HLTH CORP
Form 10-Q
November 10, 2008

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

Form 10-Q

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the quarterly period ended September 30, 2008**
	or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from _____ to _____**

Commission file number: 0-24975

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

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

(201) 703-3400
(Registrant s telephone number including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

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

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

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

Yes o No þ

As of November 5, 2008, there were 185,561,083 shares of HLTH Common Stock outstanding (including unvested shares of restricted HLTH Common Stock issued under our equity compensation plans).

HLTH CORPORATION

QUARTERLY REPORT ON FORM 10-Q
For the period ended September 30, 2008

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

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FORWARD-LOOKING STATEMENTS

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

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

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

These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other factors, including unknown or unpredictable ones, could also have material adverse effects on our future results.

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

PART I
FINANCIAL INFORMATION

ITEM 1. ***Financial Statements***

HLTH CORPORATION

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

	September 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,380,179	$ 536,879
Short-term investments	284,789	290,858
Accounts receivable, net of allowance for doubtful accounts of $1,261 at September 30, 2008 and $1,165 at December 31, 2007	78,148	86,081
Due from EBS Master LLC		1,224
Prepaid expenses and other current assets	27,190	71,090
Assets of discontinued operations	119,891	262,964
Total current assets	1,890,197	1,249,096
Marketable equity securities	2,175	2,383
Property and equipment, net	51,766	49,554
Goodwill	211,414	217,323
Intangible assets, net	28,917	36,314
Investment in EBS Master LLC		25,261
Other assets	36,534	71,466
TOTAL ASSETS	$ 2,221,003	$ 1,651,397
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accrued expenses	$ 44,305	$ 49,598
Deferred revenue	81,740	76,401
Liabilities of discontinued operations	100,464	123,131
Total current liabilities	226,509	249,130
1.75% convertible subordinated notes due 2023	350,000	350,000
31/8% convertible notes due 2025	300,000	300,000
Other long-term liabilities	21,184	21,137
Minority interest in WHC	139,250	131,353

Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.0001 par value; 5,000,000 shares authorized; no shares outstanding		
Common stock, $0.0001 par value; 900,000,000 shares authorized; 457,943,786 shares issued at September 30, 2008; 457,803,361 shares issued at December 31, 2007	46	46
Additional paid-in capital	12,504,151	12,479,574
Treasury stock, at cost; 273,397,698 shares at September 30, 2008; 275,786,634 shares at December 31, 2007	(2,556,347)	(2,564,948)
Accumulated deficit	(8,764,576)	(9,320,748)
Accumulated other comprehensive income	786	5,853
Total stockholders equity	1,184,060	599,777
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 2,221,003	$ 1,651,397

See accompanying notes.

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HLTH CORPORATION

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

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Revenue	$ 100,367	$ 86,034	$ 271,185	$ 235,112
Costs and expenses:				
Cost of operations	35,322	30,021	99,655	87,636
Sales and marketing	26,441	22,459	77,731	67,258
General and administrative	22,928	25,718	67,253	81,111
Depreciation and amortization	7,265	7,390	21,468	20,954
Interest income	9,386	10,864	29,384	30,638
Interest expense	4,636	4,660	13,871	13,985
Gain on sale of EBS Master LLC			538,024	
Impairment of auction rate securities			60,108	
Other (expense) income, net	(997)	989	(5,807)	5,267
Income from continuing operations before income tax provision	12,164	7,639	492,700	73
Income tax provision	7,679	2,977	34,623	4,404
Minority interest in WHC income (loss)	1,845	1,800	(929)	2,758
Equity in earnings of EBS Master LLC		8,005	4,007	22,679
Income from continuing operations	2,640	10,867	463,013	15,590
Income (loss) from discontinued operations, net of tax	93,241	5,704	93,159	(38,780)
Net income (loss)	$ 95,881	$ 16,571	$ 556,172	$ (23,190)
Basic income (loss) per common share:				
Income from continuing operations	$ 0.01	$ 0.06	$ 2.53	$ 0.09
Income (loss) from discontinued operations	0.51	0.03	0.51	(0.22)
Net income (loss)	$ 0.52	$ 0.09	$ 3.04	$ (0.13)
Diluted income (loss) per common share:				
Income from continuing operations	$ 0.01	$ 0.06	$ 2.06	$ 0.08
Income (loss) from discontinued operations	0.50	0.03	0.41	(0.21)
Net income (loss)	$ 0.51	$ 0.09	$ 2.47	$ (0.13)
Weighted-average shares outstanding used in computing income (loss) per common share:				
Basic	183,716	179,811	182,838	178,681

Diluted	187,527	188,071	228,653	188,486

See accompanying notes.

HLTH CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, unaudited)

	Nine Months Ended September 30, 2008	2007
Cash flows from operating activities:		
Net income (loss)	$ 556,172	$ (23,190)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
(Income) loss from discontinued operations, net of tax	(93,159)	38,780
Depreciation and amortization	21,468	20,954
Minority interest in WHC (loss) income	(929)	2,758
Equity in earnings of EBS Master LLC	(4,007)	(22,679)
Amortization of debt issuance costs	2,248	2,179
Non-cash advertising	1,736	2,489
Non-cash stock-based compensation	18,974	26,246
Deferred income taxes	11,934	3,710
Gain on sale of EBS Master LLC and 2006 EBS Sale	(538,024)	(399)
Impairment of auction rate securities	60,108	
Changes in operating assets and liabilities:		
Accounts receivable	7,933	14,835
Prepaid expenses and other, net	4,174	(198)
Accrued expenses and other long-term liabilities	(3,639)	(45,878)
Deferred revenue	5,339	3,253
Net cash provided by continuing operations	50,328	22,860
Net cash provided by discontinued operations	28,497	24,366
Net cash provided by operating activities	78,825	47,226
Cash flows from investing activities:		
Proceeds from maturities and sales of available-for-sale securities	117,539	356,492
Purchases of available-for-sale securities	(177,150)	(694,522)
Purchases of property and equipment	(15,115)	(14,427)
Proceeds related to sales of ViPS, EBS, EPS and ACS/ACP, net of expenses	821,706	14,565
Decrease in net advances to EBS Master LLC	1,224	19,921
Other	148	
Net cash provided by (used in) continuing operations	748,352	(317,971)
Net cash used in discontinued operations	(4,265)	(3,785)
Net cash provided by (used in) investing activities	744,087	(321,756)
Cash flows from financing activities:		
Proceeds from issuance of HLTH and WHC common stock	20,725	114,077
Purchases of treasury stock under repurchase program		(47,120)

Other	343	4,300
Net cash provided by continuing operations	21,068	71,257
Net cash used in discontinued operations	(76)	(130)
Net cash provided by financing activities	20,992	71,127
Effect of exchange rates on cash	(604)	1,042
Net increase (decrease) in cash and cash equivalents	843,300	(202,361)
Cash and cash equivalents at beginning of period	536,879	614,691
Cash and cash equivalents at end of period	$ 1,380,179	$ 412,330

See accompanying notes.

HLTH CORPORATION

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

1. Background and Basis of Presentation

Background

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

WHC s Class A Common Stock began trading on the Nasdaq National Market under the symbol WBMD on September 29, 2005 and now trades on the Nasdaq Global Select Market. As of September 30, 2008, the Company owned 48,100,000 shares of WHC Class B Common Stock, which represented 83.1% of the total outstanding Class A Common Stock (after accounting for the impact of certain WHC shares to be issued pursuant to the purchase agreement for the acquisition of Subimo, LLC) and Class B Common Stock of WHC. WHC Class A Common Stock has one vote per share, while WHC Class B Common Stock has five votes per share. As a result, the WHC Class B Common Stock owned by the Company represented, as of September 30, 2008, 96.2% of the combined voting power of WHC s outstanding Common Stock.

Basis of Presentation

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

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

On February 21, 2008, the Company announced its intention to sell its ViPS and Porex businesses. On July 22, 2008, the Company completed the sale of ViPS. Accordingly, the results of the Company s ViPS and Porex segments are presented as discontinued operations in the accompanying consolidated financial statements. See Note 2 for further details.

Interim Financial Statements

The unaudited consolidated financial statements of the Company have been prepared by management and reflect all adjustments (consisting of only normal recurring adjustments) that, in the opinion of management, are necessary for a fair presentation of the interim periods presented. The results of operations for the three and nine months ended

September 30, 2008 are not necessarily indicative of the operating results to be expected for any subsequent period or for the entire year ending December 31, 2008. Certain information and 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.

HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The unaudited consolidated financial statements and notes included herein should be read in conjunction with the Company s audited consolidated financial statements and notes for the year ended December 31, 2007, which are included in the Company s Current Report on Form 8-K filed with the SEC on June 27, 2008.

Accounting Estimates

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

Seasonality

The timing of the Company s revenue is affected by seasonal factors. Advertising and sponsorship revenue within the WebMD Online Services 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. Private portal licensing revenue within the WebMD Online Services segment is historically highest in the second half of the year as new customers are typically added during this period in conjunction with their annual open enrollment periods for employee benefits. Finally, the annual distribution cycle within the WebMD Publishing and Other Services segment results in a significant portion of the revenue in this segment being recognized in the second and third quarter of each calendar year.

Net Income (Loss) Per Common Share

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

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HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

WHC s net income (loss) otherwise retained by the Company. The following table presents the calculation of basic and diluted income (loss) per common share (shares in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Numerator:				
Income from continuing operations	$ 2,640	$ 10,867	$ 463,013	$ 15,590
Convertible redeemable exchangeable preferred stock fee				174
Income from continuing operations Basic	2,640	10,867	463,013	15,764
Interest expense on convertible notes, net of tax			8,324	
Effect of WHC dilutive securities	(203)	(436)	(326)	(658)
Income from continuing operations Diluted	$ 2,437	$ 10,431	$ 471,011	$ 15,106
Income (loss) from discontinued operations, net of tax Basic and Diluted	$ 93,241	$ 5,704	$ 93,159	$ (38,780)
Denominator:				
Common stock	183,716	179,811	182,838	171,643
Convertible redeemable exchangeable preferred stock				7,038
Weighted-average shares Basic	183,716	179,811	182,838	178,681
Employee stock options, restricted stock and warrants	3,811	8,260	3,800	9,805
Convertible notes			42,015	
Adjusted weighted-average shares after assumed conversions Diluted	187,527	188,071	228,653	188,486
Basic income (loss) per common share:				
Income from continuing operations	$ 0.01	$ 0.06	$ 2.53	$ 0.09
Income (loss) from discontinued operations	0.51	0.03	0.51	(0.22)
Net income (loss)	$ 0.52	$ 0.09	$ 3.04	$ (0.13)
Diluted income (loss) per common share:				
Income from continuing operations	$ 0.01	$ 0.06	$ 2.06	$ 0.08
Income (loss) from discontinued operations	0.50	0.03	0.41	(0.21)
Net income (loss)	$ 0.51	$ 0.09	$ 2.47	$ (0.13)

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HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Options, restricted stock and warrants	28,806	21,054	32,879	20,175
Convertible notes	42,015	42,015		42,015
	70,821	63,069	32,879	62,190

Income Taxes

The income tax provision of $7,679 and $34,623 for the three and nine months ended September 30, 2008, respectively, and $2,977 and $4,404 for the three and nine months ended September 30, 2007, respectively, represents taxes for federal, state and other jurisdictions. The Company recorded an income tax provision related to discontinued operations of $8,813 and $8,143 for the three and nine months ended September 30, 2008, respectively, and an income tax provision of $823 and $1,461 for the three and nine months ended September 30, 2007, respectively, included in loss from discontinued operations, net of tax in the accompanying consolidated statements of operations. While the majority of the gain on the 2008 EBSCo Sale (as defined in Note 3) was offset by net operating loss (NOL) carryforwards, certain alternative minimum tax and other state taxes were not offset resulting in a provision of approximately $24,000 for the nine months ended September 30, 2008. The income tax provision for the nine months ended September 30, 2008 excludes a benefit for the impairment of auction rate securities, as it is currently not deductible for tax purposes.

Recent Accounting Pronouncements

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

January 1, 2009, and will require retrospective application.

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

HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company is currently evaluating the impact that this FSP will have on its operations, financial position and cash flows.

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

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

2. Discontinued Operations

In November 2007, the Company announced its intention to explore potential sales transactions for its ViPS and Porex businesses and in February 2008, the Company announced its intention to divest these segments. As a result, the financial information has been reclassified to discontinued operations in the accompanying consolidated financial statements.

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HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Porex

Summarized operating results for Porex for the three and nine months ended September 30, 2008 and 2007 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Statement of Operations Data:				
Revenue	$ 23,131	$ 21,867	$ 71,518	$ 69,579
Earnings before taxes	5,001	4,820	13,002	15,587

The major classes of assets and liabilities of Porex as of September 30, 2008 and December 31, 2007 are as follows:

	September 30, 2008	December 31, 2007
Assets of discontinued operations:		
Accounts receivable, net	$ 12,955	$ 12,922
Inventory	12,121	11,772
Property and equipment, net	22,231	21,176
Goodwill	42,960	43,283
Intangible assets, net	24,750	24,872
Deferred tax asset	1,420	1,420
Other assets	3,454	3,554
Total Assets	$ 119,891	$ 118,999
Liabilities of discontinued operations:		
Accounts payable	$ 1,983	$ 1,533
Accrued expenses	6,587	7,684
Deferred tax liability	24,583	24,375
Other long-term liabilities		101
Total Liabilities	$ 33,153	$ 33,693

ViPS

On July 22, 2008, the Company completed the sale of its ViPS segment (ViPS Sale) to an affiliate of General Dynamics Corporation (General Dynamics) for $224,842 in cash, which reflects the effect of a preliminary estimate of the amount of a customary working capital adjustment to the contractual purchase price of $225,000 in cash. The actual amount of the working capital adjustment has not yet been determined. The Company incurred approximately $1,337 of professional fees and other expenses associated with the ViPS Sale during the three months ended September 30, 2008. In connection with the sale, the Company recognized a pre-tax gain of $96,566, which is included in income from discontinued operations in the accompanying consolidated statements of operations during the three months ended September 30, 2008.

HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summarized operating results for ViPS for the periods July 1, 2008 through July 22, 2008, January 1, 2008 through July 22, 2008 and the three and nine months ended September 30, 2007 are as follows:

	For the Period July 1, 2008 to July 22, 2008	Three Months Ended September 30, 2007	For the Period January 1, 2008 to July 22, 2008	Nine Months Ended September 30, 2007
Statement of Operations Data:				
Revenue	$ 5,292	$ 24,307	$ 57,497	$ 76,851
Earnings before taxes	270	1,412	8,121	4,211

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

Assets of discontinued operations:	
Accounts receivable, net	$ 17,240
Property and equipment, net	4,020
Goodwill	71,253
Intangible assets, net	47,815
Deferred tax asset	804
Other assets	2,833
Total Assets	$ 143,965
Liabilities of discontinued operations:	
Accounts payable	$ 1,599
Accrued expenses and other	4,370
Deferred revenue	10,982
Deferred tax liability	16,924
Total Liabilities	$ 33,875

ACS/ACP Business

As of December 31, 2007, the Company, through WHC, entered into an Asset Sale Agreement and completed the sale of certain assets and certain liabilities of its medical reference publications business, including the publications *ACP Medicine* and *ACS Surgery: Principles and Practice*. The assets and liabilities sold are referred to below as the ACS/ACP Business. *ACP Medicine* and *ACS Surgery* are official publications of the American College of Physicians and the American College of Surgeons, respectively. As a result of the sale, the historical financial information of the ACS/ACP Business has been reclassified as discontinued operations in the accompanying consolidated financial statements for the prior year period. The Company will receive net cash proceeds of $2,809, consisting of $1,734 received during the quarter ended March 31, 2008 and the remaining $1,075 to be received during the quarter ending December 31, 2008. The Company incurred approximately $800 of professional fees and other expenses associated with the sale of the ACS/ACP Business. In connection with the sale, the Company recognized a gain of $3,394 in the three months ended December 31, 2007. Summarized operating results for the discontinued operations of the ACS/ACP Business for the three and nine months ended September 30, 2007 were as follows:

	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2007
Statement of Operations Data:		
Revenue	$ 1,100	$ 3,327
(Loss) earnings before taxes	(10)	210

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HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

EPS

On September 14, 2006, the Company completed the sale (the EPS Sale) of Emdeon Practice Services, Inc. (together with its subsidiaries, EPS) to Sage Software, Inc. (Sage Software). The Company has certain indemnity obligations to advance amounts for reasonable defense costs for initially ten, and now eight, former officers and directors of EPS, who were indicted in connection with the previously disclosed investigation by the United States Attorney for the District of South Carolina (the Investigation), which is more fully described in Note 12, Commitments and Contingencies. In connection with the EPS Sale, the Company agreed to indemnify Sage Software relating to these indemnity obligations. During the quarter ended June 30, 2007, based on information it had recently received at that time, the Company determined a reasonable estimate of the range of probable costs with respect to its indemnification obligation and accordingly, recorded a pre-tax charge of $57,774, which represented the Company s estimate of the low end of the probable range of costs related to this matter. The Company had reserved the low end of the probable range of costs because no estimate within the range was a better estimate than any other amount. That estimate included assumptions as to the duration of the trial and pre-trial periods, and the defense costs to be incurred during these periods. During the quarter ended December 31, 2007 and again during the quarter ended June 30, 2008, the Company updated the estimated range of its indemnification obligation based on new information received during those periods, and as a result, recorded additional pre-tax charges of $15,573 and $16,980, respectively, each of which reflected the increases in the low end of the probable range of costs related to this matter. The probable range of future costs with respect to this matter is estimated to be approximately $47,400 to $70,400, as of September 30, 2008 which includes costs that have been incurred prior to, but were not yet paid, as of September 30, 2008. The ultimate outcome of this matter is still uncertain, and the estimate of future costs includes assumptions as to the duration of the trial and the defense costs to be incurred during the remainder of the pre-trial period and during the trial period. Accordingly, the amount of cost the Company may ultimately incur could be substantially more than the reserve the Company has currently provided. If the recorded reserves are insufficient to cover the ultimate cost of this matter, the Company will need to record additional charges to its consolidated statement of operations in future periods. The accrual related to this obligation was $47,399 and $55,563 as of September 30, 2008 and December 31, 2007, respectively, and is included within liabilities of discontinued operations in the accompanying consolidated balance sheets.

Also included within liabilities of discontinued operations related to this matter is $19,912 which represents reimbursements received from the Company s insurance carriers between July 31, 2008 and September 30, 2008. The Company deferred recognizing these insurance reimbursements within the statement of operations given the pending Coverage Litigation. For more information regarding the Coverage Litigation, see Note 12.

3. Emdeon Business Services

On November 16, 2006, the Company completed the sale of a 52% interest in its Emdeon Business Services segment (2006 EBS Sale) to an affiliate of General Atlantic LLC (GA). The 2006 EBS Sale was structured so that the Company and GA each own interests in a limited liability company, EBS Master LLC (EBSCo), which owns the entities comprising EBS through a wholly owned limited liability company, Emdeon Business Services LLC. During the three months ended June 30, 2007, the Company recognized a gain of $399 which related to the finalization of the working capital adjustment in connection with the 2006 EBS Sale.

Beginning on November 17, 2006, the Company s remaining 48% ownership interest in EBSCo was reflected as an investment in the Company s consolidated financial statements, accounted for under the equity method and the

Company s share of EBSCo s net earnings was reported as equity in earnings of EBS Master LLC in the accompanying consolidated statements of operations through February 8, 2008.

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HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The Company s share of EBSCo s net earnings is reported as equity in earnings of EBS Master LLC in the accompanying consolidated statements of operations for the three and nine months ended September 30, 2007 and for the period January 1, 2008 through February 8, 2008, the closing date of the 2008 EBSCo Sale. The difference between the equity in earnings of EBS Master LLC in the accompanying consolidated statements of operations and 48% of the net income of EBSCo is principally due to the amortization of the excess of the fair value of EBSCo s net assets as adjusted for in purchase accounting, over the carryover basis of the Company s investment in EBSCo. The following is summarized financial information of EBSCo for the period January 1, 2008 through February 8, 2008 and for the three and nine months ended September 30, 2007:

	For the Period January 1, 2008 to February 8, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2007
Statement of Operations Data:			
Revenue	$ 94,481	$ 202,954	$ 602,589
Cost of operations	44,633	94,712	280,786
Net income	5,551	9,999	26,798

4. Termination of Proposed Merger with WHC

On February 20, 2008, the Company and WHC entered into an Agreement and Plan of Merger (the Merger Agreement), pursuant to which the Company would merge into WHC (the WHC Merger), with WHC continuing as the surviving corporation. The Merger Agreement was amended on May 6, 2008 and September 12, 2008. Pursuant to the terms of a Termination Agreement entered into on October 19, 2008 (the Termination Agreement), the Company and WHC mutually agreed, in light of recent turmoil in financial markets, to terminate the Merger Agreement. The termination was by mutual agreement of the companies and was unanimously approved by the Board of Directors of each of the companies and by a special committee of independent directors of WHC. The Termination Agreement maintains the Company s obligation, under the terms of the Merger Agreement, to pay the expenses of WHC incurred in connection with the merger. Under the Termination Agreement, the Company and WHC also agreed to amend the Amended and Restated Tax Sharing Agreement, dated as of February 15, 2006, between them (the Tax Sharing Agreement) so that, for tax years beginning after December 31, 2007, the Company will no longer be required to reimburse WHC for use of NOL carryforwards attributable to WHC that may result from certain extraordinary transactions by the Company. The Tax Sharing Agreement has not, other than with respect to certain extraordinary transactions by the Company, required either the Company or WHC to reimburse the other party for any net tax savings realized by the consolidated group as a result of the group s utilization of WHC s or the Company s NOL carryforwards during the period of consolidation, and that will continue following the amendment. The Termination Agreement also provided for the Company to assign to WHC the Amended and Restated Data License Agreement, dated as of February 8, 2008, among the Company, EBSCo and certain affiliated companies.

HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. WebMD Health Corp.

Gain Upon Sale of WHC Class A Common Stock

The Company s WHC subsidiary issues its Class A Common Stock in various transactions from time to time, which result in the dilution of the Company s percentage ownership in WHC. The Company accounts for the issuance of WHC Class A Common Stock in accordance with the SEC s Staff Accounting Bulletin No. 51, Accounting for Sales of Stock by a Subsidiary. The issuances of WHC Class A Common Stock resulted in an aggregate gain to equity of $1,768 and $3,715 during the three and nine months ended September 30, 2008, respectively, related to the exercise of stock options and the release of restricted stock awards. As a result, the Company s ownership in WHC decreased to 83.1% as of September 30, 2008, from 83.5% as of December 31, 2007 (after accounting for the impact of certain WHC shares to be issued pursuant to the purchase agreement for the acquisition of Subimo, LLC).

6. Segment Information

Segment information has been prepared in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS 131). The accounting policies of the segments are the same as the accounting policies for the consolidated Company. Inter-segment revenue represents certain services provided by the WebMD Online Services segment and WebMD Publishing and Other Services segment (which we refer to, together, as the WebMD Segments or, sometimes, as WebMD) to the Corporate segment. The performance of the Company s business is monitored based on earnings before interest, taxes, non-cash and other items. Other items include: legal expenses incurred by the Company, which reflect costs and expenses related to the investigation by the United States Attorney for the District of South Carolina and the SEC; income related to the reduction of certain sales and use tax contingencies; professional fees in 2008, primarily consisting of legal, accounting and financial advisory services related to the terminated WHC Merger; the gain on the 2008 EBSCo Sale; the gain recognized in connection with the working capital adjustment associated with the 2006 EBS Sale; and the impairment charge related to the Company s auction rate securities.

Reclassification of Segment Information. As a result of the Company s intention to divest the Porex segment and due to the ViPS Sale and the December 31, 2007 sale of WHC s ACS/ACP business, the financial information for these businesses has been reclassified to discontinued operations for the current and prior year periods. As a result of the discontinued operations presentation for ViPS and Porex, the Company s only remaining operating segment would have been WebMD. Accordingly, the Company expanded its segment disclosure for WebMD to provide additional information related to the WebMD Online Services segment and the WebMD Publishing and Other Services segment. This additional information for WebMD has been provided for all periods presented.

The WebMD Segments and Corporate segment are described as follows:

> *WebMD Online Services* provides health information services to consumers, physicians, healthcare professionals, employees and health plans through its public and private online portals. The public portals for consumers enable them to obtain health and wellness information (including information on specific diseases and conditions), 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. The 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 credit and communicate with peers. The 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

WebMD Online Services provides related services for use by such employees and members, including lifestyle education and personalized telephonic health coaching. WebMD Online Services also provides e-detailing promotion and physician recruitment services for use by pharmaceutical, medical device and healthcare companies.

WebMD Publishing and Other Services publishes *The Little Blue Book*, a physician directory, and *WebMD the Magazine,* a consumer magazine distributed to physician office waiting rooms. The Company also published medical reference textbooks until it divested this business on December 31, 2007. See Note 2 for further details.

Corporate includes personnel costs and other expenses related to functions that are not directly managed by one of the Company s segments or by the Porex and ViPS businesses included in discontinued operations. The personnel costs include executive personnel, legal, accounting, tax, internal audit, risk management, human resources and certain information technology functions. Other corporate costs and expenses include professional fees including legal and audit services, insurance, costs of leased property and facilities, telecommunication costs and software maintenance expenses. Corporate expenses are net of $838 and $2,572 for the three and nine months ended September 30, 2008, respectively, and $845 and $2,470 for the three and nine months ended September 30, 2007, respectively, which are costs allocated to WebMD for services provided by the Corporate segment. In connection with the 2006 EBS Sale, EPS Sale and the ViPS Sale, the Company entered into transition services agreements whereby the Company provided ViPS, EBSCo, and Sage Software certain administrative services, including payroll, accounting, purchasing and procurement, tax, and human resource services, as well as information technology support. Additionally, EBSCo provided certain administrative services to the Company. These services were provided through the Corporate segment, and the related transition services fees that the Company charged to ViPS, EBSCo, and Sage Software, net of the fee the Company paid to EBSCo, were also included in the Corporate segment, which were intended to approximate the cost of providing these services. The transition services agreement with Sage Software was terminated on December 31, 2007 and, therefore, net transition services fees are solely for services related to EBSCo and ViPS for the three and nine months ended September 30, 2008.

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HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Revenue				
WebMD Online Services:				
Advertising and sponsorship	$ 72,046	$ 59,087	$ 190,494	$ 158,944
Licensing	22,139	20,001	65,928	59,915
Content syndication and other	392	490	1,154	2,027
Total WebMD Online Services	94,577	79,578	257,576	220,886
WebMD Publishing and Other Services	5,810	6,520	13,669	14,426
Inter-segment eliminations	(20)	(64)	(60)	(200)
	$ 100,367	$ 86,034	$ 271,185	$ 235,112
Earnings before interest, taxes, non-cash and other items				
WebMD Online Services	$ 25,956	$ 21,948	$ 61,287	$ 48,982
WebMD Publishing and Other Services	1,212	2,138	1,485	2,643
Corporate	(4,679)	(5,811)	(15,311)	(18,874)
	22,489	18,275	47,461	32,751
Interest, taxes, non-cash and other items				
Interest income	9,386	10,864	29,384	30,638
Interest expense	(4,636)	(4,660)	(13,871)	(13,985)
Income tax provision	(7,679)	(2,977)	(34,623)	(4,404)
Depreciation and amortization	(7,265)	(7,390)	(21,468)	(20,954)
Non-cash stock-based compensation	(6,531)	(9,285)	(18,974)	(26,246)
Non-cash advertising	(178)	(169)	(1,736)	(2,489)
Minority interest in WHC income (loss)	(1,845)	(1,800)	929	(2,758)
Equity in earnings of EBS Master LLC		8,005	4,007	22,679
Gain on sale of EBS Master LLC			538,024	
Impairment of auction rate securities			(60,108)	
Other (expense) income, net	(1,101)	4	(6,012)	358
Income from continuing operations	2,640	10,867	463,013	15,590
Income (loss) from discontinued operations, net of tax	93,241	5,704	93,159	(38,780)

Net income (loss)	$ 95,881	$ 16,571	$ 556,172	$ (23,190)

7. Stock-Based Compensation

The Company has various stock-based compensation plans (collectively, the Plans) under which directors, officers and other eligible employees receive awards of options to purchase HLTH Common Stock and restricted shares of HLTH Common Stock. Additionally, WHC has two similar stock-based compensation plans that provide for stock options and restricted stock awards based on WHC Class A Common Stock. The Company also maintained an Employee Stock Purchase Plan through April 30, 2008, which provided

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HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 5,936,018 shares of HLTH Common Stock available for future grants under the Plans as of September 30, 2008. In addition to the Plans, the Company has granted options to certain directors, officers and key employees pursuant to individual stock option agreements. At September 30, 2008, there were options to purchase 4,139,881 shares of HLTH Common Stock outstanding to these individuals. The terms of these grants are similar to the terms of the options granted under the Plans and accordingly, the stock option activity of these individuals is included in all references to the Plans. Beginning in April 2007, shares are issued from treasury stock when options are exercised or restricted stock is granted. Prior to this time, new shares were issued in connection with these transactions.

Stock Options

Generally, options under the Plans vest and become exercisable ratably over a three to five year period based on their individual grant dates subject to continued employment on the applicable vesting dates. The majority of options granted under the Plans expire within ten years from the date of grant. Options are granted at prices not less than the fair market value of HLTH Common Stock on the date of grant. The following table summarizes activity for the Plans for the nine months ended September 30, 2008:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value (1)
Outstanding at January 1, 2008	47,293,577	$ 14.35		
Granted	120,000	13.40		
Exercised	(2,339,811)	7.65		
Cancelled	(1,405,760)	16.88		
Outstanding at September 30, 2008	43,668,006	$ 14.63	3.0	$ 33,489
Vested and exercisable at the end of the period	39,218,041	$ 15.11	2.5	$ 27,417

(1) The aggregate intrinsic value is based on the market price of HLTH s Common Stock on September 30, 2008, which was $11.43, 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 September 30, 2008.

HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model, considering the assumptions noted in the following table. Expected volatility is based on implied volatility from traded options of HLTH Common Stock combined with historical volatility of HLTH Common Stock. Prior to January 1, 2006, only historical volatility was considered. The expected term represents the period of time that options are expected to be outstanding following their grant date, and was determined using historical exercise data. The risk-free rate is based on the U.S. Treasury yield curve for periods equal to the expected term of the options on the grant date.

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Expected dividend yield	0%	0%
Expected volatility	0.33	0.31
Risk-free interest rate	2.82%	4.67%
Expected term (years)	3.81	3.94
Weighted average fair value of options granted during the period	$ 3.92	$ 4.01

Restricted Stock Awards

HLTH Restricted Stock consists of shares of HLTH Common Stock which have been awarded to employees with restrictions that cause them to be subject to substantial risk of forfeiture and restrict their sale or other transfer by the employee until they vest. Generally, HLTH Restricted Stock awards vest ratably over a three to five year period from their individual award dates subject to continued employment on the applicable vesting dates. The following table summarizes the activity of non-vested HLTH Restricted Stock for the nine months ended September 30, 2008:

	Shares	Weighted Average Grant Date Fair Value
Balance at January 1, 2008	1,240,297	$ 10.74
Vested	(181,769)	9.53
Forfeited	(35,837)	11.26
Balance at September 30, 2008	1,022,691	$ 10.94

Proceeds received from the exercise of options to purchase HLTH Common Stock were $10,624 and $17,901 for the three and nine months ended September 30, 2008, respectively, and $8,821 and $107,635 for the three and nine months ended September 30, 2007, respectively. The intrinsic value related to the exercise of these stock options, as well as the fair value of shares of HLTH Restricted Stock that vested was $6,513 and $11,840 for the three and nine months ended September 30, 2008, respectively, and $4,703 and $55,635 for the three and nine months ended September 30, 2007, respectively.

WebMD Plans

During September 2005, WHC adopted the 2005 Long-Term Incentive Plan (the WHC Plan). In connection with the acquisition of Subimo, LLC, in December 2006, WHC adopted the WebMD Health Corp. Long-Term Incentive Plan for Employees of Subimo, LLC (the Subimo Plan). The terms of the Subimo Plan are similar to the terms of the WHC Plan but it has not been approved by WHC stockholders. Awards under the Subimo Plan were made on the date of the Company s acquisition of Subimo, LLC in reliance on the NASDAQ Global Select Market exception to shareholder approval for equity grants to new hires. No additional grants will be made under the Subimo Plan. The WHC Plan and the Subimo Plan are included in

HLTH CORPORATION

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all references as the WebMD Plans. The maximum number of shares of WHC Class A Common Stock that may be subject to options or restricted stock awards under the WebMD Plans is 9,480,574, subject to adjustment in accordance with the terms of the WebMD Plans. WHC had an aggregate of 2,440,150 shares of Class A Common Stock available for future grants under the WebMD Plans at September 30, 2008.

Stock Options

Generally, options under the WebMD Plans vest and become exercisable ratably over a four year period based on their individual grant dates subject to continued employment on the applicable vesting dates. The options granted under the WebMD Plans expire within ten years from the date of grant. Options are granted at prices not less than the fair market value of WHC s Class A Common Stock on the date of grant. The following table summarizes activity for the WebMD Plans for the nine months ended September 30, 2008:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value (1)
Outstanding at January 1, 2008	5,020,551	$ 27.56		
Granted	609,800	32.19		
Exercised	(196,652)	17.56		
Cancelled	(373,551)	31.42		
Outstanding at September 30, 2008	5,060,148	$ 28.23	7.8	$ 32,163
Vested and exercisable at the end of the period	2,239,061	$ 22.22	7.2	$ 21,487

(1) The aggregate intrinsic value is based on the market price of WHC s Class A Common Stock on September 30, 2008, which was $29.74, 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 September 30, 2008.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model, considering the assumptions noted in the following table. Prior to August 1, 2007, expected volatility was based on implied volatility from traded options of stock of comparable companies combined with historical stock price volatility of comparable companies. Beginning on August 1, 2007, expected volatility is based on implied volatility from traded options of WHC Class A Common Stock combined with historical volatility of WHC Class A Common Stock. The expected term represents the period of time that options are expected to be outstanding following their grant date, and was determined using historical exercise data of WHC employees who were previously granted HLTH stock options. The risk-free rate is based on the U.S. Treasury yield curve for periods equal to the expected term of the options on the grant date.

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Expected dividend yield	0%	0%
Expected volatility	0.44	0.45
Risk-free interest rate	2.46%	4.65%
Expected term (years)	3.25	3.34
Weighted average fair value of options granted during the period	$ 10.75	$ 18.16

HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restricted Stock Awards

WHC Restricted Stock consists of shares of WHC Class A Common Stock which have been awarded to employees with restrictions that cause them to be subject to substantial risk of forfeiture and restrict their sale or other transfer by the employee until they vest. Generally, WHC Restricted Stock awards vest ratably over a four year period from their individual award dates subject to continued employment on the applicable vesting dates. The following table summarizes the activity of non-vested WHC Restricted Stock for the nine months ended September 30, 2008:

	Shares	Weighted Average Grant Date Fair Value
Balance at January 1, 2008	307,722	$ 29.46
Granted	19,000	28.32
Vested	(90,687)	21.59
Forfeited	(12,500)	21.86
Balance at September 30, 2008	223,535	$ 32.98

Proceeds received from the exercise of options to purchase WHC Class A Common Stock were $1,061 and $3,453 for the three and nine months ended September 30, 2008, respectively, and $2,767 and $8,490 for the three and nine months ended September 30, 2007, respectively. The intrinsic value related to the exercise of these stock options, as well as the fair value of shares of WHC Restricted Stock that vested was $3,299 and $5,769 for the three and nine months ended September 30, 2008, respectively, and $8,203 and $15,291 for the three and nine months ended September 30, 2007, respectively.

Employee Stock Purchase Plan

The Company s 1998 Employee Stock Purchase Plan, as amended from time to time (the ESPP), allowed 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 was 85% of the fair market value on the last day of each purchase period. The ESPP provided 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 49,125 and 34,610 shares issued under the ESPP during the nine months ended September 30, 2008 and 2007, respectively. The ESPP was terminated after the purchase period that ended on April 30, 2008.

Other

At the time of the WHC initial public offering and each year on the anniversary of the initial public offering, 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 stock-based compensation expense of $85 during the three months ended September 30, 2008 and 2007 and $255 during the nine months ended September 30, 2008 and 2007 in connection with these issuances.

Additionally, the Company recorded stock-based compensation expense of $279 for the three months ended September 30, 2008 and 2007, and $837 and $815 for the nine months ended September 30, 2008 and 2007, respectively, in connection with a stock transferability right for shares required to be issued in connection with the acquisition of Subimo, LLC by WHC.

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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:

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
HLTH Plans:				
Stock options	$ 2,127	$ 2,791	$ 5,743	$ 9,040
Restricted stock	1,525	1,633	4,253	4,759
WHC Plans:				
Stock options	2,682	4,295	7,858	11,587
Restricted stock	456	820	1,260	2,429
Employee Stock Purchase Plan		42	51	127
Other	372	375	1,097	1,081
Total stock-based compensation expense	$ 7,162	$ 9,956	$ 20,262	$ 29,023
Included in:				
Cost of operations	$ 1,005	$ 1,597	$ 2,950	$ 4,159
Sales and marketing	1,222	1,252	3,624	3,889
General and administrative	4,304	6,436	12,400	18,198
Equity in earnings of EBS Master LLC		240		1,039
Income from continuing operations	6,531	9,525	18,974	27,285
Income from discontinued operations	631	431	1,288	1,738
Total stock-based compensation expense	$ 7,162	$ 9,956	$ 20,262	$ 29,023

As of September 30, 2008, approximately $13,035 and $31,887 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 0.7 years and 1.5 years, related to the HLTH Plans and the WebMD Plans, respectively.

8. Stockholders Equity

Pending Tender Offer

On October 27, 2008, the Company commenced a tender offer to purchase up to 80,000,000 shares of its Common Stock at a price of $8.80 per share (the Pending Tender Offer). The Pending Tender Offer is expected to be completed in November 2008, subject to a number of terms and conditions, including that a minimum of 40,000,000 shares be properly tendered and not withdrawn in the offer.

Stock Repurchase Program

In December 2006, the Company announced the authorization of a stock repurchase program (the Program), at which time the Company was authorized to use up to $100,000 to purchase shares of HLTH Common Stock from time to time beginning on December 19, 2006, subject to market conditions. As of September 30, 2008 and 2007, respectively, the Company had repurchased 4,280,931 and 4,268,895 shares at an aggregate cost of approximately $58,447 and $58,444 under the Program. No shares were repurchased during the nine months ended September 30, 2008. Repurchased shares are recorded under the cost method and are reflected as treasury stock in the accompanying consolidated balance sheets.

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HLTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Fair Value of Financial Instruments and Credit Facilities

Effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements (SFAS 157), for assets and liabilities measured at fair value on a recurring basis. SFAS 157 establishes a common definition for fair value to be applied to existing GAAP that require the use of fair value measurements, establishes a framework for measuring fair value and expands disclosure about such fair value measurements. The adoption of SFAS 157 did not have an impact on the Company s financial position or operating results, but did expand certain disclosures.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, SFAS 157 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

Level 1: Observable inputs such as quoted market prices in active markets for identical assets or liabilities, such as the Company s equity securities reflected in the table below.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity s own assumptions.

The Company did not have any Level 2 assets as of September 30, 2008. The following table sets forth the Company s Level 1 and Level 3 financial assets that were measured at fair value as of September 30, 2008:

	Level 1	Level 3	Total
Auction rate securities	$	$ 284,408	$ 284,408
Equity securities	2,175		2,175

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

Balance as of January 1, 2008	$
Transfers to Level 3	363,700
Redemptions	(7,900)
Impariment charge included in earnings	(60,108)
Interest accretion included in earnings	632
Unrealized loss included in other comprehensive income	(11,916)
Fair Value as of September 30, 2008	$ 284,408

The Company holds investments in action rate securities (ARS) which have been classified as Level 3 assets as described above. The types of ARS holdings the Company owns are backed by student loans, 97% of which are guaranteed under the Federal Family Education Loan Program (FFELP), and all had credit ratings of AAA or Aaa when purchased. Historically, the fair value of the Company s ARS holdings approximated face value due to the frequent auction periods, generally every 7 to 28 days, which provided liquidity to these investments. However, since February 2008, virtually all auctions involving these securities have failed. The result of a failed auction is that these ARS holdings will continue to pay interest in accordance with their terms at each respective auction date; however, liquidity of the securities will be limited until there is a successful auction, the issuer redeems the securities, the securities mature or until such time as other markets for these ARS holdings develop. During the three months ended March 31, 2008, the Company concluded that the estimated fair value of the ARS holdings no longer approximated the face value due to the lack of liquidity. The securities have been classified within Level 3 as their valuation requires substantial judgment

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and estimation of factors that are not currently observable in the market due to the lack of trading in the securities.

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

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

During the three and nine months ended September 30, 2008, the Company received $5,100 (of which $2,000 relates to WHC) and $7,900 (of which $3,700 relates to WHC), respectively, associated with the partial redemption of certain of its ARS holdings, which represented 100% of their face value. As a result, as of September 30, 2008, the total face value of the Company s ARS holdings was $355,800, of which $165,500 relates to WHC. During the three months ended June 30, 2008 and September 30, 2008, the Company reduced the carrying value of its ARS holdings by $3,019 and $8,897, respectively. The Company assessed these declines in fair market value to be temporary as they resulted from fluctuations in interest rate assumptions and, therefore, recorded these declines as an unrealized loss in other comprehensive income in the accompanying consolidated balance sheet.

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

Credit Facilities

On May 6, 2008, the Company and WHC each entered into a non-recourse credit facility (each a Credit Facility) with Citigroup that is secured by their respective ARS holdings (including, in some circumstances, interest payable on the ARS holdings), that will allow the Company and WHC to borrow up to 75% of the face amount of the ARS holdings pledged as collateral under the respective Credit Facilities. The Credit Facilities are each governed by a loan agreement, dated as of May 6, 2008, containing customary representations and warranties of the borrower and certain affirmative covenants and negative covenants relating to the pledged collateral. Under each of the loan agreements, the borrower and the lender may, in certain circumstances, cause the pledged collateral to be sold, with the proceeds of any such sale required to be applied in full immediately to repayment of amounts borrowed. No borrowings have been made under either Credit Facility to date. The Company and WHC can each make borrowings under the Credit Facility until May 2009. The interest rate applicable to such borrowings will be one-month LIBOR plus 250 basis points. Any borrowings outstanding under the Credit Facility after March 2009 become demand loans, subject to 60 days notice, with recourse only to the pledged collateral.

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10. Comprehensive Income (Loss)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Foreign currency translation (losses) gains	$ (4,488)	$ 1,554	$ (1,200)	$ 2,391
Unrealized holding (losses) gains on securities	(8,564)	(532)	(11,193)	2
EBSCo interest rate swap agreement		(5,918)	7,326	(2,429)
Other comprehensive loss	(13,052)	(4,896)	(5,067)	(36)
Net income (loss)	95,881	16,571	556,172	(23,190)
Comprehensive income (loss)	$ 82,829	$ 11,675	$ 551,105	$ (23,226)

Included in comprehensive income (loss) for the three and nine months ended September 30, 2007 is the Company s share of unrealized gains on the fair value of EBSCo s interest rate swap agreements, and for the nine months ended September 30, 2008 is the reversal, in connection with the 2008 EBSCo Sale, of the net cumulative loss related to these agreements.

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

Accumulated other comprehensive income includes:

	September 30, 2008	December 31, 2007
Unrealized holding (losses) gains on securities	$ (10,283)	$ 910
Foreign currency translation gains	11,069	12,269
Comprehensive loss of EBSCo		(7,326)
Total accumulated other comprehensive income	$ 786	$ 5,853

11. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the year ended December 31, 2007 and the nine months ended September 30, 2008 are as follows:

	WebMD Online Services	WebMD Publishing and Other Services	Total
Balance as of January 1, 2007	$ 212,439	$ 11,045	$ 223,484
Reversal of income tax valuation allowance	(2,793)		(2,793)
Adjustments to finalize purchase price allocations	(3,368)		(3,368)
Balance as of January 1, 2008	206,278	11,045	217,323
Reversal of income tax valuation allowance	(5,761)		(5,761)
Adjustments to finalize purchase price allocations	(148)		(148)
Balance as of September 30, 2008	$ 200,369	$ 11,045	$ 211,414

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Intangible assets subject to amortization consist of the following:

	September 30, 2008				December 31, 2007			
	Gross Carrying Amount	Accumulated Amortization	Net	Weighted Average Remaining Useful Life (a)	Gross Carrying Amount	Accumulated Amortization	Net	Weighted Average Remaining Useful Life (a)
Content	$ 15,954	$ (14,051)	$ 1,903	1.7	$ 15,954	$ (12,581)	$ 3,373	2.1
Customer relationships	33,191	(12,798)	20,393	8.8	33,191	(10,183)	23,008	9.2
Technology and patents	14,967	(12,844)	2,123	0.9	14,967	(10,126)	4,841	1.5
Trade names	7,817	(3,319)	4,498	7.1	7,817	(2,725)	5,092	7.7
Total	$ 71,929	$ (43,012)	$ 28,917	7.5	$ 71,929	$ (35,615)	$ 36,314	7.3

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

Amortization expense was $2,406 and $7,397 for the three and nine months ended September 30, 2008, respectively, and $3,320 and $9,853 for the three and nine months ended September 30, 2007, respectively. Aggregate amortization expense for intangible assets is estimated to be:

Years Ending December 31:	
2008 (October 1st to December 31st)	$ 2,318
2009	6,401
2010	3,337
2011	2,464
2012	2,464
Thereafter	11,933

12. 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

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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 artificially inflate the quarterly revenues and earnings of Medical Manager Health Systems when it was an independent public company called Medical Manager Corporation from 1997 through 1999, when and after it was acquired by Synetic, Inc. in July 1999 and when and after it became a subsidiary of the Company in September 2000. A fourth former officer of Medical Manager Health Systems pled guilty to similar activities later in 2005.

The fraudulent accounting practices cited by the government in the January 7, 2005 District Court filings included: causing companies acquired by Medical Manager Health Systems to reclassify previously recognized sales revenue as deferred income so that such deferred income could subsequently be reported as revenue by Medical Manager Health Systems and its parents in later periods; fabricating deferred revenue entries which could be used to inflate earnings when Medical Manager Health Systems acquired companies; causing companies acquired by Medical Manager Health Systems to inflate reserve accounts so that these reserves could be reversed in later reporting periods in order to artificially inflate earnings for Medical Manager Health Systems and its parents; accounting for numerous acquisitions through the pooling of interests method in order to fraudulently inflate Medical Manager Health Systems quarterly earnings, when the individuals involved knew the transactions failed to qualify for such treatment; causing companies acquired by Medical Manager Health Systems to enter into sham purchases of software from Medical Manager Health Systems in connection with the acquisition which purchases were funded by increasing the purchase price paid by Medical Manager Health Systems to the acquired company and using these round trip sales to create fraudulent revenue for Medical Manager Health Systems and its parents; and causing Medical Manager Health Systems to book and record sales and training revenue before the revenue process was complete in accordance with GAAP and thereby fraudulently inflating Medical Manager Health Systems reported revenues and earnings. According to the Informations to which the former employees have pled guilty, the fraudulent accounting practices resulted in the reported revenues of Medical Manager Health Systems and its parents being overstated materially between June 1997 and at least December 31, 2001, and reported quarterly earnings being overstated by at least one cent per share in every quarter during that period.

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

On December 15, 2005, the United States Attorney announced indictments of the following former officers and employees of Medical Manager Health Systems: Ted W. Dorman, a former Regional Vice President of Medical Manager Health Systems, who was employed until March 2003; Charles L. Hutchinson, a former Controller of Medical Manager Health Systems, who was employed until June 2001; Maxie L. Juzang, a former Vice President of Medical Manager Health Systems, who was employed until August 2005; John H. Kang, a former President of Medical Manager Health Systems, who was employed until May 2001; Frederick B. Karl, Jr., a former General Counsel of Medical Manager Health Systems, who was employed until April 2000; Franklyn B. Krieger, a former

Associate General Counsel of Medical Manager Health Systems, who was employed until February 2002; Lee A. Robbins, a former Vice President and Chief Financial Officer of Medical Manager Health Systems, who was employed until September 2000; John P. Sessions, a former President and Chief Operating Officer of Medical Manager Health Systems, who was employed until September 2003; Michael A. Singer, a former Chief Executive Officer of Medical Manager

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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. The trial of the indicted former officers and directors of Medical Manager Health Systems has been scheduled for February 2, 2009. Mr. Robbins passed away on September 27, 2008 and on October 15, 2008 the court granted a motion to dismiss Mr. Robbins from the Second Superseding Indictment.

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 eight, former officers and directors of EPS. During the year ended December 31, 2007, the Company recorded a pre-tax charge of $73,347, related to its estimated liability with respect to these indemnity obligations. During the three months ended June 30, 2008, the Company recorded an additional pre-tax charge of $16,980 which reflects an increase to the Company s estimated liability related to this matter. See Note 2 for a more detailed discussion regarding this charge.

Directors & Officers Liability Insurance Coverage Litigation

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

Pursuant to a stipulation among the parties, the Coverage Litigation was transferred on September 13, 2007 to the Superior Court of the State of Delaware in and for New Castle County. The Policies were issued to the Company and to EPS, a former subsidiary of the Company, which is a co-plaintiff with the Company in the Coverage Litigation (collectively, the Plaintiffs). EPS was sold in September 2006 to Sage Software and

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has changed its name to Sage Software Healthcare, Inc. (SSHI). In connection with the Company s sale of EPS to Sage Software, the Company retained certain obligations relating to the Investigation and agreed to indemnify Sage Software and SSHI with respect to certain expenses in connection with the Investigation. The Company retained the right to assert claims and recover proceeds under the Policies on behalf of SSHI.

The Policies at issue in the Coverage Litigation consist of two separate groups of insurance policies. Each group of policies consists of several layers of coverage, with different insurers having agreed to provide specified amounts of coverage at various levels. The first group of policies was issued to EPS in the amount of $20,000 (the EPS Policies) and the second group of policies was issued to Synetic, Inc. (the former parent of EPS, which merged into the Company) in the amount of $100,000, of which approximately $3,600 was paid by the primary carrier with respect to another unrelated matter (the Synetic Policies). As of September 30, 2008, $50,950 has been paid by insurance companies representing the EPS Policies and the Synetic Policies through a combination of payment under the terms of the Policies, payment under reservation of rights and settlement. Of this amount, $19,912 has been reimbursed by the insurance companies subsequent to the Court s order on July 31, 2008 (described in more detail below). The Company has deferred recognizing this amount as income given the fact that the Coverage Litigation is ongoing and accordingly this amount has been deferred on the balance sheet as of September 30, 2008 within Liabilities of Discontinued Operations. As a result of these payments, the Company has exhausted its coverage under the EPS Policies and has remaining coverage under the Synetic Policies of approximately $60,000.

The carrier with the third level of coverage in the Synetic Policies filed a motion for summary judgment in the Coverage Litigation, which most of the carriers who have issued the Synetic policies joined, which sought summary judgment that any liability to pay defense costs should be allocated among the three sets of policies available to the Company (including the policies with respect to which the Coverage Litigation relates and a third set of policies the issuers of which had not yet been named by the Company) such that the Synetic Policies would only be liable to pay about $23,000 of the $96,400 total coverage available under such policies. The Company filed its opposition to the motion together with its motion for summary judgment against such carrier and several other carriers who have issued the Synetic Policies seeking to require such carriers to advance payment of the defense costs that the Company is obligated to pay while the Coverage Litigation is pending. On July 31, 2008, the Superior Court for the State of Delaware denied the motion filed by the carriers seeking allocation and granted the Company s motion for partial summary judgment to enforce the duty of such carriers to advance and reimburse these costs. Pursuant to the Court s order the issuers of the Synetic Policies have been reimbursing the Company for its costs. Unless the carriers ultimately prevail in the Coverage Litigation or obtain an interim ruling from the court to the contrary, the Company expects to collect from the remaining carriers under the Synetic Policies who are subject to the Court s order the costs that it is obligated to pay subject to the limits of each carrier s policy. The Company s insurance policies provide that under certain circumstances, amounts advanced by the insurance companies in connection with the defense costs of the indicted individuals, may have to be repaid by the Company, although the $14,625 that the Company has received in settlement from certain carriers is not subject to being repaid. The Company has obtained an undertaking from each indicted individual pursuant to which, under certain circumstances, such individual has agreed to repay defense costs advanced on such individual s behalf.

On October 29, 2008 the Company filed a Motion for Leave to File a Second Amended Complaint with the Superior Court. The Second Amended Complaint would add four new insurance companies as defendants in the Coverage Action. These carriers are the issuers of a third set of policies (the Emdeon Policies) that provide coverage with respect to the Company s indemnification obligations to the former officers and directors of the Company s former EPS subsidiary who were indicted in connection with the Investigation described above in this Note 12. Additionally, the Second Amended Complaint would add back as a defendant in the Coverage Action the issuer of one of the EPS Policies with whom the Company settled who is also the issuer of the eighth level of coverage under the Synetic Policies. At the time of that settlement the Company dismissed the eighth level carrier without prejudice with respect to that Synetic Policy and based upon the

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current estimate of the anticipated costs of its indemnification obligations the Company has determined that it is necessary to add back the carrier with respect to the Synetic Policy. Although the Company believes that such eighth level carrier is situated similarly to the other Synetic Policies, the eighth level carrier indicated on September 9, 2008 its position that it was not bound by the Court s July 31, 2008 order regarding the duty of the Synetic carriers to advance and reimburse defense costs. This resulted in the Company including the eighth level carrier in the Motion for Leave to File a Second Amended Complaint, described above.

Notwithstanding the fact that the Company has prevailed in the summary judgment motions described above, there can be no assurance that the Company will ultimately prevail in the Coverage Litigation or that the Defendants will be required to provide funding on an interim basis pending the resolution of the Coverage Litigation. The Company intends to continue to satisfy its legal obligations to the indicted individuals with respect to advancement of amounts for their defense costs.

Other

In the normal course of business, the Company and its subsidiaries are involved in various other claims and legal proceedings. While the ultimate resolution of these matters has yet to be determined, including those discussed in Note 12 to the Consolidated Financial Statements included in the Company s Current Report on Form 8-K filed with the SEC on June 27, 2008 and in Note 12 to the Consolidated Financial Statements included in the Company s Form 10-Q for the quarterly period ended June 30, 2008, the Company does not believe that their outcome will have a material adverse effect on the Company s consolidated financial position, results of operations or liquidity.

13. Other (Expense) Income, Net

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Transition service fees (a)	$ 104	$ 985	$ 205	$ 4,909
Reduction of tax contingencies (b)	437	377	1,311	1,123
Legal expense (c)	(403)	(373)	(1,164)	(1,164)
Gain on 2006 EBS Sale (d)				399
Advisory expense (e)	(1,135)		(6,159)	
Other (expense) income, net	$ (997)	$ 989	$ (5,807)	