A.D.A.M, Inc. ADAM (NAS)

Last Close	Industry	Sector
4.23 USD	Internet Information Providers	Telecommunications

Profile

Pricing data through 19 Nov 2009

In addition to this comprehensive company profile, Morningstar offers in-depth analyst research and ratings on selected companies.

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A.D.A.M., Inc. provides online information and technology solutions for employers, benefits brokers, healthcare organizations and online media companies. The company provides health information and health decision support tools. The company's solutions are delivered through a Platform as a Service-type model. The company's proprietary health information products are derived from continually enhanced online consumer health reference information libraries available.

The web-based information it provides includes information on diseases, symptoms, treatments, surgical procedures, specialty medicine and topics, and alternative medicine. The company's proprietary health information solutions include a collection of more than 3,600 articles; thousands of medical images; interactive decision support - a series of tools designed to attract and engage web site; groupings of its health information designed to help healthcare organizations promote key areas of their business; and a number of specialty programs including pregnancy, heart health, chronic conditions, women's health and complementary and alternative medicine.

The company's offers Benergy™ for benefits brokers, a co-branded, web-based portal for employees that communicates benefits and other company-sponsored information, improves benefits education and selection, automates benefits enrollment, manages healthcare financial accounts, such as Flexible Spending Accounts, and provides health content and decision support tools to aid in health education and awareness. The company markets its health information solutions to a number of market segments, including: Healthcare Providers, Health Plans, Online Media and Internet Search Providers, and Healthcare Information Technology.

In addition to Benergy, A.D.A.M. also offers a comprehensive agency management system called AgencyWare™. With AgencyWare™, brokers can manage the entire employer client lifecycle, moving prospects through each phase of the sales process, sending requests for proposals, preparing client presentations, managing client renewals and commissions, tracking customer service issues and organizing client data. The company's software application products for education include A.D.A.M. Interactive Anatomy, its main product for the undergraduate educational market, Interactive Physiology, also sold to the undergraduate market which it co-markets with one of its publisher partners, and a series of products designed for the K-12 market.

A.D.A.M, Inc. ADAM

Sales USD Mil	Mkt Cap USD Mil	Industry	Sector
28	42	Internet Information Providers	Telecommunications

A.D.A.M. provides educational multimedia services and products containing health informatiom services and benefit management solutions for employers and employees. This information includes its proprietary medical encyclopedia collection of articles on diseases, injuries, and nutrition, as well as Internet benefit management solutions. It also makes multimedia-software products to teach human anatomy and physiology from kindergarten to higher education.

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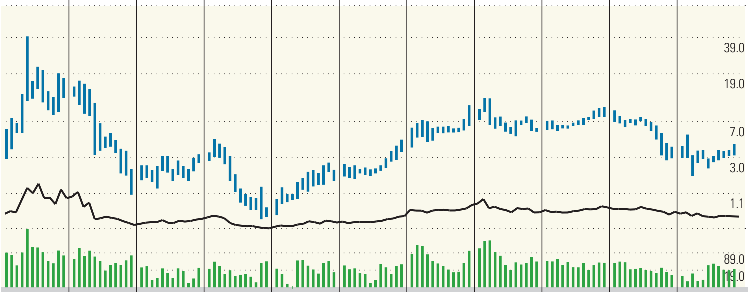
Atlanta, GA 30328
Phone: 1 770 980-0888
Website: http://www.adam.com

Employees: 118

Morningstar Rating	Last Price	Fair Value	Uncertainty	Economic Moat™	Stewardship Grade
-	4.23	-	-	-	-

per share prices in USD

40.00	16.63	3.32	4.80	2.69	4.72	10.01	11.67	9.62	8.99	5.30	Annual Price High
2.94	1.00	1.25	0.25	0.35	1.69	3.92	5.09	5.75	2.85	1.85	Low
											Recent Splits



Price Volatility
Monthly High/Low
Rel Strength to S&P 500
52 week High/Low
5.30 - 1.85
10 Year High/Low
40.00 - 0.25
Bear-Market Rank
3 (10=worst)
Trading Volume Thousand

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	YTD	Stock Performance
320.6	-87.3	84.6	-85.0	333.3	104.1	102.5	-24.6	37.7	-52.2	5.8	Total Return %
301.1	-77.2	97.6	-61.6	306.9	95.1	99.5	-38.2	34.2	-13.7	-15.4	+/- Market
10.2	1.7	135.0	-78.0	152.4	-51.5	58.9	-27.1	-0.9	3.3	-87.8	+/- Industry
—	—	—	—	—	—	—	—	—	—	0.0	Dividend Yield %
59	10	20	3	15	31	66	56	80	40	42	Market Cap USD Mil

Growth Rates Compound Annual

	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	3.5	42.1	29.6	14.2
Operating Income %	-62.2	11.8	26.2	27.9
Earnings/Share %	—	—	—	—
Dividends %	—	—	—	—
Book Value/Share %	4.6	15.4	27.0	3.7
Stock Total Return %	11.3	-10.9	2.1	-9.7
+/- Industry	-110.1	-15.2	-11.5	-13.2
+/- Market	-24.5	-3.0	3.4	-7.0

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Financials
—	9	9	9	8	8	10	17	28	29	28	Revenue USD Mil
—	91.4	82.2	83.4	78.8	79.6	79.5	79.2	76.4	79.6	78.2	Gross Margin %
—	-6	0	-1	1	2	1	3	5	2	-14	Oper Income USD Mil
—	-65.4	2.0	-13.1	7.1	18.3	12.8	19.0	17.1	6.2	-48.0	Operating Margin %
—	-8	2	-2	1	2	7	3	4	0	-14	Net Income USD Mil
—	-1.42	0.24	-0.22	0.07	0.19	0.75	0.25	0.38	0.00	-1.42	Earnings Per Share USD
—	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Dividends USD
4	5	6	7	8	8	9	10	10	10	10	Shares Mil
0.73	0.45	1.09	0.85	0.98	1.12	2.10	2.53	3.08	3.22	2.03	Book Value Per Share USD
—	-3	-1	1	2	3	4	3	6	6	6	Oper Cash Flow USD Mil
—	0	0	0	0	0	0	0	0	-1	0	Cap Spending USD Mil
—	-3	-1	1	2	3	4	3	5	5	5	Free Cash Flow USD Mil

Profitability Analysis

	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	-53.4	20.3	0.9	15.1
Return on Assets %	-30.6	13.3	0.7	5.9
Fixed Asset Turns	16.9	35.3	4.8	6.8
Inventory Turns	218.8	61.4	1474.3	11.3
Revenue/Employee USD K	238.5	215.4*	—	871.2
Gross Margin %	78.2	78.8	61.7	40.7
Operating Margin %	-48.0	14.7	23.9	14.4
Net Margin %	-50.5	23.8	1.2	6.6
Free Cash Flow/Rev %	18.7	26.3	29.3	0.0
R&D/Rev %	17.7	0.2	—	11.0

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Profitability
—	—	19.1	-16.5	6.3	13.7	40.2	6.2	6.6	0.1	-30.6	Return on Assets %
—	—	32.5	-23.2	9.0	19.8	54.3	12.6	14.9	0.1	-53.4	Return on Equity %
—	-91.1	17.9	-17.2	7.7	19.2	70.2	15.4	14.1	0.1	-50.5	Net Margin %
—	1.26	1.07	0.96	0.82	0.71	0.57	0.40	0.46	0.51	0.61	Asset Turnover
—	2.6	1.4	1.5	1.4	1.5	1.3	2.6	2.0	1.7	2.0	Financial Leverage

Financial Position

	12-08 USD Mil	09-09 USD Mil
Cash	1	3
Inventories	0	0
Receivables	4	3
Current Assets	7	7
Fixed Assets	2	2
Intangibles	38	23
Total Assets	53	40
Payables	1	—
Short-Term Debt	2	2
Current Liabilities	12	11
Long-Term Debt	8	7
Total Liabilities	21	19
Total Equity	32	20

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	09-09	Financial Health
—	-1	3	1	3	4	9	3	1	-5	-4	Working Capital USD Mil
—	—	—	—	—	—	—	24	17	8	7	Long-Term Debt USD Mil
—	3	7	6	8	9	17	23	30	32	20	Total Equity USD Mil
—	—	0.00	0.01	0.00	0.00	0.00	1.03	0.57	0.25	0.33	Debt/Equity

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Valuation
—	—	12.5	—	27.9	21.0	10.7	24.3	22.0	—	—	Price/Earnings
—	—	0.5	—	1.3	1.1	0.6	1.4	1.3	—	—	P/E vs. Market
14.6	1.1	2.2	0.4	2.0	4.1	7.5	3.7	3.1	1.5	1.5	Price/Sales
17.4	3.6	2.8	0.5	2.0	3.5	3.8	2.4	2.7	1.2	2.1	Price/Book
—	—	—	3.1	7.5	10.1	18.9	18.2	15.0	7.1	7.4	Price/Cash Flow

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	—	—	44.8	20.7
Forward P/E	—	—	—	16.4
Price/Cash Flow	7.4	13.9	19.8	7.1
Price/Free Cash Flow	8.0	15.0	23.8	18.0
Dividend Yield %	—	—	—	2.1
Price/Book	2.1	2.8	4.5	2.2
Price/Sales	1.5	4.0	7.0	1.2
PEG Ratio	—	—	—	1.8

Quarterly Results

Revenue USD Mil	Dec 08	Mar 09	Jun 09	Sep 09
Most Recent Period	7.4	6.7	7.1	7.0
Prior Year Period	7.6	7.1	7.2	7.1

Rev Growth %	Dec 08	Mar 09	Jun 09	Sep 09
Most Recent Period	-2.9	-6.3	-1.7	-2.1
Prior Year Period	11.6	8.7	2.4	6.9

Earnings Per Share USD	Dec 08	Mar 09	Jun 09	Sep 09
Most Recent Period	-0.19	-1.28	-0.05	0.13
Prior Year Period	0.18	0.05	0.08	0.06

Industry Peers by Market Cap

	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
A.D.A.M, Inc.	42	28	—	-53.4
Google, Inc.	181793	22678	45.9	16.1
Yahoo, Inc.	21870	6535	—	1.2

Major Fund Holders

	% of shares
Bridgeway Ultra-Small Company Market	1.40
Robeco Long/Short Eq I	0.30
DFA Tax-Managed US Small Cap	0.27

*3Yr Avg data is displayed in place of 5Yr Avg

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
CRAMER ROBERT S JR	Director	280,562	19 Aug 2008	-
NOLAND KEVIN S	Chief Executive Officer,President, Director	47,000	18 Apr 2008	-
TEDESCO FRANCIS J	Director	9,667	17 Feb 2005	-
KISHEL MARK	Director	8,405	03 Jan 2008	-
HOWE DANIEL S	Director	3,405	03 Jan 2008	-
SCARBOROUGH CLAY E	Director	3,405	03 Jan 2008	-
ADAMS MARK B	Chief Financial Officer	2,000	24 May 2007	-
MCCLAUGHERTY JOHN W	Director	0	08 Mar 2005	-

*Report date represents the date on which the owner's common shares held was audited.

Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Bridgeway Ultra-Small Company Market	QQQ	1.40	0.10	0	30 Jun 2009
Robeco Long/Short Eq I	QQQQQ	0.30	0.18	7	30 Jun 2009
DFA Tax-Managed US Small Cap	QQ	0.27	0.01	0	30 Jun 2009
DFA US Micro Cap I	QQQ	0.18	0.00	0	30 Jun 2009
DFA US Small Cap I	QQQ	0.14	0.00	0	30 Jun 2009

Concentrated Holders					
NA		NA	NA	NA	NA

Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Robeco Long/Short Eq I	QQQQQ	0.30	0.18	7	30 Jun 2009

Top 5 Sellers					
DFA Tax-Managed US Marketwide Value II	QQ	0.06	0.00	-2	30 Jun 2009
DFA Tax-Managed US Marketwide Value	QQ	0.06	0.00	-2	30 Jun 2009
DFA Tax-Managed US Equity	QQQ	0.01	0.00	-1	30 Jun 2009

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Industry Focus: Internet Information Providers

Larry Witt, CFA
Stock Analyst

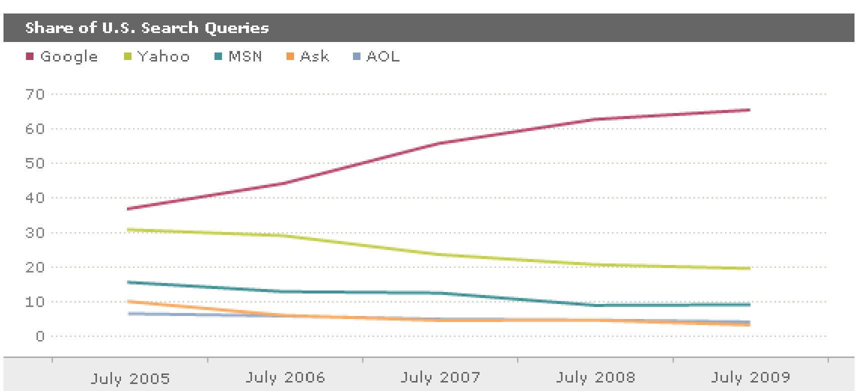
We don't expect a dramatic shift in the search advertising market.

Impact of the Microsoft-Yahoo Search Partnership

26 August 2009

Internet search remains our favorite portion of the advertising market, as we think its inherent advantages (highly targeted, more measurable than traditional media) and the continued growth of Internet usage will lead marketers to allocate more of their ad budget to search. Since we last wrote about the industry, there have been two major developments: the Microsoft-Yahoo search partnership, and the launch of Bing, Microsoft 's MSFT new search engine. Despite these developments, we don't think Google GOOG is in jeopardy of losing its dominant position.

After 18 months of on-again, off-again negotiations, Microsoft finally got what it wanted: Yahoo 's YHOO search traffic. Under the terms of the partnership, Microsoft will provide the back-end search and advertising technology, while Yahoo will lead the sales effort. Microsoft will pay to Yahoo 88% of the search revenue generated from Yahoo's sites for the first five years of the agreement. Although the partnership won't directly influence the market share of search queries on either search engine (Yahoo or Bing), the combined share is likely to improve the relevancy of search results and bring new marketers to the platform. Therefore, we think striking this partnership was the best option to form a formidable competitor to Google in the lucrative Internet search industry.



Source: ComScore

The principal beneficiary of the growth in search advertising over the last several years has been Google. Its superior product offering and brand strength have led to impressive gains in market share of search queries (see the chart below). Due to this dominance, some advertisers don't even bother to use alternative search platforms, which has led to an even larger share of search dollars than search queries for Google. The profits generated by Google's search business can be reinvested in additional computing power and human capital to make its search engine even better. Additionally, Google's massive scale of search queries and clicks gives the company unparalleled insights into which search results are most popular with users. This data intelligence can be used to further tweak its algorithms, leading to more relevant search results and an even better user experience.

Search engines also rely on the historical click-through rates to determine which sponsored search results (search ads) are most popular with users. These data help search engines determine which ads are most likely to be clicked on in the future. Thus, the search ad platform actually gets "smarter" with more use, as it partially relies on historical data to determine which ads to display in the future. Due to its massive scale, Google has a vast lead on competitors in terms of this intelligence as well, especially for the long tail of more obscure keywords.

We think the need for scale in queries was the primary factor in Microsoft's interest in Yahoo. Even if Microsoft was able to develop a first-class algorithm, a user-friendly ad platform, and the necessary data centers to index the entire Web, it would still be missing a vital component needed to

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Industry Focus: Internet Information Providers

provide a comparable search experience: scale in queries and clicks. Only by gaining access to Yahoo's inventory will Microsoft gain this key ingredient. Yahoo's scale in search queries will also help Microsoft attract advertisers to its platform. We think a partnership is the best option for Yahoo's shareholders and may be Microsoft's only chance of remaining relevant in search over the long run.

Separately, Microsoft has also recently launched its new search engine, Bing, with some success (Microsoft's market share of search queries improved to 8.9% in July from 8.0% in May, according to comScore). Combined with this, we expect the improved scale of the partnership to also lead to small gains in market share of search dollars. However, we don't think Bing is really an improvement over Google. Therefore, we expect Google to improve its market share of search queries over the long run. If that happens, the combined market share of the Microsoft/Yahoo venture at some point would fall below the point at which marketers felt it was worth their time and revert to advertising solely on Google. As a result, we think Google remains well positioned in the search advertising market.

Search Partnership Impact on Yahoo

The expected cost savings of outsourcing its search technology to Microsoft should greatly outweigh the loss of revenue (Yahoo will share revenue with Microsoft), resulting in improved profitability for Yahoo. We think the present value of Yahoo's discounted future cash flows could improve by about 25%. However, the majority of Yahoo's total enterprise value is derived from its foreign investments (Yahoo Japan, Alibaba) and its $4 billion cash balance. Based on our assumptions, our estimate for Yahoo's equity value rises by only about 10%, or just $1 per share, as a result of this deal. Because this impact is not material, we didn't change our fair value estimate after the deal was announced.

Impact on Microsoft

Search has been and will remain an insignificant portion of the company's overall cash flow. While Microsoft is likely attracted to the economics of the search industry (at scale), we think the company's primary goal in improving its search position is to slow down Google. If Google is forced to allocate more resources to search, the company will have fewer resources to develop its other offerings (Apps, Docs, App Engine, Android, Chrome, ChromeOS, etc.) that compete more directly with Microsoft's main business lines.

Impact on Google

We think the search partnership (ironically) may actually be beneficial in the long run. Google has been the target of numerous antitrust inquiries over the past year, and having a more formidable competitor (by combining the number-two and -three players) may keep regulators at bay. Additionally, the existence of a (semi)strong competitor will prevent Google from becoming complacent and will force the company to continue improving its search technology.

Valuation of Search Engine Providers

Company	Ticker	Fair Value Estimate (USD)	Stock Price* (USD)	Morningstar Rating
Google Inc.	GOOG	500.00	445.00	★★★
Yahoo Inc.	YHOO	13.00	15.00	★★★
Microsoft Corporation	MSFT	32.00	24.00	★★★★

* Stock prices as of 18 Aug 2009.