stock outstanding during the periods, increased to give effect to potentially dilutive securities. 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 otherwise retained by the Company. The impact of WHC's potentially dilutive securities on the calculation of diluted (loss) income per common share was not material. The following table presents the calculation of basic and diluted (loss) income per common share (shares in thousands):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006 (Restated)</b>	<b>2007</b>	<b>2006 (Restated)</b>
<b>Numerator:</b>				
Income from continuing operations	\$ 11,186	\$ 15,530	\$ 16,915	\$ 25,553
Convertible redeemable exchangeable preferred stock fee	86	87	174	175
Income from continuing operations - Basic and Diluted	11,272	15,617	17,089	25,728
(Loss) income from discontinued operations, net of tax	(56,649)	6,556	(56,676)	12,123
Net (loss) income - Basic and Diluted	\$ (45,377)	\$ 22,173	\$ (39,587)	\$ 37,851
<b>Denominator:</b>				
Common stock	169,745	274,448	167,559	275,503
Convertible redeemable exchangeable preferred stock	10,474	10,638	10,556	10,638
Weighted-average shares - Basic	180,219	285,086	178,115	286,141
Employee stock options, restricted stock and warrants	10,813	11,636	10,578	9,966
Adjusted weighted-average shares after assumed conversions - Diluted	191,032	296,722	188,693	296,107

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Basic (loss) income per common share:					
Income from continuing operations	\$	0.06	\$	0.05	\$ 0.10 \$ 0.09
(Loss) income from discontinued operations		(0.31)		0.03	(0.32) 0.04
Net (loss) income	\$	(0.25)	\$	0.08	\$ (0.22) \$ 0.13

**Table of Contents****HLTH CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006 (Restated)</b>	<b>2007</b>	<b>2006 (Restated)</b>
Diluted (loss) income per common share:				
Income from continuing operations	\$ 0.06	\$ 0.05	\$ 0.09	\$ 0.09
(Loss) income from discontinued operations	(0.30)	0.02	(0.30)	0.04
Net (loss) income	\$ (0.24)	\$ 0.07	\$ (0.21)	\$ 0.13

The Company has excluded convertible notes, as well as certain outstanding warrants and stock options, from the calculation of diluted (loss) income per common share because such securities were anti-dilutive during the periods presented. The following table presents the total number of shares that could potentially dilute basic income (loss) per common share in the future that were not included in the computation of diluted income (loss) per common share during the periods presented (shares in thousands):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Options and warrants	18,297	58,475	19,735	60,926
Convertible notes	42,015	42,015	42,015	42,015
	60,312	100,490	61,750	102,941

**Income Taxes**

On January 1, 2007, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognizing, classification, interest and penalties, accounting in interim periods, disclosure and transition. Upon adoption, the Company reduced its existing reserves for uncertain income tax positions by \$1,475, primarily related to a reduction in state income tax matters. This reduction was recorded as a cumulative effect adjustment to accumulated deficit in the accompanying consolidated balance sheet. In addition, the Company reduced \$5,572 of a deferred tax asset and its associated valuation allowance upon adoption of FIN 48.

As of January 1, 2007, the Company had unrecognized income tax benefits of \$6,831. If recognized, these benefits would be reflected as a component of the income tax provision. During the six months ended June 30, 2007, the

unrecognized income tax benefit was reduced by \$716 primarily relating to the settlement of tax audits. The Company is currently under audit in a number of state and local taxing jurisdictions and will have statutes of limitations with respect to certain tax returns expiring within the next twelve months. As a result, it is reasonably possible that a reduction in the unrecognized income tax benefits, prior to any annual increase, may occur from \$1,100 to \$1,300 within the next twelve months. With the exception of adjusting net operating loss carryforwards that may be utilized, the Company is no longer subject to federal income tax examinations for tax years before 2003 and for state and local income tax examinations for years before 2002.

Consistent with its historical financial reporting, the Company has elected to reflect interest and penalties related to uncertain tax positions as part of the income tax provision in the accompanying consolidated statements of operations. As of January 1, 2007, accrued interest and penalties were \$1,135, which are included in the total unrecognized income tax benefits of \$6,831 discussed above.

**Table of Contents****HLTH CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Recent Accounting Pronouncements**

On February 15, 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS 159)*. SFAS 159 permits many financial instruments and certain other items to be measured at fair value at the option of the company. Most of the provisions in SFAS 159 are elective; however, the amendment to SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities with available-for-sale and trading securities. The fair value option established by SFAS 159 permits the choice to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. SFAS 159 is effective for financial statements issued for the first fiscal year beginning after November 15, 2007. The Company is currently evaluating the impact, if any, that this new standard will have on the Company's results of operations, financial position or cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements (SFAS 157)*. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and, accordingly, does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact, if any, that this new standard will have on the Company's results of operations, financial position or cash flows.

**Reclassifications**

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

**2. Conversion of Convertible Redeemable Exchangeable Preferred Stock**

On March 19, 2004, the Company issued \$100,000 of Convertible Redeemable Exchangeable Preferred Stock (the Preferred Stock) in a private transaction to CalPERS/PCG Corporate Partners, LLC (the Holder). On June 26, 2007, the Company notified the Holder that it had elected to redeem all outstanding shares of its Convertible Redeemable Exchangeable Preferred Stock. On June 29, 2007, prior to the date set for the redemption, the Holder converted all of the then outstanding Preferred Stock to Common Stock. In aggregate, 10,000 shares of Preferred Stock were converted to 10,638,297 shares of HLTH Common Stock during the three months ended June 30, 2007. In connection with the conversion of the Preferred Stock to Common Stock, the unamortized portion of the deferred issuance costs related to the Preferred Stock of \$1,115 was reflected as a reduction to stockholders' equity.

**3. Discontinued Operations**

On September 14, 2006, the Company completed the sale of EPS to Sage Software, Inc. (Sage Software) and, accordingly, the financial information of EPS has been reclassified as discontinued operations in the accompanying consolidated financial statements for the prior year periods. The Company received net cash proceeds of \$521,324, net

of professional fees and other expenses associated with the sale of EPS, which does not include \$35,000 being held in escrow as security for the Company's indemnification obligations under the Stock Purchase Agreement. One-third and two-thirds of the amount in escrow are scheduled to be released twelve and eighteen months from the closing date, subject to pending and paid claims, if any, and are included in other current assets in the accompanying consolidated balance sheet as of June 30, 2007. During

**Table of Contents****HLTH CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

2006, the Company recorded a gain on disposal of \$353,158, net of tax of \$33,037. Summarized operating results for the discontinued operations of EPS for the three and six months ended June 30, 2006 were as follows:

	<b>Three Months Ended June 30, 2006</b>	<b>Six Months Ended June 30, 2006</b>
Revenue	\$ 77,272	\$ 152,978
Earnings before taxes	6,754	13,511
Taxes on earnings	198	1,388
Income from discontinued operations, net of tax	\$ 6,556	\$ 12,123

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 13, Commitments and Contingencies. In connection with the sale of EPS, the Company agreed to indemnify Sage Software relating to these indemnity obligations. Based on information the Company has recently received related to the Investigation, the Company is now able to determine a reasonable estimate of the range of probable costs with respect to the Company's indemnification obligation which is approximately \$57,800 to \$83,000. Accordingly, included in loss from discontinued operations during the three and six months ended June 30, 2007 is a pre-tax charge of \$57,800, which represents the Company's estimate of the low end of the probable range of costs related to this matter. The Company has reserved the low end of the probable range of costs because no estimate within the range was a better estimate than any other amount. This estimate includes assumptions as to the duration of the trial and pre-trial periods, and the defense costs to be incurred during these periods. 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 charge, less payments made prior to June 30, 2007, is reflected as liabilities of discontinued operations in the accompanying consolidated balance sheet as of June 30, 2007.

Also included in loss from discontinued operations for the six months ended June 30, 2007 is a charge for equity instruments of the Company that were held by EPS employees, partially offset by an income tax benefit as well as by a reduction of certain sales and use tax contingencies for which the Company indemnified Sage Software, resulting from the expiration of statutes of limitations applicable to certain tax returns.

**4. Emdeon Business Services***Equity Investment in EBSCO*

The Company accounts for its 48% investment in EBSCO as an equity investment and records 48% of the earnings of EBSCO as equity in earnings of EBS Master LLC in its accompanying consolidated statement of operations. As of June 30, 2007 and December 31, 2006, the Company's equity investment in EBSCO was \$20,820 and \$1,521, respectively, which reflects a difference of \$125,452 and \$131,180, respectively, between the carrying value and the underlying equity in this investment. The difference between the carrying value and the underlying equity value, as well as the difference between the Company's equity in earnings of EBS Master LLC and 48% of EBSCO's net income is principally due to the excess of the fair value of EBSCO's net assets as adjusted in purchase accounting, over the carryover basis of the Company's investment in EBSCO, net of the related amortization of a portion of that excess related to amortizable intangible assets. Included in



**Table of Contents****HLTH CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

the Company's equity investment in EBSCo is \$3,496, which represents the Company's share of EBSCo's unrealized gain on derivative instruments. See Note 11.

The following is summarized financial information of EBSCo for the three and six months ended June 30, 2007:

	<b>Three Months Ended June 30, 2007</b>	<b>Six Months Ended June 30, 2007</b>
Statement of Operations Data:		
Revenue	\$ 201,226	\$ 399,635
Cost of operations	94,889	186,074
Net income	8,523	16,799

***Sale of Emdeon Business Services***

The purchase price of the EBS Sale was subject to customary post-closing adjustments, including an adjustment based on the amount of working capital at the time of the closing on November 16, 2006. During the three months ended March 31, 2007, the Company recognized a gain of \$399, which is included in other income (expense), net and relates to the finalization of the working capital adjustment.

**5. Gain Upon Sale of WHC Class A Common Stock**

The Company's WHC subsidiary issues their 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 \$1,065 and \$5,869 during the three and six months ended June 30, 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 84.2% as of June 30, 2007, from 84.6% as of December 31, 2006.

**6. Business Combinations**

On December 15, 2006, the Company acquired, through WHC, all of the outstanding limited liability company interests of Subimo, LLC (Subimo), a privately held provider of healthcare decision support applications to large employers, health plans and financial institutions. The total purchase consideration for Subimo was approximately \$59,320, comprised of \$32,820 in cash paid at closing, net of cash acquired, \$26,000 of WHC equity and \$500 of estimated acquisition costs. Pursuant to the terms of the purchase agreement, WHC deferred the issuance of the \$26,000 of equity, equal to 640,930 shares of WHC Class A Common Stock (the Deferred Shares), until December 2008. While a maximum of 246,508 of these shares may be used to settle any outstanding claims or warranties against the seller, the remaining 394,422 of these shares will be issued with certainty. Issuance of a portion of these shares may be further deferred until December 2010 subject to certain conditions. If the Deferred Shares have a market value that is less than \$24.34 per share in December 2008, then WHC will pay additional consideration equal to this

shortfall, either in the form of WHC Class A Common Stock or cash, in its sole discretion. The acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price was allocated to the tangible and intangible assets acquired and the liabilities assumed on the basis of their respective fair values. In connection with the preliminary allocation of the purchase price and intangible asset valuation, goodwill of \$47,494 and intangible assets subject to amortization of \$12,300 were recorded. The goodwill and intangible assets recorded will be deductible for tax purposes. The intangible assets are comprised of \$10,000 relating to customer relationships with estimated useful lives of twelve years and \$2,300 relating to acquired technology with an estimated useful life of three years. The results of operations of Subimo have been included in the

**Table of Contents****HLTH CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

financial statements of the Company from December 15, 2006, the closing date of the acquisition, and are included in the WebMD segment.

On September 11, 2006, the Company acquired, through WHC, the interactive medical education, promotion and physician recruitment businesses of Medsite, Inc. ( Medsite ). Medsite provides e-detailing services for pharmaceutical, medical device and healthcare companies, including program development, targeted recruitment and online distribution and delivery. In addition, Medsite provides educational programs to physicians. The total purchase consideration for Medsite was approximately \$31,467, comprised of \$30,682 in cash, net of cash acquired, and \$785 of estimated acquisition costs. The acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price was allocated to the tangible and intangible assets acquired and the liabilities assumed on the basis of their respective fair values. In connection with the preliminary allocation of the purchase price and intangible asset valuation, goodwill of \$31,948 and intangible assets subject to amortization of \$11,000 were recorded. The goodwill and intangible assets recorded will be deductible for tax purposes. The intangible assets are comprised of \$6,000 relating to customer relationships with estimated useful lives of twelve years, \$2,000 relating to a trade name with an estimated useful life of ten years, \$2,000 relating to content with an estimated useful life of four years and \$1,000 relating to acquired technology with an estimated useful life of three years. The results of operations of Medsite have been included in the financial statements of the Company from September 11, 2006, the closing date of the acquisition, and are included in the WebMD segment.

On July 18, 2006, the Company acquired, through EBS, Interactive Payer Network, Inc. ( IPN ), a privately held provider of healthcare electronic data interchange services. The total purchase consideration for IPN was approximately \$3,907, comprised of \$3,799 in cash, net of cash acquired, and \$108 of estimated acquisition costs. In addition, the Company agreed to pay up to an additional \$3,000 in cash over a two-year period beginning in August 2007 if certain financial milestones are achieved. The acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price was allocated to the tangible and intangible assets acquired and the liabilities assumed on the basis of their respective fair values. In connection with the allocation of the purchase price, goodwill of \$3,692 was recorded. The goodwill recorded will be deductible for tax purposes. The IPN business is part of the EBS businesses that were sold on November 16, 2006. Accordingly, the results of operations of IPN have been included in the financial statements of the Company, specifically within the Emdeon Business Services segment, from July 18, 2006 (the closing date of the acquisition) through November 16, 2006 (the closing date of the EBS Sale). The obligation to pay up to \$3,000 in earn-out payments was also transferred in connection with the EBS Sale and is no longer an obligation of the Company.

On June 13, 2006, the Company acquired, through WHC, Summex Corporation ( Summex ), a provider of health and wellness programs that include online and offline health risk assessments, lifestyle education and personalized telephonic health coaching. The total purchase consideration for Summex was approximately \$30,191, comprised of \$29,691 in cash, net of cash acquired, and \$500 of acquisition costs. In addition, the Company has agreed to pay up to an additional \$5,000 in cash in June 2008 if certain financial milestones are achieved. The acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price was allocated to the tangible and intangible assets acquired and the liabilities assumed on the basis of their respective fair values. In connection with the preliminary allocation of the purchase price and intangible asset valuation, goodwill of \$19,000 and intangible assets subject to amortization of \$11,300 were recorded. The goodwill and intangible assets recorded will not be deductible for tax purposes. The intangible assets are comprised of \$6,000 relating to customer relationships with estimated useful lives of eleven years, \$2,700 relating to acquired technology with an estimated useful life of three years, \$1,100 relating to content with an estimated useful life of four years and \$1,500 relating to a trade name with an estimated

useful life of ten years. The results of operations of Summex have been included in the financial statements of the Company from June 13, 2006, the closing date of the acquisition, and are included in the WebMD segment.

**Table of Contents****HLTH CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

On January 17, 2006, the Company acquired, through WHC, eMedicine.com, Inc. ( eMedicine ), a privately held online publisher of medical reference information for physicians and other healthcare professionals. The total purchase consideration for eMedicine was approximately \$25,195, comprised of \$24,495 in cash, net of cash acquired, and \$700 of acquisition costs. The acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price was allocated to the tangible and intangible assets acquired and the liabilities assumed on the basis of their respective fair values. In connection with the allocation of the purchase price and intangible asset valuation, goodwill of \$20,704 and intangible assets subject to amortization of \$6,390 were recorded. The goodwill and intangible asset recorded will not be deductible for tax purposes. The intangible assets recorded were \$4,300 relating to content with an estimated useful life of three years, \$1,000 relating to acquired technology with an estimated useful life of three years, \$790 relating to a trade name with an estimated useful life of ten years and \$300 relating to customer relationships with estimated useful lives of ten years. The results of operations of eMedicine have been included in the financial statements of the Company from January 17, 2006, the closing date of the acquisition, and are included in the WebMD segment.

**Condensed Balance Sheet Data**

The following table summarizes the tangible and intangible assets acquired, the liabilities assumed and the consideration paid for each acquisition:

	<b>Accounts Receivable</b>	<b>Deferred Revenue</b>	<b>Other Tangible Assets (Liabilities), net</b>	<b>Intangible Assets</b>	<b>Goodwill</b>	<b>Total Purchase Price</b>
Subimo	\$ 1,725	\$ (6,900)	\$ 4,701	\$ 12,300	\$ 47,494	\$ 59,320
Medsite	2,469	(13,124)	(826)	11,000	31,948	31,467
IPN	358		(143)		3,692	3,907
Summex	1,064	(1,173)		11,300	19,000	30,191
eMedicine	1,717	(2,612)	(1,004)	6,390	20,704	25,195

**Unaudited Pro Forma Information**

The following unaudited pro forma financial information for the three months ended June 30, 2006 gives effect to the acquisition of Subimo, Medsite, IPN, Summex and eMedicine, including the amortization of intangible assets, as if the acquisitions had occurred on January 1, 2006. The information is provided for illustrative purposes only and is not necessarily indicative of the operating results that would have occurred if the transactions had been consummated on the date indicated, nor is it necessarily indicative of future operating results of the consolidated companies, and should not be construed as representative of these results for any future period.

**Six Months Ended  
June 30, 2006**

	<b>(Restated)</b>
Revenue	\$ 585,659
Income from continuing operations	19,962
Net income	32,085
Basic and diluted income per common share:	
Income from continuing operations	\$ 0.07
Net income	\$ 0.11

**Table of Contents****HLTH CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. Segment Information**

Segment information has been prepared in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. The accounting policies of the segments are the same as the accounting policies for the consolidated Company. Inter-segment revenue primarily represents printing services provided by EBS during the three and six months ended June 30, 2006 and certain services provided by the Company's WebMD segment to the Company's other operating segments during the three and six months ended June 30, 2007 and 2006. The performance of the Company's business is monitored based on earnings before interest, taxes, non-cash and other items. Other items include: a working capital adjustment from the sale of 52% of EBS; 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 and advisory expense related to the evaluation, in 2006, by the Company's Board of Directors of strategic alternatives for EBS.

The Company has aligned its business into four operating segments and one corporate segment as follows:

*WebMD* provides both 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 as a result of the acquisition of Summex on June 13, 2006 and 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. In addition, WebMD publishes: medical reference textbooks; *The Little Blue Book*, a physician directory; and, since 2005, *WebMD the Magazine*, a consumer magazine distributed to physician office waiting rooms. WebMD conducted in-person medical education through December 31, 2006, the date at which it no longer provided this service.

*ViPS (formerly a business unit of EBS)* provides healthcare data management, analytics, decision-support and process automation solutions and related information technology services to governmental, Blue Cross Blue Shield and commercial healthcare payers. ViPS develops tools for disease management, predictive modeling, provider performance, HEDIS® quality improvement, healthcare fraud detection and financial management. Consultants and outsourcing services are also provided to assess workflow, perform software maintenance, design complex database architectures and perform data analysis and analytic reporting functions.

*Porex* develops, manufactures and distributes proprietary porous plastic products and components used in healthcare, industrial and consumer applications. Porex's healthcare products consist of components used to vent or diffuse gases or fluids, including catheter vents, self-sealing valves in surgical vacuum canisters, fluid filtration components and components for diagnostic devices. Porex's consumer products are used in a variety of office and home products, including highlighting pens, children's coloring markers, air fresheners, power tool dust canisters, computer printers and water filters. Porex's industrial products are designed to customer specifications as to size, rigidity, porosity and

other needs, including automobile battery vents, pneumatic silencers and a broad range of filters and filtration components. Porex also provides technologically advanced sterile surgical products, such as biomaterial implantable products, used in craniofacial/oculoplastic reconstruction and aesthetic/cosmetic surgery in hospitals, clinics and private practice surgical offices.



**Table of Contents**

**HLTH CORPORATION**

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

*Emdeon Business Services* provides solutions that automate key business and administrative functions for healthcare payers and providers, including: electronic patient eligibility and benefit verification; electronic and paper claims processing; electronic and paper paid-claims communication services; and patient billing, payment and communications services. In addition, EBS provides clinical communications services that improve the delivery of healthcare by enabling physicians to manage laboratory orders and results, hospital reports and electronic prescriptions. As a result of the EBS Sale, beginning November 17, 2006, the results of EBS are no longer included in the segment results.

*Corporate* includes services shared across some or all of the Company's operating segments, such as executive personnel, accounting, tax, treasury, legal, human resources, internal audit, risk management and certain information technology functions. Corporate service costs include compensation related costs, insurance and audit fees, leased property, facilities cost, legal and other professional fees, software maintenance and telecommunication costs. Additionally, the Company entered into transition services agreements whereby the Company provides 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 the Company 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 the Company are, in turn, used to fulfill the Company's obligations to provide transition services to Sage Software. These services are provided through the Corporate segment, and the related transition services fee the Company charges to EBSCo and Sage Software, net of the fee the Company pays to EBSCo, is also included in the Corporate segment, which approximates the cost of providing these services. The Company charged EBSCo and Sage Software transition service fees of \$1,468 and \$3,924 for the three and six months ended June 30, 2007, which is net of certain fees the Company pays to EBSCo.

Table of Contents**HLTH CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Summarized financial information for each of the Company's four operating segments and corporate segment and reconciliation to net (loss) income are presented below:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2006(a)</b>	<b>2007</b>	<b>2006(a)</b>
		<b>(Restated)</b>		<b>(Restated)</b>
<b>Revenue</b>				
Emdeon Business Services	\$	\$ 187,858	\$	\$ 370,709
WebMD	78,479	56,612	151,441	106,663
ViPS	25,885	24,845	52,544	48,681
Porex	25,003	22,659	47,712	43,246
Inter-segment eliminations	(73)	(343)	(378)	(474)
	\$ 129,294	\$ 291,631	\$ 251,319	\$ 568,825
<b>Earnings before interest, taxes, non-cash and other items</b>				
Emdeon Business Services	\$	\$ 44,765	\$	\$ 82,972
WebMD	15,155	9,599	27,762	16,126
ViPS	5,094	5,057	9,934	10,215
Porex	7,343	7,045	13,817	12,599
Corporate	(6,483)	(11,495)	(13,214)	(22,633)
	21,109	54,971	38,299	99,279
<b>Interest, taxes, non-cash and other items</b>				
Depreciation and amortization	(11,678)	(17,221)	(22,405)	(33,775)
Non-cash stock-based compensation	(8,355)	(12,282)	(18,146)	(24,009)
Non-cash advertising		(1,189)	(2,320)	(2,794)
Interest income	10,100	4,433	19,774	8,851
Interest expense	(4,619)	(4,668)	(9,336)	(9,359)
Income tax provision	(2,031)	(6,288)	(3,021)	(10,344)
Minority interest in WHC (income) loss	(843)	121	(958)	593
Equity in earnings of EBS Master LLC	7,575		14,674	
Other (expense) income, net	(72)	(2,347)	354	(2,889)
Income from continuing operations	11,186	15,530	16,915	25,553
(Loss) income from discontinued operations, net of tax	(56,649)	6,556	(56,676)	12,123
Net (loss) income	\$ (45,463)	\$ 22,086	\$ (39,761)	\$ 37,676

- (a) The EBS segment was sold on November 16, 2006 and, therefore, the operations of the EBS segment are included for the period January 1, 2006 through June 30, 2006.

## **8. Stock-Based Compensation**

On January 1, 2006, the Company adopted SFAS No. 123, (Revised 2004): Share-Based Payment ( SFAS 123R ), which replaces SFAS No. 123, Accounting for Stock-Based Compensation ( SFAS 123 ) and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees ( 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

**Table of Contents****HLTH CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

statements based on their fair values. The Company 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.

The Company has various stock 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, the Company's majority owned public subsidiary 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 5,695,389 shares of HLTH Common Stock available for future grants under the Plans as of June 30, 2007. In addition to the Plans, the Company has granted options to certain directors, officers and key employees pursuant to individual stock option agreements. At June 30, 2007, 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's Common Stock on the date of grant. The following table summarizes activity for the Plans for the six months ended June 30, 2007:

	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (In Years)</b>	<b>Aggregate Intrinsic Value(1)</b>
<b>Shares</b>	<b>Per Share</b>		

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Outstanding at January 1, 2007	63,599,871	\$	14.04		
Granted	140,000		12.58		
Exercised	(9,842,720)		10.04		
Cancelled	(3,344,203)		25.29		
Outstanding at June 30, 2007	50,552,948	\$	14.18	4.3	\$ 113,746
Vested and exercisable at the end of the period	40,683,599	\$	15.26	3.4	\$ 71,504

- (1) The aggregate intrinsic value is based on the market price of the Company's common stock on June 29, 2007, the last trading day in June, which was \$14.01 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 June 29, 2007.

Table of Contents**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's Common Stock combined with historical volatility of HLTH's Common Stock. The expected term represents the period of time that options are expected to be outstanding following their grant date, and was determined using historical exercise data. 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.

	<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
Expected dividend yield	0%	0%
Expected volatility	0.31	0.38
Risk free interest rate	4.76%	4.56%
Expected term (years)	3.94	4.46
Weighted average fair value of options granted during the period	\$ 3.95	\$ 3.47

***Restricted Stock Awards***

HLTH Restricted Stock consists of shares of HLTH Common Stock which have been awarded to employees. The grants are restricted such that they are subject to substantial risk of forfeiture and to restrictions on 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 during the six months ended June 30, 2007:

	<b>Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Balance at January 1, 2007	2,300,846	\$ 10.44
Vested	(442,286)	8.92
Forfeited	(89,001)	9.46
Balance at June 30, 2007	1,769,559	\$ 10.87

Proceeds received from the exercise of options to purchase HLTH Common Stock were \$38,146 and \$98,814 during the three and six months ended June 30, 2007, respectively, and \$18,391 and \$29,743 for the three and six months ended June 30, 2006, 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 \$13,811 and \$50,932 during the three and six months ended June 30, 2007, respectively, and \$10,272 and \$18,860 for the three and six months ended June 30, 2006, respectively.

### **WebMD Plans**

During September 2005, WHC adopted the 2005 Long-Term Incentive Plan (the "WHC Plan"). In connection with the acquisition of Subimo in December 2006, WHC adopted the WebMD Health Corp. Long-Term Incentive Plan for Employees of Subimo (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 in reliance on the NASDAQ Stock 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

Table of Contents**HLTH CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

restricted stock awards under the WebMD Plans is 7,630,574, subject to adjustment in accordance with the terms of the WebMD Plans. WHC had an aggregate of 1,137,204 shares of Class A Common Stock available for grant under the WebMD Plans as of June 30, 2007.

*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 generally 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 six months ended June 30, 2007:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value(1)
Outstanding at January 1, 2007	5,401,783	\$ 23.59		
Granted	495,100	48.26		
Exercised	(252,404)	22.67		
Cancelled	(342,275)	28.48		
Outstanding at June 30, 2007	5,302,204	\$ 25.62	8.6	\$ 115,045
Vested and exercisable at the end of the period	669,764	\$ 20.33	8.3	\$ 17,907

- (1) The aggregate intrinsic value is based on the market price of WHC's Class A Common Stock on June 29, 2007, the last trading day in June, which was \$47.07, 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 June 29, 2007.

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 stock of comparable companies combined with historical stock price volatility of comparable companies. 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.



	<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
Expected dividend yield	0%	0%
Expected volatility	0.47	0.60
Risk free interest rate	4.73%	4.79%
Expected term (years)	3.36	3.26
Weighted average fair value of options granted during the period	\$ 18.64	\$ 16.79

***Restricted Stock Awards***

WHC Restricted Stock consists of shares of WHC Class A Common Stock which have been awarded to employees. The grants are restricted such that they are subject to substantial risk of forfeiture and to restrictions on their sale or other transfer by the employee until they vest. Generally, WHC Restricted Stock awards vest ratably over a four year period from their individual award dates subject to continued employment

**Table of Contents****HLTH CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

on the applicable vesting dates. The following table summarizes the activity of non-vested WHC Restricted Stock during the six months ended June 30, 2007:

	Shares		Weighted Average Grant Date Fair Value
Balance at January 1, 2007	441,683	\$	25.49
Granted	31,700		49.78
Vested	(14,487)		39.01
Forfeited	(53,000)		25.24
Balance at June 30, 2007	405,896	\$	26.94

Proceeds received from the exercise of options to purchase WHC Class A Common Stock were \$1,265 and \$5,723 for the three and six months ended June 30, 2007. There were no exercises of options to purchase WHC Class A Common Stock during the three and six months ended June 30, 2006. 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 \$2,045 and \$7,088 for the three and six months ended June 30, 2007, respectively, and \$11 during the three and six months ended June 30, 2006.

**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 June 30, 2007, a total of 8,110,362 shares of the Company's 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 34,610 and 167,142 shares issued under the ESPP during the three and six months ended June 30, 2007 and 2006, respectively.

**Other**

At the time of the WHC initial public offering and subsequently on the first anniversary, 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 June 30, 2007 and 2006 and \$170 during the six months ended June 30, 2007 and 2006 in connection with these issuances.

Additionally, the Company recorded \$279 and \$536 of stock-based compensation expense during the three and six months ended June 30, 2007, respectively, in connection with a stock transferability right for shares required to be issued in connection with the acquisition of Subimo by WHC.



**Table of Contents****HLTH CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Summary of Stock-Based Compensation Expense**

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
HLTH Plans:				
Stock options	\$ 2,993	\$ 5,833	\$ 6,249	\$ 11,609
Restricted stock	1,104	1,061	3,126	2,112
WebMD Plans:				
Stock options	3,272	4,941	7,292	9,387
Restricted stock	777	1,030	1,609	1,989
Employee Stock Purchase Plan	44	150	85	295
Other	364	85	706	170
Total stock-based compensation expense	\$ 8,554	\$ 13,100	\$ 19,067	\$ 25,562
Included in:				
Cost of operations	\$ 1,040	\$ 3,385	\$ 2,650	\$ 6,342
Development and engineering	74	270	136	568
Sales, marketing, general and administrative	7,241	8,627	15,360	17,099
Equity in earnings of EBS Master LLC	210		798	
Income from continuing operations	8,565	12,282	18,944	24,009
(Loss) income from discontinued operations, net of tax	(11)	818	123	1,553
Total stock-based compensation expense	\$ 8,554	\$ 13,100	\$ 19,067	\$ 25,562

Tax benefits attributable to the stock-based compensation expense were only realized in certain states in which the Company does not have operating loss carryforwards because a valuation allowance was maintained for substantially all net deferred tax assets. As of June 30, 2007, \$30,766 and \$43,039 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 1.21 years and 1.67 years related to the HLTH Plans and the WebMD Plans, respectively.

**9. 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's Common Stock from time to

time beginning on December 19, 2006, subject to market conditions. As of June 30, 2007, the Company had repurchased 3,949,970 shares at an aggregate cost of approximately \$54,230 under the Program. Repurchased shares are recorded under the cost method and are reflected as treasury stock in the accompanying consolidated balance sheets.

## **10. Investments**

As of June 30, 2007 and December 31, 2006, the Company's short-term investments and marketable debt securities consisted of certificates of deposit, auction rate securities, asset backed securities and money market funds and marketable equity securities consisted of equity investments in publicly traded companies. All

**Table of Contents****HLTH CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

marketable securities are classified as available-for-sale. The following table summarizes the amortized cost basis and estimated fair value of the Company's investments:

	<b>June 30, 2007</b>		<b>December 31, 2006</b>	
	<b>Cost Basis</b>	<b>Fair Value</b>	<b>Cost Basis</b>	<b>Fair Value</b>
Cash and cash equivalents	\$ 509,969	\$ 509,969	\$ 614,691	\$ 614,691
Short-term investments	228,922	228,922	34,140	34,140
Marketable securities - long term	1,474	3,166	1,474	2,633

**11. Comprehensive (Loss) Income**

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006 (Restated)</b>	<b>2007</b>	<b>2006 (Restated)</b>
Foreign currency translation gains	\$ 400	\$ 1,062	\$ 837	\$ 1,378
Unrealized holding gains (losses)	624	(991)	534	(1,241)
Comprehensive income of EBS Master LLC	3,496		3,489	
Other comprehensive income	4,520	71	4,860	137
Net (loss) income	(45,463)	22,086	(39,761)	37,676
Comprehensive (loss) income	\$ (40,943)	\$ 22,157	\$ (34,901)	\$ 37,813

Included in comprehensive income of EBS Master LLC is the Company's share of unrealized gain on a derivative instrument that EBSCo entered into to hedge the risk of changes in fair value of their fixed-rate debt attributable to changes in interest rates.

The foreign currency translation gains are not currently adjusted for income taxes as they relate to permanent investments in non-U.S. subsidiaries.

Accumulated other comprehensive income includes the following:

	<b>June 30, 2007</b>	<b>December 31, 2006</b>
Unrealized gains on securities	\$ 1,693	\$ 1,159
Foreign currency translation gains	9,788	8,951
Comprehensive income of EBS Master LLC	3,489	
Total accumulated other comprehensive income	\$ 14,970	\$ 10,110

Table of Contents**HLTH CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****12. Goodwill and Other Intangible Assets**

The changes in the carrying amount of goodwill for the year ended December 31, 2006 and the six months ended June 30, 2007 are as follows:

	<b>Emdeon Business Services</b>	<b>WebMD</b>	<b>ViPS</b>	<b>Porex</b>	<b>Total</b>
Balance as of January 1, 2006	\$ 681,612	\$ 100,669	\$ 71,253	\$ 42,441	\$ 895,975
Acquisitions during the period	3,692	122,782			126,474
Contingent consideration for prior period acquisitions	(1,913)				(1,913)
Tax reversals	(40,522)	(1,636)		(298)	(42,456)
Adjustments to finalize purchase price allocations		1,669			1,669
Sale of EBS	(642,869)				(642,869)
Effects of exchange rates				789	789
Balance as of January 1, 2007		223,484	71,253	42,932	337,669
Tax reversals (a)		(760)			(760)
Adjustments to finalize purchase price allocations		(3,619)			(3,619)
Effects of exchange rates				122	122
Balance as of June 30, 2007	\$	\$ 219,105	\$ 71,253	\$ 43,054	\$ 333,412

(a) Represents a reduction to goodwill as a result of the reversal of a portion of the income tax valuation allowance that was originally established in connection with the purchase accounting of prior acquisitions.

Intangible assets subject to amortization consist of the following:

	<b>June 30, 2007</b>			<b>Weighted Average Remaining Useful Life(a)</b>	<b>December 31, 2006</b>			<b>Weighted Average Remaining Useful Life(a)</b>
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>		<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>	
Customer relationships	\$ 73,190	\$ (16,390)	\$ 56,800	10.7	\$ 68,168	\$ (13,300)	\$ 54,868	11.1



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Technology and patents	79,221	(33,362)	45,859	18.2	79,221	(27,453)	51,768	17.1
Trade names	18,216	(5,337)	12,879	7.5	18,216	(4,443)	13,773	8.0
Non-compete agreements, content and other	16,154	(10,432)	5,722	2.1	17,054	(7,990)	9,064	2.6
Total	\$ 186,781	\$ (65,521)	\$ 121,260	12.8	\$ 182,659	\$ (53,186)	\$ 129,473	12.6

(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.

**Table of Contents****HLTH CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Amortization expense was \$6,218 and \$12,330 for the three and six months ended June 30, 2007, respectively, and \$9,194 and \$18,230 for the three and six months ended June 30, 2006, respectively. Aggregate amortization expense for intangible assets is estimated to be:

Years Ending December 31, 2007 (July 1st to December 31st).	\$ 12,336
2008	21,309
2009	15,284
2010	7,931
2011	7,058
Thereafter	57,342

**13. Commitments and Contingencies*****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 Syntec, 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

**Table of Contents**

**HLTH CORPORATION**

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

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 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 plead 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.

**Table of Contents**

**HLTH CORPORATION**

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

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 three months ended June 30, 2007, the Company recorded a pre-tax charge of \$57,800, related to its estimated liability with respect to these indemnity obligations. See Note 3 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 nine 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). Below, this litigation is referred to as the Coverage Litigation. 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).

The Plaintiffs in the Coverage Litigation are 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 13. 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 certain insurers having agreed to provide specified amounts of coverage before the coverage provided by other insurers at higher layers is available. 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 Syntec, Inc. (the former parent of EPS, which merged into the Company) in the amount of \$100,000 (the Syntec Policies). To date, \$9,543 has been paid by insurance companies representing the first two of the four total layers of insurance coverage under the EPS Policies, and \$6,414 has been paid by the insurance company representing the primary layer of insurance coverage under the Syntec Policies, in each case subject to reservations of rights. 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. 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 his behalf.

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 the Company has in fact been reimbursed, subject to reservations of rights, by

**Table of Contents****HLTH CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

other insurance companies who have issued policies in the same groups of policies as the Defendants). 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.

***Dakota Imaging, Inc. v. Sandeep Goel and Pradeep Goel***

In April 2004, the Company, through its EBS segment, acquired Dakota Imaging, Inc. ( Dakota ). On April 6, 2005, Dakota, then a subsidiary of the Company, terminated for cause the employment of its President, Sandeep Goel, and its Chief Operating Officer/Chief Technology Officer, Pradeep Goel. On the same day, Dakota filed suit against the Goels in the Court of Chancery in Delaware for breach of their employment agreements. The Goels removed the case to the United States District Court for the District of Delaware and filed counterclaims against Dakota, Envoy Corporation ( Envoy ) (then another subsidiary of the Company), and the Company. The counterclaims sought approximately \$25,000 in damages as a result of the alleged improper interference with the Goel s right to receive contingent earnout payments under the merger agreement pursuant to which Envoy acquired Dakota and for breach of their employment agreements. Dakota, Envoy and the Company all filed motions to dismiss the counterclaims. Envoy also initiated an arbitration pursuant to the merger agreement to determine that the former stockholders of Dakota were not entitled to any contingent payments for the first year of the earnout period. In December 2006, the arbitrator issued a written decision in favor of Envoy, determining that the Goels were not entitled to any first year earnout payment. In connection with the EBS Sale, the Company agreed to indemnify EBSCo with respect to this matter.

Pursuant to a settlement agreement dated May 21, 2007, the parties settled all disputes between the Company and Dakota on the one hand and the Goels and the other former stockholders of Dakota on the other, without payment by either party; each party provided a general release to the other and the lawsuit was dismissed.

***Porex Corporation v. Kleanthis Dean Haldopoulos, Benjamin T. Hirokawa and Micropore Plastics, Inc.***

On September 24, 2005, the Company s subsidiary Porex Corporation filed a complaint in the Superior Court of Fulton County against two former employees of Porex, Dean Haldopoulos and Benjamin Hirokawa, and their corporation, Micropore Plastics, Inc. ( Micropore ), alleging misappropriation of Porex s trade secrets and breaches of Haldopoulos and Hirokawa s employment agreements, and seeking monetary and injunctive relief. The lawsuit was subsequently transferred to the Superior Court of DeKalb County, Georgia.

On October 24, 2005, the defendants filed an Answer and Counterclaims against Porex. In the Answer and Counterclaims, the defendants allege that Porex breached non-disclosure and standstill agreements in connection with a proposed transaction between Porex and Micropore and engaged in fraud. The defendants also seek punitive damages and expenses of litigation. On February 13, 2006, the Superior Court granted a motion by the defendants for summary judgment with respect to Porex s trade secret claims, ruling that those claims are barred by the statute of limitations. Porex appealed that ruling to the Georgia Court of Appeals and, on March 27, 2007, the Georgia Court of Appeals reversed the ruling of the Superior Court. On April 16, 2007, the defendants filed a petition for certiorari with the Georgia Supreme Court, requesting that the Georgia Supreme Court review and reverse the March 27, 2007 decision of the Court of Appeals. On June 25, 2007, the Georgia Supreme Court denied the defendants petition for certiorari. On or about July 31, 2007, the Georgia Court of Appeals formally returned the case to the Superior Court for further proceedings.



Porex is continuing to seek to vigorously enforce its rights in this litigation.

**Table of Contents**

**HLTH CORPORATION**

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

***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 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 is 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.

The plaintiffs are scheduled to file amended complaints in mid-August, in which they are expected to propose a new class definition, and to file a motion for class certification on September 27, 2007. Briefing on

**Table of Contents****HLTH CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

the motion for class certification is scheduled to be completed on February 15, 2008. At this point, it is impossible to determine whether a class will be certified.

***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 the Company's 2006 Annual Report on Form 10-K under the heading "Legal Proceedings" 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.

**14. Other Income (Expense), Net**

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Transition service fees (a)	\$ 1,468	\$	\$ 3,924	\$
Gain on sale of EBS (b)			399	
Reduction of tax contingencies (c)	399		746	
Legal expense (d)	(471)	(275)	(791)	(817)
Advisory expense (e)		(2,072)		(2,072)
Other income (expense), net	\$ 1,396	\$ (2,347)	\$ 4,278	\$ (2,889)

- (a) Represents the net fees received from Sage Software and EBSCo in relation to their respective transition services agreements. See Note 7.
- (b) Represents a gain recognized in connection with the working capital adjustment associated with the EBS Sale on November 16, 2006.
- (c) Represents the reduction of certain sales and use tax contingencies resulting from the expiration of various statutes.
- (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, related to the EBS Sale.

## 15. Restatement of Consolidated Financial Statements

The Company identified an error in its accounting for non-cash income tax expense and related deferred taxes. The error relates to the tax impact of goodwill and certain intangible assets arising from certain business combinations, primarily tax-deductible goodwill which is amortized as an expense for tax purposes over 15 years but is not amortized to expense for financial reporting purposes since the adoption of SFAS No. 142, *Goodwill and Other Intangible Assets* as of January 1, 2002. The Company recorded a deferred income tax expense and a deferred tax liability related to the tax-deductible goodwill. However, in preparing its financial statements, the Company incorrectly netted the deferred tax liability resulting from the amortization of tax-deductible goodwill against deferred tax assets (primarily relating to the Company's net operating loss carryforwards) and provided a valuation allowance on the net asset balance. Because the deferred tax liability has an indefinite life, it should not have been netted against deferred tax assets with a definite life when determining the required valuation allowance. As a result, the Company did not record the appropriate valuation allowance and related deferred income tax expense. The deferred tax liability described above will remain on the balance sheet of the Company indefinitely unless there is an impairment of goodwill for financial reporting purposes or the related business entity is disposed of through a sale or otherwise.

Table of Contents**HLTH CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The error resulted in an understatement of deferred income tax expense and related deferred tax liability and an overstatement of net income in the amount of \$1,052 and \$1,736 in the Company's unaudited financial statements for the three and six months ended June 30, 2006, respectively. Additionally, as a portion of the adjustment to deferred income tax expense related to WHC, the Company has also adjusted the minority interest in WHC. The net impact to the Company's net income, after adjusting for the minority interest, was \$1,095 and \$1,936 in the aggregate during the three and six months ended June 30, 2006, respectively. The correction had no effect on the Company's revenues, total assets, cash flows or liquidity during these periods and no effect on the Company's pre-tax operating results, other than the effect on minority interest. The Company believes that there will be no effect on its debt agreements or other contractual obligations as a result of this error.

The effects of this change on the consolidated statement of operations and cash flows for the three and six months ended June 30, 2006 are summarized as follows:

	<b>Consolidated Statement of Operations</b>		
	<b>As</b>		
	<b>Previously Reported(a)</b>	<b>Adjustments</b>	<b>Restated</b>
<b>Three Months Ended June 30, 2006:</b>			
Income tax provision	\$ 5,236	\$ 1,052	\$ 6,288
Minority interest in WHC income (loss)	(164)	43	(121)
Income from continuing operations	16,625	(1,095)	15,530
Net income	23,181	(1,095)	22,086
<b>Basic income per common share:</b>			
Income from continuing operations	\$ 0.06	\$ (0.01)	\$ 0.05
Income from discontinued operations	0.02	0.01	0.03
Net income	\$ 0.08	\$	\$ 0.08
<b>Diluted income per common share:</b>			
Income from continuing operations	\$ 0.06	\$ (0.01)	\$ 0.05
Income from discontinued operations	0.02		0.02
Net income	\$ 0.08	\$ (0.01)	\$ 0.07
<b>Six Months Ended June 30, 2006:</b>			
Income tax provision	\$ 8,608	\$ 1,736	\$ 10,344
Minority interest in WHC income (loss)	(793)	200	(593)
Income from continuing operations	27,489	(1,936)	25,553
Net income	39,612	(1,936)	37,676
<b>Basic income per common share:</b>			
Income from continuing operations	\$ 0.10	\$ (0.01)	\$ 0.09
Income from discontinued operations	0.04		0.04

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Net income	\$	0.14	\$	(0.01)	\$	0.13
Diluted income per common share:						
Income from continuing operations	\$	0.09	\$		\$	0.09
Income from discontinued operations		0.04				0.04
Net income	\$	0.13	\$		\$	0.13

Table of Contents**HLTH CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<b>Consolidated Statement of Cash Flows</b>		
	<b>As</b>		
	<b>Previously</b>		
	<b>Reported(a)</b>	<b>Adjustments</b>	<b>Restated</b>
Six Months Ended June 30, 2006:			
Net income	\$ 39,612	\$ (1,936)	\$ 37,676
Minority interest in WHC income (loss)	(793)	200	(593)
Deferred income taxes		1,736	1,736

(a) Reflects presentation of EPS as a discontinued operation.

33

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**Table of Contents**

**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.*

The information for the three and six months ended June 30, 2006 has been adjusted to reflect the restatement of our financial results to correct the previously reported income tax provision, which is more fully described in Note 15, Restatement of Consolidated Financial Statements located in the Notes to Consolidated Financial Statements elsewhere in this Quarterly Report.

**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 certain recent developments, background information on certain trends and strategies and a discussion on how our business is impacted by seasonality.

*Critical Accounting Policies and Estimates.* 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 2006 Annual Report on Form 10-K, as amended, filed with the Securities and Exchange Commission (which we refer to as the SEC).

*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.

*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 June 30, 2007.

*Factors That May Effect 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**

HLTH Corporation (which we refer to as HLTH) is a Delaware corporation that was incorporated in December 1995 and commenced operations in January 1996 as Healtheon Corporation. Our 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. We changed our name to Healtheon/WebMD Corporation in November 1999, to WebMD Corporation in September 2000 and to Emdeon Corporation in October 2005 in

**Table of Contents**

connection with the initial public offering of equity securities of WebMD Health Corp (which we refer to as WHC). In connection with the November 2006 sale of a 52% interest in our Emdeon Business Services segment, we transferred our rights to the name Emdeon and related intellectual property to Emdeon Business Services, and agreed to change our name within six months of the sale of EBS. Accordingly, in May 2007, Emdeon Corporation changed its name to HLTH Corporation.

On September 14, 2006, we completed the sale of our Emdeon Practice Services segment (which we refer to as EPS) to Sage Software, Inc. (which we refer to as Sage Software). We refer to this transaction in this MD&A as the EPS Sale. Accordingly, the results of EPS have been presented as discontinued operations in our consolidated financial statements for the three and six months ended June 30, 2006, as well as for the three and six months ended June 30, 2007.

We own 48% of EBS Master LLC (which we refer to as EBSCo), which owns Emdeon Business Services LLC. Emdeon Business Services LLC conducts the business that comprised our Emdeon Business Services segment until we sold a 52% interest in that business to an affiliate of General Atlantic LLC on November 16, 2006 (we refer to that transaction as the EBS Sale). In this MD&A, we use the names Emdeon Business Services and EBS to refer to the business owned by EBSCo and, with respect to periods prior to the consummation of the EBS Sale, to the reporting segment of our company.

***Operating Segments***

We have aligned our business into four operating segments and one corporate segment. The following is a description of each of our operating segments and our corporate segment:

*WebMD.* WebMD provides both 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 (which we refer to as 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 as a result of the acquisition of Summex Corporation (which we refer to as Summex) on June 13, 2006 and promotion and physician recruitment services for use by pharmaceutical, medical device and healthcare companies as a result of the acquisition of Medsite, Inc. (which we refer to as Medsite) on September 11, 2006. In addition, WebMD publishes: medical reference textbooks; *The Little Blue Book*, a physician directory; and, since 2005, *WebMD the Magazine*, a consumer magazine distributed to physician office waiting rooms. WebMD conducted in-person medical education through December 31, 2006, the date at which it no longer provided this service.

*ViPS (formerly a business unit of EBS).* ViPS provides healthcare data management, analytics, decision-support and process automation solutions and related information technology services to governmental, Blue Cross Blue Shield and commercial healthcare payers. ViPS develops tools for disease management, predictive modeling, provider performance, HEDIS® quality improvement, healthcare fraud detection and financial management. Consultants and outsourcing services are also provided to assess workflow, perform software maintenance, design complex database architectures and perform data analysis and analytic reporting functions.

*Porex.* Porex develops, manufactures and distributes proprietary porous plastic products and components used in healthcare, industrial and consumer applications. Porex's healthcare products consist of components used to vent or diffuse gases or fluids, including catheter vents, self-sealing valves in surgical vacuum canisters, fluid filtration components and components for diagnostic devices. Porex's

**Table of Contents**

consumer products are used in a variety of office and home products, including highlighting pens, children's coloring markers, air fresheners, power tool dust canisters, computer printers and water filters. Porex's industrial products are designed to customer specifications as to size, rigidity, porosity and other needs, including automobile battery vents, pneumatic silencers and a broad range of filters and filtration components. Porex also provides technologically advanced sterile surgical products, such as biomaterial implantable products, used in craniofacial/oculoplastic reconstruction and aesthetic/cosmetic surgery in hospitals, clinics and private practice surgical offices.

*Emdeon Business Services.* EBS provides solutions that automate key business and administrative functions for healthcare payers and providers, including: electronic patient eligibility and benefit verification; electronic and paper claims processing; electronic and paper paid-claims communication services; and patient billing, payment and communications services. In addition, EBS provides clinical communications services that improve the delivery of healthcare by enabling physicians to manage laboratory orders and results, hospital reports and electronic prescriptions. As a result of the EBS Sale, beginning November 17, 2006, the results of EBS are no longer included in the segment results.

*Corporate.* The Corporate segment provides shared services across some or all of our operating segments. These services include executive personnel, accounting, tax, treasury, legal, human resources, internal audit, risk management and certain information technology functions. Corporate service costs include compensation related costs, insurance and audit fees, leased property, facilities cost, legal and other professional fees, software maintenance and telecommunication costs. Additionally, we entered into transition services agreements whereby we provide 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.

***Recent Developments***

*Directors & Officers Liability Insurance Coverage Litigation.* On July 23, 2007, we commenced litigation (which we refer to as the Coverage Litigation) in the Court of Chancery of the State of Delaware in and for New Castle County against nine insurance companies in which we are seeking to compel the defendant companies (which we refer to collectively as the Defendants) to honor their obligations under certain directors and officers liability insurance policies (which we refer to as the Policies). We refer to this litigation below as the Coverage Litigation. The Policies were issued to our company and to EPS, our former subsidiary which is our co-plaintiff in the Coverage Litigation (which we refer to collectively as the Plaintiffs). EPS was sold in September 2006 to Sage Software and has changed its name to Sage Software Healthcare, Inc. (which we refer to as SSHI).

The Plaintiffs in the Coverage Litigation are seeking an order requiring the Defendants to advance and/or reimburse expenses that we have incurred and expect to continue to incur for the advancement of the reasonable defense costs of initially ten and now nine former officers and directors of our former EPS subsidiary who were indicted in connection with the previously disclosed investigation by the United States Attorney for the District of South Carolina (which we refer to as the Investigation) described in Note 13, *Commitments and Contingencies* located in the Notes to the Consolidated Financial Statements elsewhere in this Quarterly Report. In connection with our sale of EPS to Sage Software, we 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. We retained the right to assert claims and

recover proceeds under the Policies on behalf of SSHI.

**Table of Contents**

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 certain insurers having agreed to provide specified amounts of coverage before the coverage provided by other insurers at higher layers is available. The first group of policies was issued to EPS in the amount of \$20,000 (which we refer to as the EPS Policies) and the second group of policies was issued to Synetic, Inc. (the former parent of EPS, which merged into HLTH) in the amount of \$100,000 (which we refer to as the Synetic Policies). To date, \$9,543 has been paid by insurance companies representing the first two of the four total layers of insurance coverage under the EPS Policies, and \$6,414 has been paid by the insurance company representing the primary layer of insurance coverage under the Synetic Policies, in each case subject to reservations of rights. Our 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 our company. We have obtained an undertaking from each indicted individual pursuant to which, under certain circumstances, such individual has agreed to repay defense costs advanced on his behalf.

We believe that the Defendants are required to advance and/or reimburse amounts that we have incurred and expect to continue to incur for the advancement of the reasonable defense costs of the indicted individuals (and we have in fact been reimbursed, subject to reservations of rights, by other insurance companies who have issued policies in the same groups of policies as the Defendants). However, there can be no assurance that we 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. We intend to continue to satisfy our legal obligations to the indicted individuals with respect to advancement of amounts for their defense costs.

*Indemnification Obligations.* We have 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 Investigation. In connection with the sale of EPS, we agreed to indemnify Sage Software relating to these indemnity obligations. Based on information we have recently received related to the Investigation, we are now able to determine a reasonable estimate of the range of probable costs with respect to our indemnification obligation which is approximately \$57,800 to \$83,000. Accordingly, included in loss from discontinued operations during the three and six months ended June 30, 2007 is a pre-tax charge of \$57,800, which represents our estimate of the low end of the probable range of cost related to this matter. We have reserved the low end of the probable range of cost because no estimate within the range was a better estimate than any other amount. This estimate includes assumptions as to the duration of the trial and pre-trial periods, and the defense costs to be incurred during these periods. The ultimate outcome of this matter is still uncertain, and accordingly, the amount of cost we may ultimately incur could be substantially more than the reserve we have currently provided. If the recorded reserves are insufficient to cover the ultimate cost of this matter, we will need to record additional charges to our consolidated statement of operations in future periods.

*Conversion of Convertible Redeemable Exchangeable Preferred Stock.* During the three months ended June 30, 2007, all of the outstanding shares of our Convertible Redeemable Exchangeable Preferred Stock were converted by CalPERS/PCG Corporate Partners, LLC, the sole holder, into an aggregate of 10,628,297 shares of HLTH Common Stock, based on the conversion price of \$9.40 per share of common stock.

***Background Information on Certain Trends and Strategies***

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



**Table of Contents**

*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. We believe 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. We expect that this increasing awareness will result in increasing demand for WebMD's services.

*Changes in Health Plan Design; Health Management Initiatives.* While overall healthcare costs have been rising at a rapid annual rate, employers' costs of providing healthcare benefits to their employees have been increasing at an even faster rate. In response to these increases, employers are seeking to shift a greater portion of healthcare costs onto their employees and to redefine traditional health benefits. Employers and health plans want to motivate their members and employees to evaluate their healthcare decisions more carefully in order to be more cost-effective. As employers continue to implement high deductible and consumer-directed healthcare plans (referred to as CDHPs) and related Health Savings Accounts (referred to as HSAs) to achieve these goals, we believe that WebMD will be able to attract more employers and health plans to use its private online portals. In addition, health plans and employers have begun to recognize that encouraging the good health of their members and employees not only benefits the members and employees but also has financial benefits for the health plans and employers. Accordingly, many employers and health plans have been enhancing health management programs and taking steps to provide healthcare information and education to employees and members, including through online, telephonic and paper-based services. We believe that WebMD is well positioned to benefit from these trends because WebMD's private portals provide the tools and information employees and plan members need in order to make more informed decisions about healthcare provider, benefit and treatment options.

*Changes in CMS Contracting Process.* ViPS and other potential CMS contractors are currently awaiting an award announcement after responding to a Request for Proposals issued by The Centers for Medicare & Medicaid Services, or CMS, for a new indefinite delivery/indefinite quantity or IDIQ, performance-based-contracting vehicle named Enterprise Systems Development, or ESD. Under this announcement, ViPS expects CMS to award four to six prime contracts to the bidders that are selected through the process. We understand that it is CMS' intent to procure most, if not all, information technology development work through this contract vehicle for approximately the next 10 years. Accordingly, there will be fewer companies awarded prime contracts, and those that are selected are likely to receive broader contracts than those made under the PITS contracting vehicle. If ViPS is not selected to be one of the four to six prime contractors under ESD, it will have only the more limited opportunity to pursue work under ESD as a subcontractor. There can be no assurance that ViPS will be awarded a prime contract under ESD or, if it is not awarded a prime contract, that opportunities as a subcontractor will be available or that ViPS will be selected as a subcontractor. As a result, if ViPS is not awarded a prime contract under ESD, its revenue from CMS programs could be significantly reduced.

***Seasonality***

The timing of our revenue is affected by seasonal factors in both the WebMD and Porex segments. Advertising and sponsorship revenue within the WebMD segment 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 also 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. Porex's business is also impacted by seasonal factors, primarily in its writing instrument product lines as a result of back-to-school season,

which favorably impacts Porex's revenue during the second quarter.

**Table of Contents****Critical Accounting Policies and Estimates**

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 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 forming 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, inventory valuation, 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** Our revenue recognition policies for each reportable operating segment are as follows:

*WebMD.* 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 WebMD substantially completes its contractual deliverables as determined by the applicable agreements. Subscription revenue is recognized over the subscription period. 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.

*ViPS.* ViPS generates revenue by licensing data warehousing and decision support software and providing related support and maintenance for that software, and by providing information technology consulting services to payers, including governmental payers. We charge healthcare payers annual license fees, which are typically based on the number of covered members, for use of our software and provide business and information technology consulting services to them on a time and materials basis and a fixed fee basis. The professional consulting services we provide to certain governmental agencies are typically billed on a cost-plus fee structure. Data warehousing and decision support software and the related support and maintenance agreements are generally sold as bundled time-based license agreements and, accordingly, the revenue for both the software and related support and maintenance is recognized ratably over the term of the license and maintenance agreement. Revenue for consulting services is recognized as the services are provided.

*Porex.* Porex develops, manufactures and distributes porous plastic products and components. For standard products, Porex recognizes revenue when persuasive evidence of an arrangement exists,

**Table of Contents**

delivery has occurred and all significant contractual obligations have been satisfied, and the fee is fixed or determinable and probable of collection. Appropriate reserves are established on anticipated returns and allowances based on past experience. For sales of certain custom products, Porex recognizes revenue upon completion and customer acceptance. Recognition of amounts received in advance is deferred until all criteria have been met.

*Emdeon Business Services.* Through the date of the EBS Sale on November 16, 2006, healthcare payers and providers paid us fees for transaction services, generally on either a per transaction basis or, in the case of some providers, on a monthly fixed fee basis. Healthcare payers and providers also paid us fees for document conversion, patient statement and paid-claims communication services, typically on a per document, per statement or per communication basis. EBS generally charged a one-time implementation fee to healthcare payers and providers at the inception of a contract, in connection with their related setup to submit and receive medical claims and other related transactions through EBS's clearinghouse network. Revenue for transaction services, patient statement services and paid-claims communication services was recognized as the services were provided. The implementation fees were deferred and amortized to revenue on a straight line basis over the contract period of the related transaction processing services, which generally vary from one to three years.

***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 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 determined 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. There was no impairment of goodwill noted as a result of our impairment testing in 2006.

***Investments*** Our investments, at June 30, 2007, consisted principally of certificates of deposit, auction rate securities, money market funds and asset backed securities. Each reporting period we evaluate the carrying value of our investments and record a loss on investments when we believe an investment has experienced a decline in value that is other than temporary. Our investments are classified as available-for-sale and are carried at fair value. We do not recognize gains on an investment until sold. Unrealized gains and losses are recorded as a component of accumulated other comprehensive income. Once realized, the gains and losses and declines in value determined to be other-than-temporary are recorded. A decline in value is deemed to be other-than-temporary if we do not have the intent and ability to retain the investment until any anticipated recovery in market value, the extent and length of the time to which the market value has been less than cost and the financial condition and near-term prospects of the investment.

***Sale of Subsidiary Stock*** Our WHC subsidiary issues their 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 and six months ended June 30, 2007, WHC stock options were 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 \$1,065 and \$5,869 during the three and six months ended June 30, 2007 and our ownership in WHC decreased to 84.2%, as of June 30, 2007, from 84.6%, as of December 31, 2006. We expect to continue to record gains in the future related to future issuances of WHC Class A Common Stock.



**Table of Contents**

***Equity Investment in EBSCO*** We account for our equity investment in EBSCO in accordance with Accounting Principles Board (which we refer to as APB) Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock (which we refer to as APB 18), which stipulates that the equity method should be used to account for investments whereby an investor has the ability to exercise significant influence over operating and financial policies of an investee, but does not exercise control. APB 18 generally considers an investor to have the ability to exercise significant influence when it owns 20% or more of the voting stock of an investee. We believe our equity investment in EBSCO meets these criteria. We assess the recoverability of the carrying value of our investment whenever events or changes in circumstances indicate a loss in value that is other than a temporary decline. Factors indicating a decline in value that is deemed to be other-than-temporary include the lack of intent and our inability to retain the investment until any anticipated recovery in the carrying amount of the investment, or the inability of the investment to sustain an earnings capacity which would justify the carrying amount. As of June 30, 2007, the current fair value of our equity investment in EBSCO exceeds its carrying amount of \$20,820.

***Stock-Based Compensation*** In December 2004, the Financial Accounting Standards Board (which we refer to as FASB) issued Statement of Financial Accounting Standard (which we refer to as 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. 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 adopted SFAS 123R on January 1, 2006, and 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 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's Common Stock. The expected volatility for stock options to purchase WHC Class A Common Stock is based on implied volatility from traded options of stock of comparable companies combined with historical stock price volatility of comparable companies.

***Deferred Taxes*** Our deferred tax assets are comprised primarily of net operating loss (which we refer to as NOL) carryforwards. At December 31, 2006, we had NOL carryforwards of approximately \$1.2 billion, which expire at varying dates from 2011 through 2026. 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. As of June 30, 2007, a valuation allowance has been provided against all domestic net deferred taxes, except for a deferred tax liability originating from business combinations that resulted in tax deductible goodwill, as well as a deferred tax liability established in purchase accounting that is not expected to reverse prior to the expiration of our net operating losses. The valuation allowance was established because of the uncertainty of realization of the deferred tax assets due to lack of sufficient history of generating taxable income. Realization is dependent upon generating sufficient taxable income prior to the expiration of the NOL carryforwards in future periods. Although realization is not currently assured, management evaluates the need for a valuation allowance each quarter, and in the future, should management determine that realization of net deferred tax assets is more

likely than not, some or all of the valuation allowance will be reversed, and our effective tax rate may be reduced by such reversal. The valuation allowance also excludes the impact of any deferred items related to certain of our foreign operations as the realization of the deferred items for these operations is likely.



**Table of Contents**

***Tax Contingencies*** Our tax contingencies are recorded to address potential exposures involving tax positions we have taken that could be challenged by tax authorities. These potential exposures result from applications of various statutes, rules, regulations and interpretations. Our estimates of tax contingencies reflect assumptions and judgments about potential actions by taxing jurisdictions. We believe that these assumptions and judgments are reasonable; however, our accruals may change in the future due to new developments in each matter and the ultimate resolution of these matters may be greater or less than the amount that we have accrued. Consistent with historical financial reporting, we have elected to reflect interest and penalties related to uncertain tax positions as part of the income tax provision. As of January 1, 2007, accrued interest and penalties were \$1,135.

On January 1, 2007, we adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (which we refer to as FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognizing, classification, interest and penalties, accounting in interim periods, disclosure and transition. Upon adoption, we reduced the existing reserves for uncertain income tax positions by \$1,475, primarily related to a reduction in state income tax matters. This reduction was recorded as a cumulative effect adjustment to accumulated deficit. In addition, we reduced \$5,572 of a deferred tax asset and its associated valuation allowance upon adoption of FIN 48.

**Recent Accounting Pronouncements**

On February 15, 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (which we refer to as SFAS 159). SFAS 159 permits many financial instruments and certain other items to be measured at fair value at the option of the company. Most of the provisions in SFAS 159 are elective; however, the amendment to SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities with available-for-sale and trading securities. The fair value option established by SFAS 159 permits the choice to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. SFAS 159 is effective for financial statements issued for first fiscal year beginning after November 15, 2007. We are currently evaluating the impact, if any, that this new standard will have on our results of operations, financial position or cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (which we refer to as SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and, accordingly, does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently evaluating the impact, if any, that this new standard will have on our results of operations, financial position or cash flows.

**Table of Contents****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 June 30,				Six Months Ended June 30,			
	2007		2006		2007		2006	
	\$	%	\$	%	\$	%	\$	%
			(Restated)				(Restated)	
Revenue	\$ 129,294	100.0	\$ 291,631	100.0	\$ 251,319	100.0	\$ 568,825	100.0
Costs and expenses:								
Cost of operations	54,901	42.5	169,041	58.0	109,330	43.5	336,215	59.1
Development and engineering	4,767	3.7	9,057	3.1	9,341	3.7	17,921	3.2
Sales, marketing, general and administrative	58,340	45.1	72,033	24.7	118,739	47.3	142,213	25.1
Depreciation and amortization	11,678	9.0	17,221	5.9	22,405	8.9	33,775	5.9
Interest income	10,100	7.8	4,433	1.5	19,774	7.9	8,851	1.6
Interest expense	4,619	3.6	4,668	1.6	9,336	3.7	9,359	1.6
Other income (expense), net	1,396	1.1	(2,347)	(0.8)	4,278	1.7	(2,889)	(0.5)
Income from continuing operations before income tax provision	6,485	5.0	21,697	7.4	6,220	2.5	35,304	6.2
Income tax provision	2,031	1.5	6,288	2.1	3,021	1.2	10,344	1.8
Minority interest in WHC income (loss)	843	0.7	(121)		958	0.4	(593)	(0.1)
Equity in earnings of EBS Master LLC	7,575	5.9			14,674	5.8		
Income from continuing operations	11,186	8.7	15,530	5.3	16,915	6.7	25,553	4.5
(Loss) income from discontinued operations, net of	(56,649)	(43.9)	6,556	2.3	(56,676)	(22.5)	12,123	2.1

tax

Net (loss)

income	\$ (45,463)	(35.2)	\$ 22,086	7.6	\$ (39,761)	(15.8)	\$ 37,676	6.6
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Revenue is currently derived from our three business segments: WebMD, ViPS and Porex, and was derived through our EBS segment through the date of the EBS Sale on November 16, 2006. WebMD services include: advertising, sponsorship, CME, content syndication and distribution, and licenses of private online portals to employers, healthcare payers and others. In addition, WebMD derives revenue from sales of, and advertising in, its physician directories, subscriptions to its professional medical reference textbooks, advertisements in *WebMD the Magazine* and from in-person CME programs in 2006. In-person CME services were no longer offered by WebMD as of December 31, 2006. ViPS provides healthcare data management, analytics, decision-support and process automation solutions and related information technology services to governmental, Blue Cross Blue Shield and commercial healthcare payers and performs software maintenance and consulting services for governmental agencies involved in healthcare. Porex revenue includes the sale of porous plastic components used to control the flow of fluids and gases for use in healthcare, industrial and consumer applications, as well as finished products used in the medical device and surgical markets. EBS, which was a segment through November 16, 2006, the date of the EBS Sale, provided solutions that automate key business and administrative functions for healthcare payers and providers, including: electronic patient eligibility and benefit verification; electronic and paper claims processing; electronic and paper paid-claims communication services; and patient billing, payment and communications services. EBS also provided clinical communications services that enable physicians to manage laboratory orders and results, hospital reports and electronic prescriptions. A significant portion of EBS revenue was generated from the country's largest national and regional healthcare payers.

Cost of operations consists of costs related to services and products we provide to customers and costs associated with the operation and maintenance of our networks. These costs include salaries and related expenses, including non-cash stock-based compensation expenses, for network operations personnel and customer support personnel, telecommunication costs, maintenance of network equipment, a portion of facilities expenses, leased facilities and personnel costs and non-cash expenses related to prepaid advertising costs. In addition, cost of operations includes raw materials, direct labor and manufacturing overhead, such as fringe benefits and indirect labor related to our Porex segment. Prior to the EBS Sale on November 16, 2006,

**Table of Contents**

cost of operations included cost of postage related to our automated print-and-mail services and paid-claims communication services and sales commissions paid to certain distributors of EBS products.

Development and engineering expenses consist primarily of salaries and related expenses, including non-cash stock-based compensation expenses, associated with the development of applications and services. Expenses include compensation paid to development and engineering personnel, fees to outside contractors and consultants, and the maintenance of capital equipment used in the development process.

Sales, marketing, general and administrative expenses consist primarily of advertising, product and brand promotion, salaries and related expenses, including non-cash stock-based compensation expenses, for sales, administrative, finance, legal, information technology, human resources and executive personnel. These expenses include items related to account management and marketing personnel, commissions, costs and expenses for marketing programs and trade shows, and fees for professional marketing and advertising services, as well as fees for professional services, costs of general insurance and costs of accounting and internal control systems to support our operations. Also included are non-cash expenses related to advertising services acquired in exchange for our equity securities.

Our discussions throughout MD&A make references to certain non-cash expenses. We consider non-cash expenses to be those expenses that result from the issuance of our equity instruments. The following is a summary of our principal non-cash expenses:

*Non-cash stock-based compensation expense.* Non-cash stock-based compensation reflects the adoption of SFAS 123R on January 1, 2006, which 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. The following table summarizes the non-cash stock-based compensation expense included in cost of operations, development and engineering, and sales, marketing, general and administrative expense for the three and six months ended June 30, 2007 and 2006:

	<b>Three Months Ended June 30, 2007</b>		<b>Six Months Ended June 30, 2007</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Non-cash stock-based compensation expense included in:				
Cost of operations	\$ 1,040	\$ 3,385	\$ 2,650	\$ 6,342
Development and engineering	74	270	136	568
Sales, marketing, general and administrative	7,241	8,627	15,360	17,099
<b>Total</b>	<b>\$ 8,355</b>	<b>\$ 12,282</b>	<b>\$ 18,146</b>	<b>\$ 24,009</b>

*Non-cash advertising expense.* Expense related to the use of WHC's prepaid advertising inventory that WHC received from News Corporation in exchange for equity instruments HLTH issued in connection with an agreement HLTH entered into with News Corporation in 1999 and subsequently amended in 2000. This non-cash advertising expense is included in cost of operations when WHC utilizes this advertising inventory in conjunction with offline advertising and sponsorship programs and is included in sales, marketing, general and administrative expense when WHC uses the asset for promotion of WHC's brand.

The following discussion of our operating results reflects the reclassification of EPS as a discontinued operation in the prior year periods, as a result of the EPS Sale that was completed on September 14, 2006. In addition, our operating results reflect an increase in revenue and an offsetting increase to expenses, primarily within cost of operations, of \$14,021 and \$27,802 for the three and six months ended June 30, 2006 related to the intercompany activity between EPS and our other operating segments, primarily EBS. This intercompany activity was primarily comprised of print-and-mail services (including postage) and electronic data interchange (which we refer to as EDI) services provided by EBS to the EPS customer base and related rebates paid by EBS to EPS related to EPS's submission of EDI transactions. These amounts had previously been eliminated in consolidation prior to EPS being reflected as a discontinued operation.

**Table of Contents**

In contrast to the EPS Sale, the EBS Sale did not result in the accounting for EBS as a discontinued operation, because the EBS Sale was only a partial sale, through which we retained a 48% ownership interest in EBSCo following the transaction. Accordingly, the historical results of operations for EBS are included in our financial statements for the three and six months ended June 30, 2006. Subsequent to the EBS Sale on November 16, 2006, our 48% portion of EBSCo's income is reflected in the line item Equity in earnings of EBS Master LLC. Because of this treatment, our consolidated results of operations for the three and six months ended June 30, 2007, as well as the EBS segment results for these periods, are presented on a basis that makes the operating results for the three and six months ended June 30, 2006 not directly comparable to the operating results for the three and six months ended June 30, 2007. In the discussion of our consolidated operating results below, in addition to noting the effect of the EBS Sale (which is relatively large as compared to all other differences between the periods), we have provided comparative information on items that reflect trends in our operating results based on their materiality to our consolidated operating results for the three and six months ended June 30, 2007. Our WebMD, ViPS and Porex segment results were not affected by the EBS Sale and comparisons with prior periods are not subject to the considerations applicable to EBS and to our consolidated results.

The following discussion includes a comparison of the results of operations for the three and six months ended June 30, 2007 to the three and six months ended June 30, 2006.

*Revenue*

Revenue for the three months ended June 30, 2007 was \$129,294, compared to \$291,631 in the prior year period. Revenue decreased by \$162,337 primarily as a result of the EBS Sale, which was responsible for \$187,858 of the decrease. Partially offsetting the impact of the EBS Sale was higher revenue in our WebMD, Porex and ViPS segments in the amount of \$21,867, \$2,344 and \$1,040.

Revenue for the six months ended June 30, 2007 was \$251,319, compared to \$568,825 in the prior year period. Revenue decreased by \$317,506 primarily as a result of the EBS Sale, which was responsible for \$370,709 of the decrease. Partially offsetting the impact of the EBS Sale was higher revenue in our WebMD, Porex and ViPS segments in the amount of \$44,778, \$4,466 and \$3,863.

*Costs and Expenses*

*Cost of Operations.* Cost of operations was \$54,901 and \$109,330 for the three and six months ended June 30, 2007, compared to \$169,041 and \$336,215 in the prior year periods. Our cost of operations represented 42.5% and 43.5% of revenue for the three and six months ended June 30, 2007, compared to 58.0% and 59.1% in the prior year periods. Included in cost of operations are non-cash expenses related to stock-based compensation of \$1,040 and \$2,650 for the three and six months ended June 30, 2007, compared to \$3,385 and \$6,342 in the prior year periods. The decrease in non-cash stock-based compensation expense is primarily due to the graded vesting schedule that was used for all stock options and restricted stock awards granted prior to the January 1, 2006 adoption date of SFAS 123R, including the WebMD options and restricted stock granted at the time of the initial public offering, as well as non-cash stock-based compensation expense related to EBS employees, which was included in the prior year periods.

Cost of operations, excluding the non-cash stock-based compensation expenses discussed above, was \$53,861 and \$106,680, or 41.7% and 42.4% of revenue, for the three and six months ended June 30, 2007, compared to \$165,656 and \$329,873, or 56.8% and 58.0% of revenue, in the prior year periods. The decrease in cost of operations excluding non-cash stock-based compensation expenses, as a percentage of revenue, was primarily due to the EBS Sale, as EBS services and products had lower gross margins than our other operations.

*Development and Engineering.* Development and engineering expense was \$4,767 and \$9,341 for the three and six months ended June 30, 2007, compared to \$9,057 and \$17,921 in the prior year periods. Our development and engineering expenses represented 3.7% of revenue for the three and six months ended June 30, 2007, compared to 3.1% and 3.2% in the prior year periods. The decrease in development and engineering expense, was primarily due to the EBS Sale.

**Table of Contents**

*Sales, Marketing, General and Administrative.* Sales, marketing, general and administrative expense was \$58,340 and \$118,739 for the three and six months ended June 30, 2007, compared to \$72,033 and \$142,213 in the prior year periods. Our sales, marketing, general and administrative expenses represented 45.1% and 47.3% of revenue for the three and six months ended June 30, 2007, compared to 24.7% and 25.1% in the prior year periods. Non-cash expenses related to advertising expense were \$0 and \$2,320 for the three and six months ended June 30, 2007, compared to \$1,189 and \$2,794 for the three and six months ended June 30, 2006. This decrease was due to lower utilization of our prepaid advertising inventory. Non-cash stock-based compensation was \$7,241 and \$15,360 for the three and six months ended June 30, 2007, compared to \$8,627 and \$17,099 in the prior year periods. The decrease in non-cash stock-based compensation was due to the non-cash stock-based compensation expense related to EBS employees, which was included in the prior year periods, and the graded vesting schedule that was used for all stock options and restricted stock awards granted prior to the January 1, 2006 adoption of SFAS 123R, including the WebMD options and restricted stock granted at the time of the initial public offering. These decreases were partially offset by additional non-cash stock-based compensation expense related to options granted in 2006.

Sales, marketing, general and administrative expense, excluding the non-cash expenses discussed above, was \$51,099 and \$101,059, or 39.5% and 40.2% of revenue, for the three and six months ended June 30, 2007, compared to \$62,217 and \$122,320, or 21.3% and 21.5% of revenue, in the prior year periods. The increase in sales, marketing, general and administrative expense, excluding the non-cash expenses discussed above, as a percentage of revenue, was primarily due to the EBS Sale, as EBS had lower sales, marketing, general and administrative expenses as a percentage of revenue than our other operations. Also contributing to the fluctuation in sales, marketing, general and administrative expense, in dollars, is higher personnel related costs within our WebMD segment which is attributed to the increased revenue within our WebMD segment discussed above, as well as increased expenses within our WebMD segment related to recent acquisitions that were not included, or only partially included in the prior year periods. Additionally, our shared service costs and other corporate expenses were lower for the three and six months ended June 30, 2007, as compared to the prior year periods, as a result of lower shared service costs for our EBS and EPS operations due to the EBS Sale and EPS Sale.

*Depreciation and Amortization.* Depreciation and amortization expense was \$11,678 and \$22,405, or 9.0% and 8.9% of revenue, for the three and six months ended June 30, 2007, compared to \$17,221 and \$33,775, or 5.9% of revenue for the three and six months ended June 30, 2006. The decrease in depreciation and amortization expense was primarily due to the EBS Sale. Partially offsetting this decrease to depreciation and amortization expense for the three and six months June 30, 2007, were WebMD's recent acquisitions and capital improvements within our WebMD segment, which resulted in additional depreciation and amortization expense for the three and six months ended June 30, 2007, as compared to the prior year periods.

*Interest Income.* Interest income increased to \$10,100 and \$19,774 for the three and six months ended June 30, 2007, from \$4,433 and \$8,851 in the prior year periods. The increase was due to higher average investment balances and higher rates of return for the three and six months ended June 30, 2007, as compared to the prior year periods.

*Interest Expense.* Interest expense of \$4,619 and \$9,336 for the three and six months ended June 30, 2007 was consistent with interest expense of \$4,668 and \$9,359 for the three and six months ended June 30, 2006. Interest expense for both the three and six months ended June 30, 2007 and 2006 is primarily related to 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 3 1/8% Convertible Notes due 2025.

*Other Income (Expense), Net.* For the three and six months ended June 30, 2007, other income, net, was \$1,396 and \$4,278, compared to other expense of \$2,347 and \$2,889 in the prior year periods. Other income, net for the three and six months ended June 30, 2007 includes transition services income of \$1,468 and \$3,924 related to the services we provide to EBSCO and Sage Software, net of services EBSCO provides to us, related to each of their respective



transition services agreements, and \$399 and \$746 related to the reversal of certain sales and use tax contingencies resulting from the expiration of various statutes. Other expense of \$2,072 for the three and six months ended June 30, 2006 includes advisory expenses for professional fees, primarily

**Table of Contents**

consisting of legal, accounting and financial advisory services related to our exploration of strategic alternative for our former EBS segment. Also included in other income (expense), net was \$471 and \$791 for the three and six months ended June 30, 2007 and \$275 and \$817 for the three and six months ended June 30, 2006, consisted of external legal costs and expenses incurred by our company related to the investigation by the United States Attorney for the District of South Carolina and the SEC.

*Income Tax Provision.* The income tax provision of \$2,031 and \$3,021 for the three and six months ended June 30, 2007 and \$6,288 and \$10,344 for the three and six months ended June 30, 2006, includes tax expense for operations that were profitable in certain foreign, state and other jurisdictions in which we do not have net operating loss carryforwards to offset that income. Additionally, included in the income tax provision is deferred tax expense related to a portion of our goodwill that is deductible for tax purposes, as well as deferred tax expense, which has not been reduced by the reversal of the valuation allowance as these tax benefits were acquired through business combinations or established through equity.

*Minority Interest in WHC Income (Loss).* Minority interest expense of \$843 and \$958 for the three and six months ended June 30, 2007, compared to minority interest income of \$121 and \$593 for the prior year periods, represents the minority stockholders' proportionate share of income or loss for the consolidated WebMD segment. The ownership interest of minority shareholders was created as part of our initial public offering of the WebMD segment on September 28, 2005 and 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' ownership percentage of WHC was 15.8% as of June 30, 2007, compared to 14.2% as of June 30, 2006.

*(Loss) Income from Discontinued Operations, Net of Tax.* Loss from discontinued operations for the three and six months ended June 30, 2007 of \$56,649 and \$56,676 includes a pre-tax charge of approximately \$57,800, related to our 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. For a description of this matter, see [Recent Developments](#). For the three and six months ended June 30, 2006, income from discontinued operations represents EPS' net operating results of \$6,556 and \$12,123.

**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 income items: a working capital adjustment from the sale of 52% interest of EBS; legal expenses which reflect costs and expenses incurred by our company 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 and advisory expense related to the evaluation, in 2006, by our Board of Directors of strategic alternatives for EBS. Inter-segment revenue primarily represents printing services provided by EBS during the three and six months ended June 30, 2006 and certain services provided by our WebMD segment to our other operating segments during the three and six months ended June 30, 2007 and 2006.

**Table of Contents**

Summarized financial information for each of our operating segments and corporate segment and a reconciliation to net (loss) income are presented below:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2006(a)</b> <b>(Restated)</b>	<b>2007</b>	<b>2006(a)</b> <b>(Restated)</b>
<b>Revenue</b>				
Emdeon Business Services	\$	\$ 187,858	\$	\$ 370,709
WebMD	78,479	56,612	151,441	106,663
ViPS	25,885	24,845	52,544	48,681
Porex	25,003	22,659	47,712	43,246
Inter-segment eliminations	(73)	(343)	(378)	(474)
	\$ 129,294	\$ 291,631	\$ 251,319	\$ 568,825
<b>Earnings before interest, taxes, non-cash and other items</b>				
Emdeon Business Services	\$	\$ 44,765	\$	\$ 82,972
WebMD	15,155	9,599	27,762	16,126
ViPS	5,094	5,057	9,934	10,215
Porex	7,343	7,045	13,817	12,599
Corporate	(6,483)	(11,495)	(13,214)	(22,633)
	21,109	54,971	38,299	99,279
<b>Interest, taxes, non-cash and other items</b>				
Depreciation and amortization	(11,678)	(17,221)	(22,405)	(33,775)
Non-cash stock-based compensation	(8,355)	(12,282)	(18,146)	(24,009)
Non-cash advertising		(1,189)	(2,320)	(2,794)
Interest income	10,100	4,433	19,774	8,851
Interest expense	(4,619)	(4,668)	(9,336)	(9,359)
Income tax provision	(2,031)	(6,288)	(3,021)	(10,344)
Minority interest in WHC (income) loss	(843)	121	(958)	593
Equity in earnings of EBS Master LLC	7,575		14,674	
Other (expense) income, net	(72)	(2,347)	354	(2,889)
Income from continuing operations	11,186	15,530	16,915	25,553
(Loss) income from discontinued operations, net of tax	(56,649)	6,556	(56,676)	12,123
Net (loss) income	\$ (45,463)	\$ 22,086	\$ (39,761)	\$ 37,676

(a) The EBS segment was sold on November 16, 2006 and, therefore, the operations of the EBS segment are included for the period January 1, 2006 through June 30, 2006.

The following discussion is a comparison of the results of operations for each of our operating segments and our corporate segment for the three and six months ended June 30, 2007 to the three and six months ended June 30, 2006.

*WebMD.* Revenue was \$78,479 and \$151,441 for the three and six months ended June 30, 2007, an increase of \$21,867 or 38.6% and \$44,778 or 42.0%, compared to the prior year periods. The increase in revenue was primarily attributed to an increase in the number of brands and sponsored programs promoted on WebMD's Web sites, as well as increased licensing revenue from our private online portals. Revenue from the acquisition of Subimo LLC, Medsite and Summex contributed \$9,690 and \$18,952 to the increase in revenue for the three and six months ended June 30, 2007.

**Table of Contents**

Earnings before interest, taxes, non-cash and other items was \$15,155 and \$27,762 for the three and six months ended June 30, 2007, compared to \$9,599 and \$16,126 in the prior year periods. As a percentage of revenue, earnings before interest, taxes, non-cash and other items was 19.3% and 18.3% for the three and six months ended June 30, 2007, compared to 17.0% and 15.1% for the prior year periods. The increase as a percentage of revenue was primarily due to higher revenue from the increased number of brands and sponsored programs in WebMD's public portals, as well as the increase in companies using WebMD's private portals without incurring a proportionate increase in overall expenses.

*ViPS.* Revenue was \$25,885 and \$52,544 for the three and six months ended June 30, 2007, an increase of \$1,040 or 4.2% and \$3,863 or 7.9%, compared to the prior year periods. The increase in revenue for the three and six months ended June 30, 2007 was due to the continued increase in professional consulting services that we provide to governmental agencies, and, to a lesser extent, license revenue and related support and maintenance revenue related to data warehousing and decision-support software.

Earnings before interest, taxes, non-cash and other items was \$5,094 and \$9,934 for the three and six months ended June 30, 2007, compared to \$5,057 and \$10,215 in the prior year periods. As a percentage of revenue, earnings before interest, taxes, non-cash and other items was 19.7% and 18.9% for the three and six months ended June 30, 2007, compared to 20.4% and 21.0% for the prior year periods. The decrease in operating margin as a percentage of revenue for the three and six months ended June 30, 2007, was primarily due to the changes in the type of revenue we earned, which can have varying degrees of profitability.

*Porex.* Revenue was \$25,003 and \$47,712 for the three and six months ended June 30, 2007, an increase of \$2,344 or 10.3% and \$4,466 or 10.3%, compared to the prior year periods. The increase in revenue for the three and six months ended June 30, 2007 was primarily due to increased sales of our consumer products, as well as a favorable impact of exchange rates on the translation of our foreign operations. Also contributing to the increase in revenue for the three months ended June 30, 2007 was higher sales of our surgical products.

Earnings before interest, taxes, non-cash and other items was \$7,343 and \$13,817 for the three and six months ended June 30, 2007, compared to \$7,045 and \$12,599 in the prior year periods. As a percentage of revenue, earnings before interest, taxes, non-cash and other items was 29.4% and 29.0% for the three and six months ended June 30, 2007, compared to 31.1% and 29.1% for the prior year periods. The decrease in operating margin as a percentage of revenue for the three and six months ended June 30, 2007 was due to higher insurance, compensation and marketing costs. Partially offsetting this decrease in operating margin as a percentage of revenue for the three and six months ended June 30, 2007 is the impact of the increased revenue discussed above, combined with the effect of Porex's manufacturing costs, which are generally more fixed in nature.

*Corporate.* Corporate includes services shared across some or all of our operating segments, such as executive personnel, accounting, tax, treasury, legal, human resources, internal audit, risk management and certain information technology functions. In addition, corporate includes the net fees we earned from the support services we provide to EBSCO and Sage Software. Corporate expenses were \$6,483 or 5.0% of revenue and \$13,214 or 5.3% of revenue for the three and six months ended June 30, 2007, compared to \$11,495 or 3.9% of revenue and \$22,633 or 4.0% of revenue for the prior year periods. The decrease in corporate expenses, in dollars, for the three and six months ended June 30, 2007, was the result of the EBS Sale and the EPS Sale which occurred in the latter half of 2006 and resulted in a significant reduction in a portion of the shared services performed at corporate, which previously supported those operations. The most significant reductions in expenses were related to personnel expenses, as well as certain outside services including legal and accounting services. Additionally, included in corporate during the three and six months ended June 30, 2007 is transition services income of \$1,468 and \$3,924 related to the services we continue to provide to EBSCO and Sage Software, which were not included in the prior year periods. The increase in corporate expenses as a percentage of revenue was due to the impact of lower revenue as a result of the EBS Sale, combined with the

effect of certain corporate expenses that are fixed in nature, and accordingly, did not decrease in proportion to the reduction in revenue.

**Table of Contents**

*Inter-Segment Eliminations.* Inter-segment eliminations primarily represents printing services provided by EBS during the three and six months ended June 30, 2006, and certain services provided by the WebMD segment to our other operating segments during the three and six months ended June 30, 2007 and 2006.

**Liquidity and Capital Resources**

We began operations in January 1996 and, until 2004, we had incurred net losses in each year and, as of June 30, 2007, we had an accumulated deficit of approximately \$9.4 billion. We plan to continue to invest in acquisitions, strategic relationships, infrastructure and product development.

As of June 30, 2007, we had approximately \$738,891 in cash and cash equivalents and short-term investments, including \$240,257 in cash and cash equivalents and short-term investments held by WHC, and working capital, excluding our liabilities of discontinued operations, of \$766,006. We invest our excess cash principally in auction rate securities, asset backed securities and money market funds and expect to do so in the future. As of June 30, 2007, all our marketable securities were classified as available-for-sale.

Cash provided by operating activities from our continuing operations was \$20,860 for the six months ended June 30, 2007, compared to cash provided by operating activities from our continuing operations of \$99,396 for the six months ended June 30, 2006. The \$78,536 decrease in cash provided by operating activities from our continuing operations when compared to a year ago primarily relates to EBS being treated as an equity investment during the six months ended June 30, 2007. While we are sharing 48% of EBSCo's earnings, we did not receive cash distributions from the investment during the period. Also contributing to this decrease in cash flow from operating activities, when compared to the prior year, were estimated payments for income taxes, which were higher than the prior year period due to the gain recognized for the EBS Sale during the three months ended December 31, 2006.

Cash used in investing activities was \$184,776 for the six months ended June 30, 2007, compared to cash used in investing activities from our continuing operations of \$124,408 for the six months ended June 30, 2006. Cash used in investing activities for the six months ended June 30, 2007, was attributable to net disbursements of \$194,846 from purchases, net of maturities and sales, of available for sale securities compared to \$27,600 for the six months ended June 30, 2006. During the six months ended June 30, 2007, we received \$19,730 in 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 \$10,016 of expenses paid by us on EBSCo's behalf through December 31, 2006. Cash used in investing activities from our continuing operations for the six months ended June 30, 2006, included \$84,846 in cash paid for business combinations, which primarily related to the acquisitions of Summex Corporation and eMedicine.com, Inc., as well as the contingent consideration payments related to our acquisitions of Advanced Business Fulfillment, Inc. and MedicineNet, Inc. Investments in property and equipment decreased to \$12,558 for the six months ended June 30, 2007 from \$27,429 a year ago, primarily as a result of the EBS Sale.

Cash provided by financing activities was \$60,713 for the six months ended June 30, 2007, compared to cash used in financing activities of \$41,583 for the six months ended June 30, 2006. Cash provided by financing activities for the six months ended June 30, 2007 principally related to proceeds of \$103,263 from the issuance of HLTH Common Stock and WebMD Class A Common Stock resulting from the exercises of employee stock options, partially offset by the repurchases of HLTH Common Stock of \$42,906. Cash used in financing activities for the six months ended June 30, 2006, principally related to the repurchases of HLTH Common Stock of \$71,843, partially offset by proceeds of \$30,433 from the issuance of HLTH Common Stock resulting from exercises of employee stock options.

Included in our consolidated statements of cash flows are cash flows from discontinued operations of the EPS segment as a result of the EPS Sale. Our cash flows from discontinued operations for the six months ended June 30, 2007 of \$1,880 represent payments of legal fees related to our indemnity obligations of the initially ten and now nine former

officers and directors of EPS, who were indicted in connection with the Investigation. Our remaining reserve relating to this indemnity obligation was \$55,893 as of June 30, 2007. The ultimate outcome of this matter is still uncertain, and accordingly, the amount of cost we may ultimately incur could be substantially more than the reserve we have currently provided. Our cash flows from



## **Table of Contents**

discontinued operations for the six months ended June 30, 2006 are comprised of cash flows provided by operating activities of \$15,825 and cash flows used in investing activities of \$17,009, and represent activity related to the operations of our EPS segment prior to the EPS Sale.

Our principal commitments at June 30, 2007 were our commitments related to our \$350,000 of 1.75% Convertible Subordinated Notes due 2023 and our \$300,000 of 31/8% Convertible Notes due 2025. In addition, we have obligations under operating leases of \$55,686. We anticipate capital expenditure requirements of approximately \$23,000 to \$28,000 for the full year of 2007, of which approximately \$15,000 to \$20,000 relates to WebMD.

We believe that, for the foreseeable future, we will have sufficient cash resources to meet the commitments described above and our current anticipated working capital and capital expenditure requirements. 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, potential future acquisitions and additional repurchases of HLTH Common Stock. We may need to raise additional funds to support expansion, develop new or enhanced applications and services, respond to competitive pressures, acquire complementary businesses or technologies or take advantage of unanticipated opportunities. If required, we may raise such additional funds through public or private debt or equity financing, strategic relationships or other arrangements. There can be no assurance that such financing will be available on acceptable terms, if at all, or that such financing will not be dilutive to our stockholders. 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.

## **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

**Table of Contents**

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 both health-related Web sites and general purpose consumer online services and portals and with other high-traffic Web sites that include both healthcare-related and non-healthcare-related content and services.

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 health plans and their affiliates.

WebMD's Publishing and Other Services segment's products and services compete with numerous other online and offline sources of healthcare information, including traditional medical reference publications, print journals and other specialized publications targeted to physicians, some of which have a more complete range of titles and better access to traditional distribution channels than WebMD has.

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 is 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

## **Table of Contents**

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 and rapidly growing markets. These businesses have undergone significant changes during their short history as a result of changes in the types of services provided, technological changes and changes in market conditions and are expected to continue to change for similar reasons. 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 be profitable.

*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 long term.

*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, not all of which are in WebMD's control, and any of which may be difficult to forecast accurately. The majority of WebMD's advertising and sponsorship contracts are for terms of approximately four to 12 months. WebMD has relatively few longer term advertising and sponsorship contracts. We cannot assure you that WebMD's current customers for these services 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 WebMD's revenue from advertisers and sponsors include:

the timing of FDA approval for new products or for new approved uses for existing products;

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.

**Table of Contents**

*Lengthy sales and implementation cycles for WebMD's private online portals make it difficult to forecast revenues from these applications*

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 12 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 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 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.



**Table of Contents**

*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 does 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 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 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.



**Table of Contents**

*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, its 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 is a major issue both in the United States and abroad. WebMD has privacy policies posted on its Web sites that it believes comply with applicable laws requiring notice to users

**Table of Contents**

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. In addition, WebMD notifies users about its information collection, use and disclosure practices relating to data it receives through offline means such as paper health risk assessments. However, 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.

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

WebMD's CME activities are planned and implemented in accordance with the 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 September 2004, 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 are independent of providers of healthcare goods and services that fund the development of CME. ACCME required accredited providers to implement these standards by May 2005. Implementation required additional disclosures to CME participants about those in a position to influence content and other adjustments to the management and operations of our CME programs. WebMD believes it has modified its procedures as appropriate to meet the revised standards. However, WebMD cannot be certain whether these adjustments will ensure that it meets these standards or predict whether ACCME may impose additional requirements.

If ACCME concludes that WebMD has not met its revised standards relating to CME, WebMD would not be permitted to offer accredited ACCME activities to physicians and other healthcare professionals, and WebMD may be required, instead, to use third parties to accredit such CME-related services on *Medscape from WebMD*. In addition, any failure to maintain WebMD's status as an accredited ACCME provider as a result of a failure to comply with existing or additional ACCME standards or other requirements could discourage potential sponsors from engaging in CME or education related activities with WebMD, which could have a material adverse effect on its 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 the FDA, the OIG, or HHS, the federal agency responsible for interpreting certain federal laws relating to healthcare, and by state regulatory agencies. During the past several years, educational programs, including CME, directed toward physicians have been subject to increased scrutiny to ensure that sponsors do not influence or control the content of the program. In response to governmental and industry initiatives, pharmaceutical companies and medical device companies have been developing and implementing internal controls and procedures that promote adherence to applicable regulations and requirements. In implementing these controls and procedures, different clients may interpret the regulations and requirements differently and may implement procedures or requirements that vary from client to client. These controls and procedures:

- may discourage pharmaceutical companies from engaging in educational activities;

- may slow their internal approval for such programs;

- may reduce the volume of sponsored educational programs implemented through WebMD's Web sites to levels that are lower than in the past; and

- may require WebMD to make changes to how it offers or provides educational programs, including CME.

In addition, future changes to existing regulations or to the internal compliance programs of clients or potential clients, may further discourage or prohibit clients or potential clients from engaging in educational activities with WebMD, or may require WebMD to make further changes in the way it offers or provides educational programs.

**Table of Contents**

**Risks Related to ViPS**

*ViPS depends on CMS for a significant portion of its revenues and, if ViPS' reputation or relationship with CMS were harmed, ViPS' financial results would be 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 71% of its revenue from CMS (as prime contractor or as a subcontractor) in 2006 and approximately 72% of its revenue in 2005. ViPS' reputation and relationship with CMS is a key factor in maintaining and growing revenues under contracts with CMS. Negative press reports regarding poor contract performance, employee misconduct, information security breaches or other aspects of our business (including aspects of HLTH's business that are unrelated to ViPS) could harm ViPS' reputation. If ViPS' reputation with CMS is negatively affected, or if it is suspended or debarred from contracting with government agencies for any reason, such actions would decrease the amount of business that CMS does with ViPS and ViPS' financial results would be adversely affected.

ViPS and other potential CMS contractors are currently awaiting an award announcement after responding to a Request for Proposals issued by CMS for a new, indefinite delivery/indefinite quantity (IDIQ), performance-based contracting vehicle named Enterprise Systems Development, or ESD, under which ViPS expects CMS to award four to six prime contracts to the bidders that are selected through the process. We understand that it is CMS' intent to procure most, if not all, information technology development work through this contract vehicle for approximately the next 10 years. If ViPS is not selected to be one of the four to six prime contractors under ESD, it will have only the more limited opportunity to pursue work under ESD as a subcontractor. There can be no assurance that ViPS will be awarded a prime contract under ESD or, if it is not awarded a prime contract, that opportunities as a subcontractor will be available or that ViPS will be selected as a subcontractor. As a result, if ViPS is not awarded a prime contract under ESD, its revenue from CMS programs could be significantly reduced, which could adversely affect ViPS' financial results.

In addition, contracts under ESD will 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.

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 may decrease the amount of business that CMS does with ViPS and adversely affect ViPS' financial results.

*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 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



**Table of Contents**

the contracts and subcontracts at its convenience. 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.

*ViPS CMS contracts may be terminated and ViPS may be liable for penalties under a variety of procurement rules and regulations*

ViPS must comply with laws and regulations relating to the formation, administration and performance of CMS contracts. Such laws and regulations may potentially impose added costs on ViPS business and its failure to comply with them may lead to penalties and the 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.

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, the triggering of price reduction 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 win awards of contracts 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 CMS, 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 recompetition bids. In addition, new contracting methods could be costly or administratively difficult for ViPS to implement and could adversely affect its financial results.

**Table of Contents**

*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 six 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

## **Table of Contents**

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.

## **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.

**Table of Contents**

*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 which 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.



**Table of Contents**

*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.

*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

**Table of Contents**

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.

*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 Our Investment in EBSCO**

*We have a minority investment in EBSCO, which is now a highly leveraged company*

In November 2006, we sold a majority interest in EBS to an affiliate of General Atlantic LLC. The acquisition was financed in part with approximately \$925 million in bank debt, which is an obligation of EBSCO's subsidiaries and guaranteed by EBSCO. The debt incurred in connection with this transaction will reduce the profitability of EBSCO and the loan agreements related to this debt contain covenants restricting payment of dividends by EBSCO. In addition, if EBSCO's subsidiaries are not able to service this debt with cash flow from operations, that could have a material adverse effect on EBSCO's results of operations and the value of our investment. Moreover, as a holder of a minority interest in EBSCO, we do not have voting control over the entity, and are not able to make decisions regarding the affairs of EBSCO except to the extent specifically provided for in EBSCO's corporate governance documents.

*EBS may not be able to maintain its existing relationships with healthcare payers or to develop new ones on satisfactory terms*

There can be no assurance that healthcare payers will continue to use EBS and other independent companies to transmit healthcare EDI transactions or for related services. Some of EBS's existing payer and provider customers compete with it or plan to do so or belong to alliances that compete with it or plan to do so or have made investments in EBS's competitors. For example, some payers currently offer, through affiliated clearinghouses, Web portals and other means, EDI services to healthcare providers that allow the provider to bypass third-party EDI service providers such as EBS, and additional payers may do so in the

**Table of Contents**

future. The ability of payers to do so may adversely affect the terms and conditions EBS is able to negotiate in its agreements with them. We cannot provide assurance that EBS will be able to maintain its existing relationships with payers or develop new relationships on satisfactory terms. To the extent that it is not able to do so, EBS's transaction volume and financial results could be adversely affected, which would reduce the value of our investment in EBSCO.

*EBS may not be able to maintain its existing relationships with practice management system vendors and large submitters of healthcare EDI transactions or to develop new ones on satisfactory terms*

EBS has developed relationships with practice management system vendors and large submitters of healthcare claims to increase the usage of its transaction services. In the past several years, there has been consolidation of practice management systems vendors, including among some of the larger such vendors, which may increase their bargaining power in negotiations with EBS. To the extent that it is not able to maintain mutually satisfactory relationships with the larger practice management system vendors and large submitters of healthcare EDI transactions, EBS's transaction volume and financial results could be adversely affected, which would reduce the value of our investment in EBSCO.

*New or updated products and services of EBS will not become profitable unless they achieve sufficient levels of market acceptance*

The future financial results of EBSCO and the value of our investment in it will depend, in part, on whether its new or updated products and services receive sufficient customer acceptance, including:

the business process outsourcing services for payers that it has developed internally and through acquisitions;

electronic billing, payment and remittance services for healthcare payers and providers that complement its existing paper based paid claims communication and patient billing services; and

its other pre- and post-adjudication services for payers and providers.

There can be no assurance that payers and providers who use EBS for sending and receiving claims will use its other services. Providers and payers may choose to use similar products and services offered by our competitors, especially if they are already using products and services of those competitors and have made investments in hardware, software and training relating to those products and services. Even providers and payers that are already customers of EBS may not purchase new or updated products or services, especially when they are initially offered or if they require additional equipment or changes in workflow. Failure to achieve broad penetration in target markets with respect to new or updated products and services could have an adverse effect on the business prospects and financial results of EBS, which would reduce the value of our investment in EBSCO.

For services that EBS is developing or may develop in the future, there can be no assurance that it will attract sufficient customers or that such services will generate sufficient revenues to cover the costs of developing, marketing and providing those services. In addition, the introduction of future products and services may require or make advisable related changes in the manner in which EBS markets, delivers and prices its products and services, including pre-existing products and services. There can be no assurance that any pricing strategy that EBS implements for any new products and services will be economically viable or acceptable to the target markets.

*EBS's ability to provide transaction services depends on services provided by telecommunications companies*

EBS relies on a limited number of suppliers to provide some of the telecommunications services necessary for its transaction services. The telecommunications industry has been subject to significant changes as a result of changes in technology, regulation and the underlying economy. In the past several years, many telecommunications companies

have experienced financial problems and some have sought bankruptcy protection. Some of these companies have discontinued telecommunications services for which they had

**Table of Contents**

contractual obligations to EBS. There has also been consolidation of telecommunications companies, further reducing the number of telecommunications companies competing for business. EBS's inability to source telecommunications services at reasonable prices due to a loss of competitive suppliers could affect its ability to maintain its margins until it is able to raise its prices to its customers and, if it is not able to raise its prices, could have an adverse effect on EBS's financial results and the value of our investment in it.

*If EBS's systems experience security breaches or are otherwise perceived to be insecure, its business could suffer*

A security breach could damage EBS's reputation or result in liability. EBS retains and transmits confidential information, including patient health information, in its processing centers and other facilities. It is critical that these facilities and infrastructure remain secure and be perceived by the marketplace as secure. EBS 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, EBS's infrastructure or other systems that it 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 EBS's security, whether as a result of its own systems or systems that they interface with, could reduce demand for EBS's services and, as a result, have an adverse effect on EBS's financial results and the value of our investment in it.

*Performance problems with EBS's systems or system failures, whether caused by hardware, software or other problems, could cause EBS to lose business or incur liabilities*

EBS's customer satisfaction and its business could be harmed if it experiences transmission delays or failures or loss of data in the systems it uses to provide services to its customers, including the transaction-related services that it provides to healthcare payers. These systems, and the software used in these systems, are complex and, despite testing and quality control, EBS cannot be certain that problems will not occur or that they will be detected and corrected promptly if they do occur. To operate without interruption, both EBS and the third-party service providers that EBS uses must guard against:

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

EBS has contingency plans for emergencies with the systems it uses to provide services; however, it has limited backup facilities if these systems are not functioning. The occurrence of a major catastrophic event or other system failure at any of EBS's facilities or at a third-party facility it uses could interrupt EBS's services or result in the loss of stored data, which could have a material adverse impact on EBS's business or cause it to incur material liabilities. Although EBS maintains insurance for its business, we cannot guarantee that its insurance will be adequate to compensate it for all losses that may occur or that this coverage will continue to be available on acceptable terms or in sufficient amounts.

**Risks Related to Providing Products and Services to the Healthcare Industry**

*Developments in the healthcare industry could adversely affect our businesses*

Most of the revenue of WebMD, ViPS and EBS 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



**Table of Contents**

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 or EBS serves. For example, use of our or EBS's products and services could be affected by:

changes in the billing patterns of healthcare providers;

changes in the design of health insurance plans;

changes in the contracting methods payers use in their relationships with providers;

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.

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 the compliance efforts and business strategies of WebMD, ViPS, Porex and EBS*

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. Similar risks apply to EBS. 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 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;

**Table of Contents**

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.

Some of the risks that EBS faces from healthcare regulations are as follows:

because EBS is in the business of applying information technology to healthcare, various aspects of HIPAA have had and are expected to continue to have significant consequences for EBS; and

EBS's healthcare connectivity and transaction-related administrative services must be provided in compliance with federal and state false claims laws.

For more information regarding the risks that healthcare regulation creates for our businesses and for EBS, see Business Government Regulation in our Annual Report on Form 10-K for the year ended December 31, 2006.

**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 Quarterly 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.

*The dispositions of Emdeon Practice Services and Emdeon Business Services may create contractual liabilities, including for indemnifications, as well as other risks and liabilities*

We may face significant expense as a result of ongoing obligations in connection with the sale of Emdeon Practice Services to Sage Software and the sale of a 52% interest in Emdeon Business Services to an affiliate of General Atlantic LLC. The agreements we entered into in connection with those transactions require us to indemnify the purchasers for specified losses incurred by them or resulting from the inaccuracy of representations made by us in connection with the transactions. We will remain exposed to these liabilities until the

**Table of Contents**

indemnification periods expire under the agreements. In addition, we may be subject to other, unforeseen risks and liabilities relating to those transactions. Although our management has attempted to evaluate and assess the potential liabilities involved in those transactions, we cannot assure you that we have properly ascertained all of the risks.

*We depend on EBS to provide us with certain services required by us for the operation of our business*

Certain administrative services required by us for the operation of our business are provided to us by EBS under a Transition Services Agreement. These services include telecommunication infrastructure and management services, data center support and purchasing and procurement services. A disruption in the provision of these services by EBS could have an adverse effect on the operation of our business.

We reimburse EBS in agreed upon amounts or under agreed-upon formulas based on EBS's costs related to those services. The costs we are charged under the Transition Services Agreement are not necessarily indicative of the costs that we would incur if we had to provide the services on our own or contract for them with third parties on a stand-alone basis.

*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, 2006, we had net operating loss carryforwards of approximately \$1.2 billion for federal income tax purposes and federal tax credits of approximately \$35 million. 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.

*Our success depends, in part, on our attracting and retaining qualified executives and employees*

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

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

In the past 18 months, we have experienced significant changes in our senior management. The President of our company, who was also the head of our Emdeon Business Services segment, left in December 2005. 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. We have also announced that our Chief Executive Officer may change positions within our company for health reasons. 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 business.



**Table of Contents**

*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 EBS and 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 pricing disclosure requirements that are designed to ensure that the government can negotiate and receive pricing akin to that offered commercially and requirements to submit proprietary cost or pricing data to ensure that government contract pricing is fair and reasonable;

commercial customer price tracking requirements that require contractors to monitor pricing offered to a specified class of customers and to extend price reductions offered to that class of customers to the government;

reporting and compliance requirements related to, among other things: conflicts of interest, equal employment opportunity, affirmative action for veterans and for workers with disabilities, and accessibility for the disabled;

broader audit rights than we would usually grant to non-governmental customers; and

specialized remedies for breach and default, including setoff rights, retroactive price adjustments, and civil or criminal fraud penalties, as well as mandatory administrative dispute resolution procedures instead of state contract law remedies.

In addition, certain violations of federal law may subject government contractors to having their contracts terminated and, under certain circumstances, suspension and/or debarment from future government contracts. We are also subject to conflict-of-interest rules that may affect our eligibility for some government contracts, including rules applicable to all U.S. government contracts as well as rules applicable to the specific agencies with which we have contracts or with which we may seek to enter into contracts. Finally, some of our government contracts are priced based on our cost of providing products and services. Those contracts are subject to regulatory cost-allowability standards and a specialized system of cost accounting standards.

Risks and uncertainties similar to the above apply to EBS's contractual relationships with governmental entities.

*We may not be successful in protecting our intellectual property and proprietary rights*

Intellectual property and proprietary rights are important to our businesses. The steps that we take to protect our intellectual property, proprietary information and trade secrets may prove to be inadequate and, whether or not adequate, may be expensive. We rely on a combination of trade secret, patent and other intellectual property laws and confidentiality procedures and non-disclosure contractual provisions to protect our intellectual property. We cannot assure you that we will be able to detect potential or actual misappropriation or infringement of our intellectual property, proprietary information or trade secrets. Even if we detect misappropriation or infringement by a third party, we cannot assure you that we will be able to enforce our rights at a reasonable cost, or at all. In addition, our rights to

intellectual property, proprietary information and trade secrets may not prevent independent third-party development and commercialization of competing products or services. EBS is subject to similar risks relating to its intellectual property and proprietary rights.



**Table of Contents**

*Third parties may claim that we are infringing their intellectual property, and we could suffer significant litigation or licensing expenses or be prevented from selling products or services*

We could be subject to claims that we are misappropriating or infringing intellectual property or other proprietary rights of others. These claims, even if not meritorious, could be expensive to defend and divert management's attention from our operations. If we become liable to third parties for infringing these rights, we could be required to pay a substantial damage award and to develop non-infringing technology, obtain a license or cease selling the products or services that use or contain the infringing intellectual property. We may be unable to develop non-infringing products or services or obtain a license on commercially reasonable terms, or at all. We may also be required to indemnify our customers if they become subject to third-party claims relating to intellectual property that we license or otherwise provide to them, which could be costly. EBS is subject to similar risks relating to claims that it is infringing the intellectual property of third parties.

*We have incurred losses and may incur losses in the future*

We began operations in January 1996 and, until 2004, had incurred net losses in each year since our inception. As of June 30, 2007, we had an accumulated deficit of approximately \$9.4 billion. We currently intend to continue to invest in infrastructure development, applications development, marketing and acquisitions. Whether we incur losses in a particular period will depend on, among other things, the amount of such investments and whether those investments lead to increased revenues.

*Acquisitions, business combinations and other transactions may be difficult to complete and, if completed, may have negative consequences for our business and our securityholders*

We may seek to acquire or to engage in business combinations with companies engaged in complementary businesses. In addition, we may enter into joint ventures, strategic alliances or similar arrangements with third parties. These transactions may result in changes in the nature and scope of our operations and changes in our financial condition. Our success in completing these types of transactions will depend on, among other things, our ability to locate suitable candidates and negotiate mutually acceptable terms with them, as well as the availability of financing. Significant competition for these opportunities exists, which may increase the cost of and decrease the opportunities for these types of transactions. Similar risks and uncertainties apply to EBSCO's efforts to make acquisitions or to engage in business combinations.

Financing for these transactions may come from several sources, including:

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

Our issuance of additional securities could:

- cause substantial dilution of the percentage ownership of our stockholders at the time of the issuance;
- cause substantial dilution of our earnings per share;
- subject us to the risks associated with increased leverage, including a reduction in our ability to obtain financing or an increase in the cost of any financing we obtain;

subject us to restrictive covenants that could limit our flexibility in conducting future business activities; and adversely affect the prevailing market price for our outstanding securities.

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

**Table of Contents**

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

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

our ability to maintain relationships with the customers of the acquired business;

our ability to cross-sell products and services to customers with which we have established relationships and those with which the acquired businesses have established relationships;

our ability to retain or replace key personnel;

potential conflicts in payer, provider, strategic partner, sponsor or advertising relationships;

our ability to coordinate organizations that are geographically diverse and may have different business cultures; and

compliance with regulatory requirements.

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

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

Risks and uncertainties similar to the above apply to any acquisitions that EBSCo may make and may reduce the value of our investment in EBSCo.

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

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

**ITEM 3. *Quantitative and Qualitative Disclosures About Market Risk***

**Interest Rate Sensitivity**

The primary objective of our investment activities is to preserve principal and maintain adequate liquidity, while at the same time maximizing the yield we receive from our investment portfolio. This objective is accomplished by adherence to our investment policy, which establishes the list of eligible types of securities and credit requirements for each investment.

## **Table of Contents**

Changes in prevailing interest rates will cause the principal amount of the investment to fluctuate. To minimize this risk, we maintain our portfolio of cash equivalents, short-term investments and marketable securities in commercial paper, non-government debt securities, money market funds and highly liquid United States Treasury notes. We view these high grade securities within our portfolio as having similar market risk characteristics. Principal amounts expected to mature in 2007 and 2008 are \$227.9 million and \$0.9 million, respectively.

The \$350,000 of 1.75% Convertible Subordinated Notes due 2023 and the \$300,000 of 31/8% Convertible Notes due 2025 that we have issued have fixed interest rates; changes in interest rates will not impact our financial condition or results of operations.

We have not utilized derivative financial instruments in our investment portfolio.

## **Exchange Rate Sensitivity**

Currently, substantially all of our sales and expenses are denominated in United States dollars; however, Porex is exposed to fluctuations in foreign currency exchange rates, primarily the rate of exchange of the United States dollar against the Euro. This exposure arises primarily as a result of translating the results of Porex's foreign operations to the United States dollar at exchange rates that have fluctuated from the beginning of the accounting period. Porex is not engaged in foreign currency hedging activities to date. Foreign currency translation gains were \$0.4 million and \$0.8 million, during the three and six months ended June 30, 2007, respectively, and foreign currency translation gains were \$1.1 million and \$1.4 million, during the three and six months ended June 30, 2006. We believe that future exchange rate sensitivity related to Porex will not have a material effect on our financial condition or results of operations.

## **ITEM 4. *Controls and Procedures***

As required by Exchange Act Rule 13a-15(b), HLTH management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of HLTH's disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of June 30, 2007. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that HLTH's disclosure controls and procedures were effective as of June 30, 2007.

In connection with the evaluation required by Exchange Act Rule 13a-15(d), HLTH management, including the Chief Executive Officer and Chief Financial Officer, concluded that no changes in HLTH's internal control over financial reporting occurred during the second quarter of 2007 that have materially affected, or are reasonably likely to materially affect, HLTH's internal control over financial reporting, except for the previously disclosed remediation of a material weakness in our internal control over financial reporting with respect to accounting for income taxes relating to the treatment of tax deductible goodwill and certain intangible assets in the determination of the deferred tax asset valuation allowance. As of May 4, 2007, we implemented new procedures including improved documentation and analysis regarding the reversal pattern of taxable temporary differences between financial and tax reporting. HLTH management believes that these new procedures enable HLTH to comply with the requirements related to the accounting for deferred tax asset valuation allowances.

**Table of Contents****PART II  
OTHER INFORMATION****ITEM 1. *Legal Proceedings***

The information relating to legal proceedings contained in Note 13 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report is incorporated herein by this reference.

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

(a) On April 25, 2007, 60 shares of the Registrant's Convertible Redeemable Exchangeable Preferred Stock were converted by CalPERS/PCG Corporate Partners, LLC, the sole holder, into an aggregate of 63,829 shares of HLTH Common Stock. As previously disclosed, on June 29, 2007, 9,940 shares of the Registrant's Convertible Redeemable Exchangeable Preferred Stock (which represented all of the remaining outstanding shares of Convertible Redeemable Exchange Preferred Stock) were converted by CalPERS/PCG Corporate Partners, LLC, into an aggregate of 10,574,468 shares of HLTH Common Stock. Both conversions were exempt from registration under Section 3(a)(9) of the Securities Act of 1933. For additional information, see Note 2 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report.

(c) The following table provides information about purchases by HLTH during the three months ended June 30, 2007 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

**Issuer Purchases of Equity Securities**

<b>Period</b>	<b>Total Number of Shares Purchased(1)</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)</b>	<b>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(2)</b>
04/01/07 - 04/30/07	690	\$ 15.90		\$ 77,353,239
05/01/07 - 05/31/07	797,472	15.24	796,867	\$ 65,207,825
06/01/07 - 06/30/07	1,358,314	14.31	1,358,314	\$ 45,770,096
<b>Total</b>	<b>2,156,476</b>	<b>\$ 14.66</b>	<b>2,155,181</b>	<b>\$ 45,770,096</b>

(1)

Includes 690 and 605 shares withheld from HLTH Restricted Stock that vested during April and May 2007, respectively, in order to satisfy withholding tax requirements related to the vesting of the awards. The value of these shares was determined based on the closing fair market value of HLTH Common Stock on the date of vesting.

- (2) These repurchases were made pursuant to the repurchase program that we announced in December 2006, at which time HLTH was authorized to use up to \$100 million to purchase shares of its common stock from time to time. For additional information, see Note 9 to the Consolidated Financial Statements included in this Quarterly Report.

**ITEM 6. *Exhibits***

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

**Table of Contents**

**SIGNATURES**

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

HLTH Corporation

By: /s/ Mark D. Funston

Mark D. Funston  
*Executive Vice President and  
Chief Financial Officer*

Date: August 9, 2007



**Table of Contents**

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
3.1	Eleventh Amended and Restated Certificate of Incorporation of Registrant, as amended (incorporated by reference to Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004)
3.2	Certificate of Ownership and Merger Amending the Registrant's Eleventh Amended and Restated Certificate of Incorporation to Change the Registrant's Name to HLTH Corporation (incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K filed on May 21, 2007)
3.4	Amended and Restated Bylaws of Registrant, as currently in effect (incorporated by reference to Exhibit 3.2 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of Registrant
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Registrant
32.1	Section 1350 Certification of Chief Executive Officer of Registrant
32.2	Section 1350 Certification of Chief Financial Officer of Registrant