2008 Annual Report

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

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2008

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 0-26962

A.D.A.M., INC.
(Exact name of registrant as specified in its charter)

Georgia	**58-1878070**
(State of incorporation)	**(I.R.S. Employer Identification No.)**

10 10th Street NE, Suite 525
Atlanta, Georgia 30309-3848
(Address of Principal Executive Offices, Zip Code)

1600 RiverEdge Parkway, Suite 100
Atlanta, Georgia 30328-4696
(Former Name or Former Address, if changed since last report)

Registrant's telephone number, including area code:
(404) 604-2757

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $.01	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act:
None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 definition of "accelerated filer, large accelerated filer and smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☐ Smaller Reporting Company ☒
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant (assuming for these purposes, but without conceding, that all executive officers and directors are "affiliates" of the Registrant) as of June 30, 2008 (based on the closing sale price of the Registrant's common stock, as reported on the Nasdaq Global Market on such date) was $70,868,269. There were 9,882,260 shares of common stock outstanding on March 20, 2009. Portions of A.D.A.M., Inc.'s Proxy Statement for the 2009 Annual Stockholder's Meeting, to be filed within 120 days after the end of the registrant's fiscal year, are incorporated by reference into Part III of this Annual Report.

A.D.A.M., Inc.
Annual Report on Form 10-K
For the Year Ended December 31, 2008

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PART I.

Disclosure Regarding Forward Looking Statements

This Annual Report on Form 10-K (this "Report") contains forward-looking statements, within the meaning of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the Securities Act of 1933, as amended (the "Securities Act") that involve risks and uncertainties. In some cases, forward-looking statements are identified by words such as "believe," "anticipate," "expect," "intend," "plan," "will," "may" and similar expressions. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this Report. All of these forward-looking statements are based on information available to us at this time, and we assume no obligation to update any of these statements. Actual results could differ from those projected in these forward-looking statements as a result of many factors, including those identified in "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere. We urge you to review and consider the various disclosures made by us in this Report, and those detailed from time to time in our filings with the Securities and Exchange Commission (the "SEC"), that attempt to advise you of the risks and factors that may affect our future results.

ITEM 1. BUSINESS

A.D.A.M., Inc. (Nasdaq: ADAM) primarily provides online information and technology solutions for employers, benefits brokers, healthcare organizations and online media companies. Our solutions are divided into two categories:

- Health information and health decision support tools that we market to healthcare organizations, online media companies, and Internet search and technology firms; and
- Benefits communications and decision support, human resources productivity, and benefits broker tools that we market to local and regional benefits brokers and national agencies with employer clients having less than 500 employees, and employers with more than 500 employees.

Our solutions are delivered through a Platform as a Service-type model (PaaS) that provides rapid and efficient deployment of our products and allows us to integrate third party products and services that we monetize across our network of clients and end users.

For the end users of our solutions—consumers, employees, patients, and health plan members—our products and services help people to better understand their health, and the benefits plans their employers provide, and make well informed decisions about their healthcare and benefits selections. In addition, we help people understand the relationship between their benefits and the costs associated with them. This connection between financial understanding and benefits choice and use of benefits is increasingly important as consumers are assuming more of the financial responsibilities for their healthcare. For our brokers and employer clients, our solutions provide the platform necessary to communicate, educate and enroll in benefits plans. For our healthcare and consumer health clients, our health information platform provides a broad portfolio of health reference products designed to promote services, build site traffic, and aid in the management of healthcare.

In addition to our health information and benefits solutions, we also market a series of anatomy and physiology products for the K-12 and undergraduate educational market.

Health Information Solutions

Our proprietary health information products are derived from what we believe to be one of the largest continually enhanced online consumer health reference information libraries available. The web-based information we provide includes information on diseases, symptoms, treatments, surgical procedures, specialty medicine and topics, and alternative medicine. Our content is enhanced with visuals, animations and other new

media providing a graphically rich environment to promote learning retention and interactivity. In addition, we offer a number of health-related applications, such as health risk assessments and other decision support applications that are used by consumers to make informed healthcare decisions.

We market our health information solutions to a number of market segments, including:

- Healthcare Providers—hospitals and hospital systems that license our products for use on their consumer and patient-facing web sites. Our products help healthcare providers drive awareness to their services through site traffic, build brand credibility with expert health content offerings, and improve physician loyalty.
- Health Plans—health plans use our content as part of their overall care management strategies by making our information available to members through their member web sites. Our content helps plan members better understand their health, when to seek advice of a physician and how to live a healthier lifestyle. We also help improve members' awareness and education on chronic disease conditions.
- Online Media and Internet Search Providers—national consumer portals, online media organizations and Internet technology companies use our content to build site traffic, enhance their brand and expand their page inventory for advertising.
- Healthcare Information Technology—electronic medical record providers and other healthcare technology companies integrate our content into their clinical applications for use in making context-relevant information available to patients and plan members.

We provide our clients with a flexible approach to the selection and deployment of our products. Through our proprietary content platform, our clients can choose to deploy the entire suite of our information or they can select those modules that are most relevant to their targeted business objectives. Our proprietary health information solutions can be grouped into four categories:

- Health Reference—a collection of more than 3,600 articles and thousands of medical images that span disease information, treatment, symptoms, injuries, and surgical procedures;
- Interactive Decision Support—a series of tools designed to attract and engage web site visitors while helping them better understand their healthcare needs. These products help consumers navigate to the right kind of information, assess their health, and educate themselves on health issues to make informed healthcare decisions;
- Specialty Programs—groupings of our health information designed to help healthcare organizations promote key areas of their business. We offer a number of specialty programs including pregnancy, heart health, chronic conditions, women's health and complementary and alternative medicine; and
- Marketing Technologies—many of our clients want to optimize the number and quality of visitors to their organization's web site. We help healthcare organizations achieve a strong return on investment by providing tools and programs to assist in building and measuring site traffic associated with the deployment and use of our health information. These technologies include embedded XML metadata, web site analytics and other technologies, including mobile.

Our health information is written by our team of medical writers and editors and is subject to rigorous editorial and quality assurance standards. We use an extensive outside network of leading physicians and specialists from widely respected academic institutions and leading healthcare facilities who review and provide updates to our content on a regular basis. Our health information is also accredited by URAC, a leading third-party accreditation organization that ensures our content meets a high standard of accuracy. We are also a founding member of Hi-Ethics, a coalition of the most widely referenced health web sites and information providers committed to developing industry standards for the quality of consumer health information.

Broker and Employer Solutions

Our primary product for benefits brokers and employers is Benergy™, 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 (FSA), and provides health content and decision support tools to aid in health education and awareness. The tools, information and services offered through Benergy automate and streamline many important human resource (HR) functions so that employers can optimize their time and reduce administrative costs—while providing employees with a high level of access to pertinent benefits and health information. Benefits brokers consider Benergy to be an important part of their service offering to their employer clients. Brokers make available to their clients a Benergy site that is populated with that employer's specific benefits plan information. In many instances they manage the Benergy site on behalf of their employer client, providing a deeper level of client service.

Benergy is designed to address the needs of the small-to-mid-size employer (SME) market, which we consider to be those employers employing between 10 and 5,000 employees. Benergy is marketed to benefits brokers who are marketing to employers with typically less than 500 employees, and to employers with more than 500 employees directly through our team of direct sales executives. Brokers and employers enter into annual subscription agreements with us. The broker agreements typically are sold on a tiered, volume-based pricing scenario with minimum annual commitments. Agreements directly with employers are typically priced on a Per Employee Per Month (PEPM) basis. Our broker customer base encompasses a network of more than 500 benefits brokers throughout the United States.

An important part of our Benergy system is automated, online benefits enrollment. With this application, which is integrated into Benergy, employees can enroll in their benefits plans quickly, easily and online with no paper forms. Once enrolled, employees are able to view their benefits elections and confirmation statements at any time. For the employer, our enrollment application reduces the amount of paperwork and time required by benefits personnel and improves the error rate by electronically feeding enrollment data directly to the carriers. Through the system's reporting capabilities, employers are able to manage and view enrollment statistics and other vital employee enrollment information at any time.

Because of the PaaS model we use for Benergy, other products and services that we may obtain from third parties can be efficiently integrated and made available through our Benergy system. Other products and services we currently offer include:

- Tax-advantaged Health Accounts—these include FSAs, Health Savings Accounts (HSA), Health Reimbursement Accounts (HRA) and Commuter Reimbursement Accounts (CRA);
- COBRA Administrative Services—comprehensive administration services for COBRA and for state benefits continuation requirements; and
- Consolidated Billing—assists employers with the complicated task of maintaining group health and welfare eligibility databases, disbursing payments to carriers, and reconciling monthly bills to make sure payments are properly and timely made.

Broker Solutions

In addition to Benergy, we offer benefits brokers 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 (RFPs), preparing client presentations, managing client renewals and commissions, tracking customer service issues and organizing client data. We also offer brokers other tools that improve their communication with their respective clients:

- Client Community—a personalized portal that allows brokers to stay in touch with their clients at all times. Through Client Community, the broker can provide each employer 24/7 access to a variety of research tools, employee communications and other services. Client Community is also a two-way workspace where brokers and their clients can share messages and documents in a secure online

environment. Directing all of the brokers' clients to a single online space allows brokers to equip their clients' HR staff with research tools along with information and news about the brokers' services;

- Advisor Tools—a collection of tools that provide brokers access to research and regulatory information, benchmark reporting, broker-to-broker messaging, regulatory reference materials, and other business tools.

Education

Our software application products for education include A.D.A.M. Interactive Anatomy, our primary product for the undergraduate educational market, Interactive Physiology, also sold to the undergraduate market and which we co-market with one of our publisher partners, and a series of products designed for the K-12 market. We sell these products, which are shipped on CD-ROM or DVD media, through our web site and direct sales force and selected educational resellers and distributors. The production of our software products includes CD-ROM/DVD-ROM pressing, assembly of purchased product components, printing of product packaging and user manuals and shipping of finished goods, all of which is performed by third-party vendors in accordance with our specifications and forecasts.

Market Opportunity

We believe the market opportunity for our products and services is significant. Healthcare and benefits choices are becoming increasingly more complex. Consumers are assuming more of the financial responsibilities and healthcare decision-making as employers continue to shift the rising costs of benefits to their employees. At the same time, businesses are faced with increasing pressure to reduce administrative costs and find creative new ways to grow revenue with fewer resources.

Our health information solutions provide our clients ways to accomplish their business objectives while providing consumers a valuable service. The interactive nature of web-based information products can create stronger affiliations between consumers and healthcare organizations than traditional media and communication tools, at a lower cost. The primary market for our health information is the approximately 2,500 acute care, non-governmental hospitals and health systems with over 100 beds, regional and national health plans, online media organizations, consumer portals that offer health information, and other Internet search and technology companies.

Our solution for employers, Benergy, reduces costs by making benefits and other company-sponsored information available online, automating complex HR tasks and reducing paperwork. Benergy also helps employees make informed decisions about their health and benefits, which leads to improved productivity and employee satisfaction. Our solutions for benefits brokers provide enhanced value and service to their employer client relationships and tools to automate and manage their agency. The market for Benergy among employers is significant. According to 2008 data, there are over 1.5 million employers in the U.S. We reach employers with less than 500 employees primarily though our benefits broker channel. Currently we have over 500 benefits brokers under contract. We target the approximately 26,000 employers that have between 500 and 5,000 employees through a direct sales team as well as in conjunction with our brokers.

We believe that our Benergy system is uniquely positioned to take advantage of many of the macro trends occurring with employees. For example, according to the Kaiser Family Foundation 2007 Employer Health Benefits Annual Survey, health insurance premiums grew a cumulative 78% between 2001 and 2007, outpacing cumulative wage growth of 19% over the same period. These premium cost trends together with other business and economic factors suggest that employers will continue to look for ways to reduce costs and improve worker productivity either by shifting more of the benefits costs to their employees or adopting Consumer Driven Health Plans (CDHP). CDHPs continue to gain traction with employers; as well-designed CDHPs can lower healthcare utilization and improve worker productivity through increased consumer engagement in their health and health

finances. This is supported by several national studies conducted in 2007 from AON Consulting and Towers Perrin that report 11 to 12 million CDHP members—up from an estimated 500,000 in 2003—and growing 20-30% per year. According to the 2008 UBA Health Plan Survey, CDHPs increased 43% from 2007 and now comprise 13% of all plans being offered by employers. Additionally, the UBA Survey reported that approximately 10% of employers offer wellness programs and of those more than 75% include health risk assessments. We believe that these trends toward CDHPs and consumer engagement will be a key driver of our growth over the next several years.

We believe that our products provide the following benefits to employers:

- improved health outcomes by providing prevention and wellness information;
- more efficient utilization of healthcare services and benefits plans through a better understanding of treatment plans and options, and through access to information and decision-support applications;
- improved compliance with benefits plans and clinical guidelines;
- reduced provider costs and drug costs through better education and more informed decision-making in regard to utilization of healthcare services;
- reduced administration costs related to benefits administration, communication and benefits education to employees; and
- assistance in identifying at risk employee populations through risk assessment tools which provide increased opportunities to prevent adverse and catastrophic medical conditions.

Customer Support and Client Services

We believe that delivering quality customer support and client services provides us with a significant opportunity to differentiate ourselves in the marketplace. We believe that a high level of customer support is critical to our overall ability to deliver solutions to our clients. We provide customer support in two categories: (i) professional services, which include implementation and knowledge management (or training) services, and (ii) technical support services. Additionally, we provide hosting services for all of our Benergy clients and some of our Health Information clients.

- Professional Services—services we may provide our clients include implementation, requirements specification, testing, and knowledge management (or training) services. Additionally, we provide implementation assistance and software and content customization services.
- Customer Technical Support—we provide comprehensive technical and product-based support to our clients online and through telephone support.

Competition

The market in which we operate is highly competitive and continually evolving. Some of our competitors have greater technical, product development, marketing, financial and other resources than we do. These organizations may have longer operating histories, greater brand recognition and larger customer bases. We believe other competitive factors in our markets include product pricing, features, ease of implementation and use, and the quality of customer support. We cannot provide assurance that we will be able to compete successfully against these organizations. Our competitors vary by market and type of service and are categorized as follows:

- Private portal and consumer health content providers such as WebMD Health Corp., StayWell Custom Communications (part of MediMedia USA), EBSCO and Healthwise, Inc.;

- Public sector, government and non-profit organizations that provide healthcare information without advertising or commercial sponsorships such as the American Medical Association, the Mayo Clinic, the Department of Health and Human Services National Institutes of Health and the American Cancer Society;
- Wellness and disease management providers, including Healthways, Inc., and SHPS, Inc.; and health information service offerings of health plans and their affiliates such as United Healthcare Group and Aetna;
- Agency management providers, including Zywave, Inc., Vertafore, Inc., and GBS, Inc.;
- Benefits communication portal providers, including Enwisen, Inc., Vertafore, Inc. and Automatic Data Processing, Inc.;
- Online benefits enrollment providers, including ADP, Benetrac, Inc. (now Paychex) and bswift;
- Human Resource Management Systems (HRMS) providers (not direct competitors), such as Oracle, Lawson, Ceridian, Ultimate Software, Inc. and Paychex; and
- Consulting firms such as Towers Perrin, Hewitt Associates and Watson Wyatt Worldwide.

Proprietary Rights and Licenses

We regard our software applications, publications and content assets as proprietary. We rely primarily on a combination of copyright, trademark and trade secret laws and employee and third-party nondisclosure agreements to protect our proprietary rights. We have obtained U.S. federal registrations of the trademarks and the logos for “A.D.A.M.” and the marks we acquired from Online Benefits Inc. (“OnlineBenefits”), including the service mark “Benergy”, as well as numerous other trademarks, which identify our products. We have also obtained registrations of the “A.D.A.M.” trademark in Australia, Austria, Belgium, The Netherlands, Luxembourg, Canada, Chile, China (People’s Republic), Denmark, France, Germany, India, Ireland, Italy, Malaysia, New Zealand, Portugal, South Africa, Sweden, Switzerland and Taiwan. We have acquired and are using a number of registered and unregistered trademarks to identify our products. We use the “A.D.A.M.” mark in Japan under license with Kataken Seiko K.K. We are also the owner of a number of domain name registrations.

We have applied for and/or obtained numerous U.S. copyright registrations and trademarks for our software, publications and content products, including the Health Illustrated Encyclopedia, A.D.A.M. Interactive Anatomy, and Pregnancy Health Center. Additionally, we have obtained U.S. copyright registrations and trademarks for the products we acquired from OnlineBenefits, including Benergy, Ready…Enroll, Real Value Statement and Benevents.

We do not currently hold any patents or have any patent applications pending. There can be no assurance that these protections will be adequate to protect our intellectual property rights or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technologies. We further believe that due to the rapid pace of innovation within the multimedia and software industries, factors such as the technological and creative skills of our personnel and the quality of the content of our products are as important in establishing and maintaining a leadership position within the industry as the various legal protections for our technology.

We believe that our products, trademarks and other proprietary rights do not infringe upon the proprietary rights of third parties and to date no third party has filed an infringement claim against us. However, as the number of products in our industry increases and the functionality of these products overlap, content and software providers, including A.D.A.M., may become increasingly subject to infringement claims. There can be no assurance that third parties will not assert infringement claims against us in the future with respect to current or future products, trademarks or other works of A.D.A.M., or that any assertion will not require us to enter into royalty arrangements or result in costly litigation.

Employees

As of December 31, 2008, we had 118 employees, 70 of which were employed at our corporate headquarters in Atlanta. Of the total employees, 63 were engaged primarily in product and content development and customer and client services, 38 in sales and marketing and 17 in information technology, finance and administration.

Our employees are not covered by a collective bargaining agreement and we have experienced no work stoppages. We consider our employee relations to be good. We believe that our future growth and success will depend upon our ability to retain and continue to attract highly skilled and motivated personnel in all areas of our operations.

Acquisitions

In August 2006, we acquired OnlineBenefits and its subsidiaries, a privately-held provider of web-based applications serving the benefits management needs of consumers, employers and group insurance brokers. Its consumer solutions include employee self-service portals for benefits administration, communication and enrollment and benefit broker administration and communication tools. We have included the results of these acquisitions in our consolidated financial statements from the date of acquisition.

Corporate Information

A.D.A.M., Inc. is a Georgia corporation that was incorporated in 1990. Our principal offices are located at 10 10th Street NE, Suite 525, Atlanta, Georgia 30309-3848 and our telephone number is (404) 604-2757.

Our website address is www.adam.com. Information contained on our website is not a part of, and is not incorporated into, this Report. Our filings with the SEC are available without charge on our website as soon as reasonably practicable after filing. We make available on our website free of charge copies of materials we file, or furnish to, the Securities and Exchange Commission, or SEC, including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the SEC. In addition to visiting our website, you may read and copy public reports we file with or furnish to the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet website that contains our reports, proxy and information statements, and other information that we file electronically with the SEC at www.sec.gov.

ITEM 1A. RISK FACTORS

We operate in a rapidly changing environment that presents numerous risks, many of which are driven by factors we cannot control or cannot always predict. The following discussions, in addition to other factors addressed elsewhere in this report, highlight some of the factors that could cause our future results to differ materially from the past results or expected future results:

- The markets in which we operate are intensely competitive, continually evolving and, in some cases, subject to rapid change. Some competitors have advantages over us because of their longer operating histories, greater name recognition, or greater financial, technical and marketing resources. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements. They could also devote greater resources to the promotion and sale of their products or services. Furthermore, mergers and acquisitions among other companies could intensify our existing competition or create new competitors with superior marketplace positions or technology advantages.
    - Our health information services face competition from numerous other companies and organizations, including commercial content providers and not-for-profit organizations. We also

compete with providers of healthcare decision-support tools and online health management applications; wellness and disease management vendors; and health management offerings of health plans and their affiliates.

    - Our benefits management and administrative products compete with other providers of benefits management services, including those provided through payroll and other business outsourcers as well as human resource management systems providers.
    - Our agency management services face competition from other agency management providers and consulting firms.

- We must make significant investments in our products and market development in anticipation of future market opportunities and conditions. If we are unable to make these investments or we are unsuccessful in obtaining future revenues and customer relationships from these investments, then our future operating results could be adversely affected.
- We may be unable to successfully identify, acquire, manage or integrate other businesses into our infrastructure. Our long-term growth strategy includes acquiring additional businesses with complementary products, technologies or professional services. We may not be successful in acquiring other complementary businesses or assimilating the acquisitions, their personnel and their operations. These difficulties could disrupt our ongoing business, distract our management and employees, increase our expenses and adversely affect our results of operations. Future acquisitions may also cause us to incur expenses such as in-process research and development expenses, or write-offs of goodwill and capitalized software development costs, which may negatively affect our earnings. We cannot be certain that we will successfully overcome these risks with respect to any future acquisitions. In addition, we have historically paid a portion of the consideration for some of our acquisitions by issuing common stock. The issuance of additional common stock or other securities convertible into common stock in connection with future acquisitions would dilute the ownership interests of our existing shareholders.
- Our online applications are designed to operate 24 hours a day, seven days a week, without interruption. However, we have experienced and expect that we will in the future experience interruptions and delays in services and availability from time to time. We rely on internal systems as well as third-party vendors, including data center providers and bandwidth providers, to provide our online services. We do not maintain redundant systems or facilities for some of these services. In the event of a catastrophic event with respect to one or more of these systems or facilities, we may experience an extended period of system unavailability, which could negatively impact our relationship with users. To operate without interruption, both we and our service providers must guard against:
    - damage from fire, power loss and other natural disasters;
    - communications failures;
    - software and hardware errors, failures and crashes;
    - security breaches, computer viruses and similar disruptive problems; and
    - other potential interruptions.
- Any disruption in the network access or co-location services provided by these third-party providers or any failure of or by these third-party providers or our own systems to handle current or higher volume of use could significantly harm our business. We exercise little control over these third-party vendors, which increases our vulnerability to problems with services they provide. Any errors, failures, interruptions or delays experienced in connection with these third-party technologies and information services or our own systems could negatively impact our relationships with users and adversely affect our brand and our business.
- We could be subject to breach of warranty or other claims by clients if the software and systems we use to provide them contain errors or experience failures which could result in our inability to meet

contractual performance standards or failure to meet expectations that our clients have for them. Clients may seek compensation from us or may seek to terminate their agreements with us, withhold payments due to us, seek refunds from us of part or all of the fees charged under those agreements or initiate litigation or other dispute resolution procedures as a result of such errors or failures. In addition, we could face breach of warranty or other claims by clients or additional development costs as a result of such errors or failures. Our software and systems are inherently complex and, despite testing and quality control, we cannot be certain that they are error free.

- We attempt to limit, by contract, our liability to our clients for damages arising from our negligence, errors or mistakes. However, contractual limitations on liability may not be enforceable in certain circumstances or may otherwise not provide sufficient protection to us from liability for damages. We maintain liability insurance coverage, including coverage for errors and omissions. However, it is possible that claims could exceed the amount of our applicable insurance coverage, if any, or that this coverage may not continue to be available on acceptable terms or in sufficient amounts. Even if these claims do not result in liability to us, investigating and defending against them would be expensive and time consuming and could divert management's attention away from our operations. In addition, negative publicity caused by these events may delay or hinder market acceptance of our services, including unrelated services.
- We do not currently hold any patents on our technology and do not have any patent applications pending. We rely primarily on a combination of copyright, trademark and trade secret laws and employee and third-party nondisclosure agreements to protect our proprietary rights. There can be no assurance that these protections will be adequate to protect our intellectual property rights or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technologies. Effectively policing against the unauthorized use of our technology is time consuming and costly, and we cannot assure you that the steps taken by us will prevent misappropriation of our technology. Our failure to adequately protect our intellectual property rights could harm our business by making it easier for others to duplicate our services.
- As the number of products in our industry increases and the functionality of these products overlap, content providers may become increasingly subject to infringement claims. There can be no assurance that third parties will not assert infringement claims against us in the future with respect to current or future products, trademarks or other works of A.D.A.M. A claim of infringement against us, with or without merit, could be time consuming and expensive to litigate or settle, and could divert management's attention from our operations. An adverse determination against us could require us to enter into royalty arrangements or prevent us from offering our services.
- We may be unable to attract new personnel or retain existing personnel, which would adversely affect the implementation of our overall business strategy. In order to promote the development of our target markets and retain our position in the marketplace, we will need to identify, attract and retain personnel with domain expertise in the functional areas of our business. Additionally, our success depends upon the continued services of our executive officers, particularly our Chief Executive Officer, and other members of our executive management team. From time to time, there may be changes in our executive management team resulting from the hiring or departure of executives, which could disrupt our business. We will compete with other companies both within and outside our markets for such employees and we may be unable to attract and retain these employees. If we do not succeed, we may be unable to fully implement our growth and market development strategies and our business could be impacted.
- As our business has grown, we have become increasingly subject to the risks arising from adverse changes in domestic and global economic and political conditions. For example, the U.S. economy has recently been weakened due to many factors, including the credit market crisis, reduced credit availability, bank failures, slower economic activity, bankruptcies, increased unemployment, adverse business conditions, concerns about inflation and fear of a recession. If weakness in the economies of the U.S. and other countries persists, many customers may delay or reduce technology purchases. This

could result in reductions in sales of our products, longer sales cycles, slower adoption of new technologies, increased price competition, customers purchasing fewer services than they have in the past, customers requesting longer payment terms, customers failing to pay amounts due and slower collections of accounts receivable. Any of these events would likely harm our business, results of operations, financial condition and cash flow from operations.

- The capital and credit markets have been experiencing volatility and disruption for more than a year. In recent months, the volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.
- The Company may have to write-down the value of its goodwill if the equity market and the market price of the Company's stock indicates the fair value of the assets acquired in the Online Benefits acquisition in 2006 are priced above the fair value. Goodwill and other intangibles are evaluated periodically using GAAP fair value rules, which are derived from the equity market and the Company's stock prices.
- We may be unable to obtain sufficient capital to pursue our growth and market development strategies, which would hurt our financial results. Our market capitalization, by its size and liquidity, may limit our ability to sell additional stock. If we are unable to raise necessary capital, our future strategies may be limited and our future results could be affected.
- We rely on financial institutions for substantial amounts of credit financing, including both currently outstanding loans and unused line of credit facilities, to provide funding for our operations. We may not be able to maintain these existing relations or we may not meet the existing financial covenants that would require us to significantly alter our strategies and operations and may impact our financial results in the future.
- We can offer no assurance that the disruption of reseller or distribution channels or the loss of any significant customer will not materially adversely affect our business by reducing revenues, profits and cash flow.
- The technology that we use to deliver our products is rapidly changing and we may be unable to convert our platforms to new technologies on a timely basis or be required to incur substantial additional costs to accomplish such changes and upgrades. We rely on the Internet and on third parties to provide connections to our customers and changes in regulations, prices, tax status or availability could adversely affect our operating results.
- Our ability to attract new customers and increase revenue from existing customers will depend in large part on our ability to enhance and improve our existing information services and management solutions and to introduce new features and content. The success of any enhancement or new product depends on several factors, including timely completion, introduction and market acceptance. Any new feature or content that we develop or acquire may not be introduced in a timely or cost-effective manner and may not achieve the broad market acceptance necessary to generate significant revenue. If we are unable to successfully develop or acquire new features or content or to enhance our existing information services and management solutions to meet customer requirements, our business and operating results will be adversely affected.
- We face technological challenges in our ability to deliver information in the rapidly changing healthcare industry, which may limit our ability to maintain existing customers or attract new customers. We believe that health information will become more customized to an individual's personal health management needs. As a result, we will need to have adequate technology infrastructure that will allow us to deliver in a cost-effective manner portions of our content assets based on each customer's requirements.

- We face potential risks and financial liabilities associated with obtaining and transmitting personal account information that includes social security numbers and individual health-related information. Information may be accessed by outsiders by breaching our security systems or by inappropriate actions of our personnel. Our risks would include damage of our reputation, additional costs to address and remediate any problems encountered as well as litigation and potential financial penalties.
- Our stock price is extremely volatile and could decline significantly. We may not be able to meet our financial projections or market expectations of our results on a quarterly or longer period and that could adversely affect our stock price. Since our initial public offering in 1995, there has been significant volatility in the price of our common stock. There can be no assurance that the market price of our common stock will be maintained or that the volume of trading in our shares will not decrease. Furthermore, following periods of volatility in the market price of a company's securities, securities class action claims frequently are brought against the subject company. To the extent that the market price of our shares falls dramatically in any period of time, shareholders may bring claims, with or without merit, against us. Such litigation would be expensive to defend and would divert management attention and resources regardless of outcome.
- We must comply with Section 404 of the Sarbanes-Oxley Act which requires us to incur expenses associated with the development and testing of our internal controls. There can be no assurance that we will not have significant deficiencies or material weaknesses in our internal controls or that we will not encounter higher than anticipated disruptions and expenses associated with compliance that may adversely affect our earnings and our share price.
- We have adopted certain anti-takeover provisions that may deter a takeover. Our articles of incorporation and bylaws contain provisions that may deter a takeover, including a takeover on terms that many of our shareholders might consider favorable, such as: the authority of our board of directors to issue common stock and preferred stock and to determine the price, rights (including voting rights), preferences, privileges and restrictions of each series of preferred stock, without any vote or action by our shareholders; the existence of large amounts of authorized but unissued common stock and preferred stock; staggered, three-year terms for our board of directors; and advance notice requirements for board of directors nominations and for shareholder proposals. The rights and preferences of any series of preferred stock could include a preference over the common stock on the distribution of our assets upon a liquidation or sale of our company, preferential dividends, redemption rights, the right to elect one or more directors and other voting rights. The rights of the holders of any series of preferred stock that may be issued in the future may adversely affect the rights of the holders of the common stock. We have no current plans to issue preferred stock. In addition, certain provisions of Georgia law and our stock option plan may also discourage, delay or prevent a change in control of our company or unsolicited acquisition proposals.
- A significant number of unissued shares are available for future sale and could adversely affect the market price of our common stock. If our shareholders, option holders, or warrant holders exercise their rights to sell substantial amounts of our common shares in the public market, the market price of our common stock could fall. Given the unpredictable transaction volumes for our common stock, the sale of a significant amount of these shares at any given time could cause the market price of our common stock to decline or otherwise be highly volatile. Such sales could also make it more difficult for us to sell equity or equity-related securities in the future at a time and price when we deem conditions to be more favorable.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our headquarters are located in approximately 24,000 square feet of leased office space in Atlanta, Georgia. The term of the lease ends in April 2019.

Previously, our headquarters were located in approximately 12,000 square feet of leased office space in Atlanta, Georgia. The term of that lease extended to September 2008. Until September 2006, we sublet approximately 500 square feet of this space to a company whose Chairman is also our Chairman, in which we collected $1,200 per month for lease payments and other shared services.

In addition, we have leased office space of approximately 36,000 square feet in Uniondale, New York. This lease extends through June 2011. This space is sublet to unrelated third parties for $72,000 per month. The difference between our lease rate and the income from the sublease contracts has been recorded as a liability on our accompanying consolidated balance sheet.

If additional facilities are required, we believe that suitable facilities will be available at market rates.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2008.

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Price Information

Our common stock is traded on the Nasdaq Global Market (Nasdaq) under the symbol "ADAM." As of March 20, 2009, there were 9,882,260 holders of record of the Company's common stock.

The following table sets forth the high and low sales price of our common stock for each quarter during the last two years, as reported by Nasdaq:

	High	Low
Year Ended December 31, 2007		
Quarter ended March 31, 2007	$7.24	$5.75
Quarter ended June 30, 2007	$6.91	$6.06
Quarter ended September 30, 2007	$7.81	$6.54
Quarter ended December 31, 2007	$9.62	$7.51
Year Ended December 31, 2008		
Quarter ended March 31, 2008	$8.99	$6.24
Quarter ended June 30, 2008	$7.80	$6.50
Quarter ended September 30, 2008	$7.49	$4.73
Quarter ended December 31, 2008	$5.48	$2.85

Dividends

We have never paid or declared any cash dividends on our common stock and we do not intend to pay or declare dividends on our common stock in the near future. We presently expect to retain any future earnings to fund continuing development and growth of our business. Our payment of dividends in the future is subject to the discretion of our board of directors and will depend on our earnings, financial condition, capital requirements and other relevant factors. Our credit facility generally prohibits us from paying dividends on our common stock.

Issuer Purchases of Equity Securities

We did not make any repurchases of our equity securities during the fourth quarter of 2008.

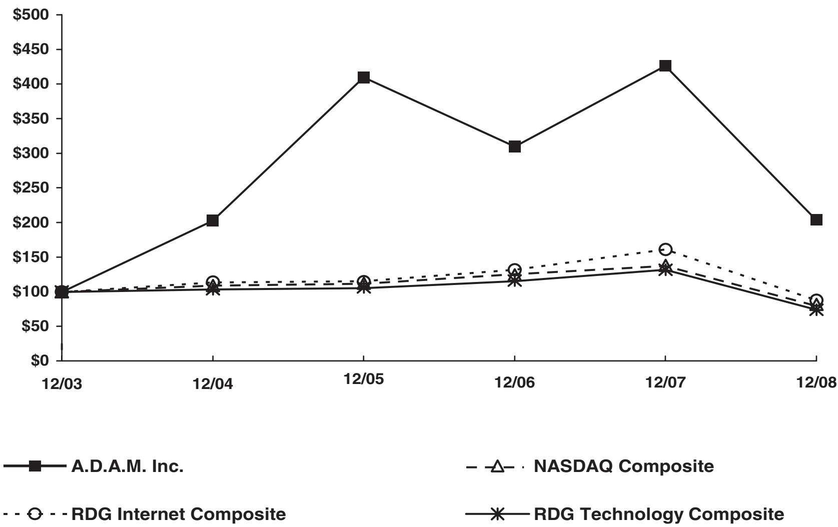
Stock Performance Graph

The graph below compares the cumulative 5-year total stockholder return on our company from December 31, 2003 through December 31, 2008, with the cumulative total returns of the Nasdaq Composite index and a Research Data Group ("RDG") Internet Composite Index. The graph assumes that the value of the investment in our common stock, Nasdaq and the RDG index (including reinvestment of dividends) was $100 on December 31, 2003 and tracks it through December 31, 2008. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

The following performance graph and related information shall not be deemed "soliciting material" or be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference into such filing.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among A.D.A.M. Inc., The Nasdaq Composite Index,
The RDG Internet Composite Index And The RDG Technology Composite Index



* $100 invested on 12/31/03 in stock & index-including reinvestment of dividends.
Fiscal year ending December 31.

	12/2003	12/2004	12/2005	12/2006	12/2007	12/2008
A.D.A.M., Inc.	$100.00	$204.10	413.33	$311.79	$429.23	$205.13
NASDAQ Composite	100.00	110.08	112.88	126.51	138.13	80.47
RDG Internet Composite	100.00	114.69	116.44	133.17	162.74	88.24
RDG Technology Composite	100.00	104.00	106.32	115.97	132.44	75.00

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data for the years ended December 31, 2008, 2007 and 2006, and as of December 31, 2008 and 2007, has been derived from the audited consolidated financial statements included elsewhere herein and should be read in conjunction with such consolidated financial statement and the accompanying notes. The selected financial data presented below for the years ended December 31, 2005 and 2004, and as of December 31, 2006, 2005 and 2004, has been derived from audited financial statements not included herein. The results of operations of prior periods are not necessarily indicative of results that may be expected for any other period. The following selected financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations set forth below and the consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K (this "Report").

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(In thousands, except per share data)				
STATEMENT OF OPERATIONS DATA:					
Revenues, net	$28,857	$27,878	$16,505	$10,054	$ 8,433
Gross profit	22,957	21,309	13,064	7,991	6,716
Operating income	1,802	4,759	3,132	1,289	1,539
Income tax benefit	—	1,510	—	5,500	—
Net income	38	3,939	2,548	7,062	1,621
Basic net income per share	$ 0.00	$ 0.42	$ 0.30	$ 0.87	$ 0.21
Weighted average number of common shares outstanding, basic	9,813	9,461	8,630	8,108	7,879
Diluted net income per share	$ 0.00	$ 0.38	$ 0.25	$ 0.75	$ 0.19
Weighted average number of common shares outstanding, diluted	10,642	10,442	10,074	9,468	8,742

	As of December 31,				
	2008	2007	2006	2005	2004
	(In thousands)				
BALANCE SHEET DATA:					
Total assets	$53,146	$59,970	$60,138	$21,880	$13,244
Long-term debt	8,000	16,750	24,000	—	—
Total liabilities	21,324	30,423	36,669	4,736	4,395
Total shareholders' equity	31,822	29,547	23,469	17,144	8,849
Working capital (deficit)	(5,321)	1,228	3,084	8,576	4,266

	Year Ended December 31,				
	2008	2007	2006	2005	2004
PERCENT OF REVENUE:					
Gross profit	79.6%	76.4%	79.2%	79.5%	79.6%
Operating income	6.2%	17.1%	19.0%	12.8%	18.2%
Net income	0.1%	14.1%	15.4%	70.2%	19.2%

	Year Ended December 31,				
	2008	2007	2006	2005	2004
NON-GAAP DISCLOSURE:					
Net income, GAAP	$ 38	$ 3,939	$2,548	$ 7,062	$1,621
Facility consolidation	2,193	—	—	—	—
Loan refinance	813	—	—	—	—
Stock-based compensation	903	758	136	644	—
Amortization of purchased intangibles	753	753	288	—	461
Severance	—	529	485	—	—
Income tax benefit	—	(1,510)	—	(5,500)	—
Net income, Adjusted Non-GAAP	4,700	4,469	3,457	2,206	2,082
Interest expense (income)	1,468	2,330	584	(313)	(82)
Depreciation and amortization	1,396	1,174	872	893	690
Income tax expense	—	—	—	100	—
Loss on the sale of investments	296	—	—	—	—
EBITDA, Adjusted Non-GAAP	7,860	7,973	4,913	2,886	2,690

These non-GAAP operational measures, including adjusted net income and adjusted EBITDA, are used by us as broad measures of financial performance that encompass our operating performance, cash, capital structure, investment management, and income tax planning effectiveness. These operational measures are used by management to report our financial results and forecasts to our board of directors, evaluate the operating performance of our company, manage and compare performance internally and externally against our peers, and establish internal operating targets. These operational measures are not calculated in accordance with GAAP, and should be considered supplemental to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. These operational measures have limitations in that they do not reflect all of the costs or reductions to revenues associated with the operations of our business as determined in accordance with GAAP, primarily the effects of a facility consolidation, a loan refinance, stock-based compensation, amortization of intangible assets, acquisition related expenses and the income tax benefits from valuation of future tax loss carryforwards. In addition, these operational measures may not be comparable to non-GAAP financial measures reported by other companies. As a result, one should not consider these measures in isolation or as a substitute for analysis of our results as reported under GAAP. We compensate for these limitations by analyzing current and future results on a GAAP basis as well as a non-GAAP basis, prominently disclosing GAAP results and providing reconciliations from GAAP results to operational measures. The limitations in relying on our non-GAAP financial measures include the fact that the adjusted net income and adjusted EBITDA operational measures do not include the impact of a facility consolidation, a loan refinance, stock-based compensation, amortization of intangible assets, acquisition related expenses and the income tax benefits from valuation of future tax loss carryforwards. We expect to continue to incur expenses similar to the non-GAAP adjustments described above, and the exclusion or inclusion of these items from our non-GAAP financial measures should not be construed as an inference that these costs are unusual or infrequent.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This analysis of our results of operations should be read in conjunction with the accompanying consolidated financial statements, including notes thereto, contained in Item 8 of this Report. This Report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Exchange Act. Statements that are predictive in nature and that depend upon or refer to future events or conditions are forward-looking statements. Although we believe that these statements are based upon reasonable expectations, we can give no assurance that their goals will be achieved. Please refer to the discussion of forward-looking statements included in Part I of this Report.

Overview

We provide online information and technology solutions for employers, benefits brokers, healthcare organizations and online media companies. For the end users of our solutions—general consumers, employees, patients, and health plan members—our products and services help people to better understand their health, better understand the benefits plans their employers provide, and make well informed decisions about their healthcare and benefits selections. In addition, we help people understand the relationship between their benefits and the costs associated with them. This connection between financial understanding and benefits choice and use of benefits is increasingly important as consumers are assuming more of the financial responsibilities for their healthcare.

Our proprietary health information products are derived from what we believe to be one of the largest continually enhanced online consumer health reference information libraries available. The information we provide which is web-based, includes information on diseases, symptoms, treatments, surgical procedures, specialty medicine and topics, and alternative medicine. Our content is enhanced with visuals, animations and other new media that provides a graphically rich environment to promote learning retention and interactivity. In addition, we offer a number of health-related applications, such as health risk assessments and other decision support applications that are used by consumers to make informed healthcare decisions.

Our primary product for benefits brokers and employers is Benergy™, 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 tools, information and services offered through Benergy automate and streamline many important human resources (HR) functions so that employers can optimize their time and reduce administrative costs—while providing employees with a high level of access to pertinent benefits and health information. Benefits brokers consider Benergy to be an important part of their service offering to their employer clients. Brokers make available to their clients a Benergy site that is populated with that employer's specific benefits plan information. In many instances they manage the Benergy site on behalf of their employer client, providing a deeper level of client service.

In addition to Benergy, we offer benefits brokers 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 (RFP's), preparing client presentations, managing client renewals and commissions, tracking customer service issues and organizing client data. We also offer brokers other tools that improve their communication with their respective clients.

We sell our health information products primarily through multi-year licensing agreements to many different types of healthcare and health-related organizations including hospitals, health plans, system integrators, pharmaceutical companies, health-oriented Internet websites, healthcare technology companies and employers. Our health content solutions are used by our customers as part of their Web initiatives, imbedded in healthcare applications such as an electronic medical record or disease management applications, contained in a printed or CD-ROM format, or combined with other products that may be offered to a healthcare consumer.

We sell our Benergy and broker management system primarily through annual licensing agreements with group insurance brokers. Our brokers pay us a minimum annual fee for a predetermined number of end user licenses to Benergy. We also offer additional products in addition to the base Benergy product, such as online enrollment, which often times is sold by us directly to the employer. The annual license agreements typically provide for a minimum monthly financial commitment and additional fees, if usage exceeds the minimum.

We sell our educational products, professional services and other services based on customer needs and each transaction is generally sold on an individual order basis, and revenue recognized as the product or service is delivered.

Information regarding each of our service markets appears in Item 1 of this Report, under the caption "Overview of our Business."

Critical Accounting Policies and Estimates

Discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the amounts reported in the consolidated financial statements and the accompanying notes. On an on-going basis, we evaluate our estimates, including those related to product returns, product and content development expenses, bad debts, intangible assets, income taxes and contingencies. We base our estimates on experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

- *Revenue Recognition*

We derive revenues from the following sources: (1) electronically delivered software, which includes software license and post contract customer support (PCS) revenue, (2) hosted software, which includes software license, hosting and PCS revenue, (3) professional services and (4) product sales. We recognize revenue when: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed or determinable; and (4) collectability is reasonably assured. When a contract includes multiple elements, such as software and services, the entire fee is allocated to each respective element based on vendor specific objective evidence of fair value, and recognized when the revenue criteria for each element is met.

Electronically delivered software, which includes software license and PCS revenue, is recognized in accordance with Statement of Position No. 97-2, "Software Revenue Recognition," with the entire amount recognized ratably over the term of the license agreement.

Hosted software, which includes software license, hosting and PCS revenue, is recognized using GAAP principles for service revenue recognition as per Emerging Issues Task Force (EITF) Issue No. 00-3. The entire amount of revenue is recognized ratably over the term of the license agreement, which matches the service that is being provided.

Professional service revenues are generally recognized upon completion and acceptance by the customer. For revenue arrangements in which we sell through a reseller, we recognize revenue only after an agreement has been finalized between the customer and our authorized reseller and the content has been delivered to the customer by the reseller.

Product sales revenues are generally recognized at the time title passes to customers, distributors or resellers.

- *Sales Returns Allowances and Allowance for Doubtful Accounts*

Significant management judgments and estimates must be made in connection with establishing the sales returns and other allowances in any accounting period. Management must make estimates of potential future product returns related to current period product revenue. We evaluate the adequacy of allowances for returns primarily based upon our evaluation of historical and expected sales experience and by channel of distribution. The judgments and estimates of management may have a material effect on the amount and timing of our revenue for any given period. The allowance for returns in prior years has not been significant.

Similarly, management must make estimates of the uncollectability of accounts receivable. Management specifically analyzes accounts receivable and historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

- *Capitalized Software Product and Content Development Costs*

We capitalize software product and content development costs in accordance with Financial Accounting Standards Board ("FASB") Statement No. 86 ("FAS 86"), "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed." This statement specifies that costs incurred internally in creating a computer software product shall be charged to expense when incurred as research and development until technological feasibility has been established for the product. Technological feasibility is established upon completion of all planning, designing, and testing activities that are necessary to establish that the product can be produced to meet its design specifications including functions, features, and technical performance requirements. We cease capitalization of internally developed software when the product is made available for general release to customers and thereafter, any maintenance and customer support is charged to expense when related revenue is recognized or when those costs are incurred. We amortize such capitalized costs as cost of revenues on a product-by-product basis using the greater of the ratio of current product revenue to the total of current and anticipated product revenue or on a straight line basis over the estimated life of the software, which we have determined to generally be two years. We continually evaluate the recoverability of capitalized costs and if the successes of new product releases are less than we anticipate then a write-down of capitalized costs may be made which could adversely affect our results in the reporting period in which the write-down occurs.

We also capitalize internal software development costs in accordance with the American Institute of Certified Public Accountants' Statement of Position 98-1 ("SOP 98-1"), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This statement specifies that computer software development costs for computer software intended for internal use occurs in three stages: (1) the preliminary project stage, where costs are expensed as incurred, (2) the application development stage, where costs are capitalized, and (3) the post-implementation or operation stage, where again costs are expensed as incurred. We cease capitalization of developed software for internal use when the software is ready for its intended use and placed in service. We amortize such capitalized costs as cost of revenues on a product-by-product basis using the straight-line method over a period of three years. We continually evaluate the usability of the products that make up our capitalized costs and if certain circumstances arise such as the introduction of new technology in the marketplace that management intends to use in place of the capitalized project, then a write-down of capitalized costs may be made which could adversely affect our results in the reporting period in which the write-down occurs.

- *Goodwill and Intangible Assets*

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," we evaluate goodwill and intangible assets for impairment on an annual basis.

Additionally, goodwill is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of an entity below its carrying value. These events or circumstances would include a significant change in the business climate, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business or other factors. The carrying value of goodwill is evaluated in relation to the operating performance and estimated future discounted cash flows of the entity.

- *Income Taxes*

As part of the process of preparing our consolidated financial statements we are required to estimate our taxes in each of the jurisdictions in which we operate. This process involves management estimating the actual tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and U.S. GAAP purposes. These differences result in deferred tax assets and liabilities, which are included within our accompanying consolidated balance sheet. We must then assess the likelihood that deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance.

- *Stock-based Compensation*

We previously accounted for stock-based compensation expense under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. Under Accounting Principles Board Opinion No. 25, we would not have recognized any compensation cost, because our options were granted at market value. On January 1, 2006, we adopted SFAS No. 123R using the modified prospective application transition approach method. We expect to incur approximately $822,000 of expense over a weighted average of 1.6 years for all unvested options outstanding at December 31, 2008.

RESULTS OF OPERATIONS

Year ended December 31, 2008 compared to year ended December 31, 2007

Revenues (numbers in table in thousands)

	Year Ended December 31,			
	2008	2007	$ Change	% Change
A.D.A.M., Inc. Consolidated				
Licensing	$25,395	$23,563	$1,832	7.8%
Product	1,182	1,642	(460)	(28.0)%
Professional services and other	2,280	2,673	(393)	(14.7)%
Total Net Revenues	$28,857	$27,878	$ 979	3.5%

Total net revenues increased 3.5%, or $979,000, to $28,857,000, for the year ended December 31, 2008 compared to the year ended December 31, 2007. For the periods shown above, over 85% of those revenues came from the licensing of our health information services and benefits technology solutions.

Licensing revenues are recognized on a monthly basis, either based on usage, expiration of monthly minimums, or on a straight-line basis over the life of the contract. Therefore, fluctuation in licensing revenue is due to new contracts, customer usage levels or contract terminations. We annualize each contract's committed value and use changes to that value, from new sales or terminations, to calculate a net client retention rate.

Our increase in licensing revenue is a result of new customer contracts and client retention from our health information products. We derive those revenues primarily from healthcare organizations and healthcare information technology companies. The increase in new customer contracts is a result of the increased staffing in sales and marketing personnel, product enhancements, and an increase in the demand for online consumer-focused health information.

Revenues from product sales decreased by 28.0%, or $460,000, to $1,182,000 for the year ended December 31, 2008 compared to the year ended December 31, 2007. Our product revenues consist primarily of CD-based product sales to the educational market. Revenues were lower in this area due to a market shift from CD-based products to online solutions. We are planning to invest in new product development of online solutions to meet the current market requirements.

Professional services and other revenue decreased $393,000, or 14.7%, to $2,280,000 for the year ended December 31, 2008 compared to the year ended December 31, 2007. Professional services and other revenue are derived from products such as custom implementation services, flexible spending account services, direct to consumer products, and sales of nonrecurring products such as books, publications, and medical images. In the fourth quarter last year, we recorded over $350,000 in revenue for a professional services engagement that was nonrecurring.

Operating Costs and Expenses (numbers in table in thousands)

	Year Ended December 31,			
	2008	**2007**	**$ Change**	**% Change**
A.D.A.M., Inc. Consolidated				
Cost of revenues	$ 4,201	$ 5,092	$ (891)	(17.5)%
Cost of revenues—amortization	1,699	1,477	222	15.0%
Product and content development	6,022	5,820	202	3.5%
Development capitalization	(1,725)	(1,154)	(571)	49.5%
Sales and marketing	8,961	6,026	2,935	48.7%
General and administrative	7,897	5,858	2,039	34.8%
Total Operating Cost and Expenses	$27,055	$23,119	$3,936	17.0%

Cost of revenues consists primarily of costs associated with royalties, distribution license fees, and personnel support for our products and services. Cost of revenues decreased $891,000, or 17.5%, to $4,201,000 for the year ended December 31, 2008 compared to the year ended December 31, 2007. This decrease is primarily the result of lower royalty costs from the elimination or expiration of certain royalty agreements related to our healthcare products.

Cost of revenues—amortization increased $222,000, or 15%, to $1,699,000 for the year ended December 31, 2008 compared to the year ended December 31, 2007. Cost of revenues—amortization consists of costs associated with amortization of capitalized customer lists, software product, and content development costs. Cost of revenues—amortization for customer lists and software product related to the acquisition of OnlineBenefits was $753,000 for the year ended December 31, 2008 and 2007. The amortization increases primarily relate to new benefit technology product releases and other product enhancements that were made in the second half of 2007.

Product and content development expenses increased $202,000, or 3.5%, to $6,022,000 for the year ended December 31, 2008 compared to the year ended December 31, 2007. Product and content development expenses consist of salary and costs associated with engineering and developing our product and service offerings. Development capitalization increased $571,000, or 49.5%, for the year ended December 31, 2008 compared to the year ended December 31, 2007. This increase in development is due to investments to enhance the functionality of our broker and employer solution products. Due to the increase in capitalization, the net expense decreased $369,000 for the year ended December 31, 2008 compared to the same period in the prior year.

Sales and marketing expenses increased 48.7%, or $2,935,000, to $8,961,000 for the year ended December 31, 2008 compared to the year ended December 31, 2007. Sales and marketing expenses include the personnel costs of sales and marketing personnel and their related travel and support costs and the costs of our marketing and public relations programs. This increase is primarily attributable to the hiring of additional sales and customer relations personnel and related expenses in order to expand our sales presence, pursue additional market opportunities, and enhance our customer service levels.

General and administrative expenses increased 34.8%, or $2,039,000, to $7,897,000 for the year ended December 31, 2008 compared to the year ended December 31, 2007. The fourth quarter 2008 includes $3,006,000 of costs associated with a facility consolidation and a loan refinance. This expense was offset by reduced personnel in the general and administrative area resulting from our prior efforts to streamline and automate internal processes costs, controls and the consolidation of certain functions between Online Benefits and A.D.A.M. In the fourth quarter of 2007, we recorded severance expense of $529,000.

Operating profit decreased $2,957,000 to $1,802,000 for the year ended December 31, 2008 compared to an operating profit of $4,759,000 for the year ended December 31, 2007. This decrease is directly related to the facility consolidation and refinance of the Capital Source Loan.

Other Expenses and Income

Interest expense was $1,495,000 and $2,565,000 for the years ended December 31, 2008 and 2007, respectively. This decrease in interest expense was primarily due to the pay down of debt from $20,000,000 at December 31, 2007 to $10,000,000 at December 31, 2008.

Interest income was $27,000 and $235,000 for the years ended December 31, 2008 and 2007, respectively. These decreases were primarily due to the decrease in cash associated with the advance payments on the Capital Source Loan.

We recognized a loss on the sale of interest bearing short-term investments of $296,000 during the year ended December 31, 2008 as short term investments of $2,716,000 were sold. A portion of these funds were used to make a $5,000,000 early payment on the Capital Source Loan.

Net Income

As a result of the factors described above, net income decreased $3,901,000 to $38,000 for the year ended December 31, 2008, compared to $3,939,000 for the year ended December 31 2007.

Year ended December 31, 2007 compared to year ended December 31, 2006

Revenues (numbers in table in thousands)

	Year Ended December 31,			
	2007	2006	$ Change	% Change
A.D.A.M., Inc. Consolidated				
Licensing	$23,563	$13,818	$ 9,745	70.5%
Product	1,642	1,594	48	3.0%
Professional services and other	2,673	1,093	1,580	144.6%
Total Net Revenues	$27,878	$16,505	$11,373	68.9%

A.D.A.M. acquired OnlineBenefits on August 14, 2006 and, accordingly, the results of OnlineBenefits are included in the consolidated operating results subsequent to the acquisition. In order to facilitate the review of the year to year results, the tables below show the results of just the A.D.A.M. operating units and excludes the amounts reported by OnlineBenefits.

Results of A.D.A.M. operating units excluding OnlineBenefits

	Year Ended December 31,			
	2007	2006	$ Change	% Change
A.D.A.M., Inc. excluding OnlineBenefits				
Licensing	$10,111	$ 8,817	$1,294	14.7%
Product	1,642	1,594	48	3.0%
Professional services and other	828	650	178	27.4%
Total Net Revenues	$12,581	$11,061	$1,520	13.7%

Total net revenues increased 68.9%, or $11,373,000, to $27,878,000 for the year ended December 31, 2007 from $16,505,000 for the year ended December 31, 2006. Revenues from OnlineBenefits in 2007 accounted for $9,853,000 of the net increase. Excluding the results of OnlineBenefits, total revenue increased $1,520,000 or 13.7% from 2006 to 2007.

Licensing revenues increased 70.5%, or $9,745,000, to $23,563,000 for the year ended December 31, 2007 from $13,818,000 for the year ended December 31, 2006. Licensing revenues are derived from licensing our products primarily to healthcare organizations, technology companies, benefit brokers, employers, and internet customers. OnlineBenefits licensing revenue from benefit brokers and employers accounted for $8,451,000 of the total $9,745,000 increase in licensing revenue for 2007.

Excluding the results of OnlineBenefits, licensing revenue increased 14.7%, or $1,294,000, to $10,111,000, for the year ended December 31, 2007 from $8,817,000 for the year ended December 31, 2006. This growth was from increased revenue in internet, provider, and technology customers. The internet market increased $676,000 to $1,869,000, provider companies increased $279,000 to $4,172,000, and the technology market increased $153,000 to $720,000 in 2007. As a percent of total revenues, revenues from licensing were 80.4% in 2007 compared to 79.7% in 2006.

Revenues from product sales increased 3.0%, or $48,000, to $1,642,000 for the year ended December 31, 2007 from $1,594,000 for the year ended December 31, 2006. The product revenues consist primarily of product sales to the educational market. This increase in 2007 was attributable to an increase in average sale price. As a percent of total revenues, revenues from product sales were 5.9% in 2007 compared to 9.7% in 2006.

Professional services and other revenue are derived from products such as flexible spending account services, direct to consumer products, custom implementation services, and sales of nonrecurring products such as books, subscriptions, and images. The revenue growth of 144.6%, or $1,580,000, for the year ended December 31, 2007 was mainly attributable to the results of OnlineBenefits and its related administrative service provider business. The professional services and other revenues accounted for approximately 9.6% of total revenues for 2007 compared to 6.6% in 2006.

Operating Costs and Expenses (numbers in table in thousands)

	Year Ended December 31,			
	2007	2006	$ Change	% Change
A.D.A.M., Inc. Consolidated				
Cost of revenues	$ 5,092	$ 2,490	$2,602	104.5%
Cost of revenues—amortization	1,477	951	526	55.3%
Product and content development	5,820	3,677	2,143	58.3%
Development capitalization	(1,154)	(973)	(181)	(18.6)%
Sales and marketing	6,026	2,903	3,123	107.6%
General and administrative	5,858	4,325	1,533	35.4%
Total Operating Cost and Expenses	$23,119	$13,373	$9,746	72.8%

Results of A.D.A.M. operating units excluding OnlineBenefits

	Year Ended December 31,			
	2007	2006	$ Change	% Change
A.D.A.M., Inc. excluding OnlineBenefits				
Cost of revenues	$ 1,077	$1,449	$ (372)	(25.7)%
Cost of revenues—amortization	581	663	(82)	(12.4)%
Product and content development	3,221	2,320	901	38.8%
Development capitalization	(588)	(802)	214	(26.7)%
Sales and marketing	2,861	1,823	1,038	57.0%
General and administrative	4,329	3,402	927	27.2%
Total Operating Cost and Expenses	$11,481	$8,855	$2,626	29.7%

Cost of revenues increased 104.5%, or $2,602,000, to $5,092,000 in 2007 from $2,490,000 in 2006. Cost of revenues consists primarily of costs associated with royalties, distribution license fees, and personnel support for the benefit and agency management systems for our licensing products. This cost also includes product components, packaging and shipping costs related to our products and services revenue. OnlineBenefits' cost of revenues, which included costs for support of our benefit and agency management systems, accounted for $4,015,000 of the total cost of revenue in 2007. Excluding the results of OnlineBenefits, cost of revenues decreased 25.7% or $372,000 in 2007 from 2006 due to a reduction in third party content license cost. As a percentage of revenue, cost of revenues was 8.6% in 2007, compared to 13.1% in 2006.

Cost of revenues—amortization increased 55.3%, or $526,000, to $1,477,000 in 2007 from $951,000 in 2006. Cost of revenues—amortization consists primarily of costs associated with amortization of capitalized customer list, software product, and content development costs. OnlineBenefits' cost of revenues—amortization was $896,000 in 2007. Excluding the results of OnlineBenefits cost of revenues—amortization decreased $82,000, or 12.4% in 2007 from 2006. As a percent of total revenues, cost of revenues—amortization decreased to 4.6% in 2007 from 6.0% in 2006.

Product and content development costs increased 72.6%, or $1,962,000, to $4,666,000 in 2007 from $2,704,000 in 2006. OnlineBenefits incurred product and content development costs of $2,033,000 in 2007. The $1,962,000 increase was primarily attributable to the acquisition of OnlineBenefits. The increase attributable to OnlineBenefits product and development costs was $847,000. The remaining $1,115,000 increase is primarily attributable to a $395,000 increase in personnel related cost due to an increase in the number of employees, $479,000 of allocated support costs, and $214,000 of developed costs expensed versus capitalized for new product development. Excluding the results of OnlineBenefits, as a percent of total revenues, product and content development costs increased to 20.9% for 2007, compared to 13.7% in 2006.

Sales and marketing costs increased 107.6%, or $3,123,000, to $6,026,000 in 2007 from $2,903,000 in 2006. OnlineBenefits incurred sales and marketing costs of $3,165,000 in 2007. The $3,123,000 increase was primarily attributable to the acquisition of OnlineBenefits. The increase attributable to OnlineBenefits sales and marketing costs was $2,085,000. The remaining $1,038,000 increase is primarily attributable to a $413,000 increase from sales personnel salary costs, a $154,000 increase in recruiting and hiring costs, and a $315,000 increase in allocated support costs. Excluding the results of OnlineBenefits, as a percent of total revenues, sales and marketing costs increased to 22.7% for 2007, compared to 16.5% in 2006.

General and administrative expenses increased 35.4%, or $1,533,000, to $5,858,000 in 2007 from $4,325,000 in 2006. OnlineBenefits accounted for $1,525,000 of the total general and administrative expense in 2007. The increase attributable to OnlineBenefits general and administrative costs was $602,000. The remaining $927,000 increase is primarily attributable to a $622,000 increase in stock compensation expense, a $385,000 increase in salary related expense, a $392,000 increase related to Sarbanes-Oxley implementation and Board

compensation fees, a $137,000 increase related to severance expense, and a $106,000 increase in travel related expenses related to OnlineBenefits. These increases were partially offset by a decrease of $794,000 of allocated support costs. Excluding the results of OnlineBenefits, as a percent of total revenues, product and content development costs decreased to 34.4% for 2007, compared to 30.8% in 2006.

Other Income (Expense)

Interest expense increased $1,463,000, to $2,565,000 in 2007 from $1,102,000 in 2006. This increase in interest expense was primarily related to the debt incurred to finance the acquisition of OnlineBenefits. Interest on the debt related to the acquisition was $2,144,000 in 2007. Amortization of financing fees related to the acquisition was $345,000 in 2007 and $140,000 in 2006.

Interest income decreased $283,000 to $235,000 in 2007 from $518,000 in 2006. This decrease was primarily due to the decrease in cash and short-term investments which were utilized for the acquisition of OnlineBenefits.

Income Tax Provision (Benefit)

For 2006, no provision was recorded for income taxes as we had sufficient net operating loss carryforwards to offset taxable income and we had no change to our deferred tax asset. (see Note 10 to the consolidated financial statements). At December 31, 2007 we reevaluated the deferred tax asset balance which resulted in an additional tax benefit recognized of $1,510,000.

Net Income

As a result of the above, we had net income of $3,939,000, or $0.42 per share (basic), for 2007, as compared to net income of $2,548,000, or $0.30 per share (basic), for 2006.

Liquidity and Capital Resources

As of December 31, 2008, we had current assets of $6,598,000, including cash and cash equivalents of $1,377,000, and $11,919,000 in current liabilities, or a negative working capital of $5,321,000. Working capital includes $5,995,000 in deferred revenue for which we have already received payment. While we are obligated to provide services related to those payments, in the future, we will not receive additional payments related to those services. Excluding the deferred revenue, working capital would have been $674,000. Our working capital is affected by the timing of each period end in relation to items such as payments received from customers, payments made to vendors, and internal payroll and billing cycles, as well as the seasonality within our business. Accordingly, our working capital, and its impact on cash flow from operations, can fluctuate materially from period to period. We use working capital to finance ongoing operations, fund the development and introduction of new business strategies and internally developed software, acquire complementary businesses and acquire capital equipment.

Cash provided by operating activities was $5,962,000 during the year ended December 31, 2008, as compared to cash provided of $5,839,000 during the year ended December 31, 2007. During the year ended December 31, 2008, cash provided by operating activities was primarily due to net income (net of non-cash related add-backs of depreciation and amortization, deferred financing cost amortization and write off and stock based compensation expense) of $3,942,000.

Cash used in investing activities was $620,000 during the year ended December 31, 2008, as compared to cash provided of $239,000 during the year ended December 31, 2007. During the year ended December 31, 2008, cash was used in software product and development costs of $1,725,000 and purchases of property and equipment of $1,426,000 offset by $2,716,000 of cash provided from the sale of investments.

Cash used in financing activities was $9,390,000 during the year ended December 31, 2008, as compared to cash used of $5,099,000 during the year ended December 31, 2007. The $4,291,000 increase in cash used was primarily due to the $20,000,000 in payments made in 2008, related to the payoff of long-term debt associated with the OnlineBenefits acquisition, over the $5,000,000 in payments made in 2007. This $15,000,000 difference in payments was offset by $10,000,000 in proceeds received in 2008 from the issuance of the new loan with RBC Bank (USA).

Commitments and Other Contractual Obligations

We have entered into certain agreements to license content for our services from various unrelated third parties. We also have contractual obligations at December 31, 2008 relating to real estate, capital and operating lease arrangements.

Total payments due under long-term debt, license payments, real estate, operating and capital leases are listed below:

Year	Long-term Debt	Real Estate Leases	Other Operating Leases	Capital Leases	Total
One year or less	$ 2,000	$ 1,858	$ 70	$ 69	$ 4,000
Two to three years	4,000	3,649	73	86	7,811
Four to five years	4,000	1,476	—	74	5,550
Six to seven years	—	1,566	—	—	1,566
Eight to nine years	—	1,662	—	—	1,662
Ten to eleven years	—	1,165	—	—	1,165
Total	$10,000	$11,376	$143	$229	$21,754

We believe our cash resources from cash and a $3,000,000 revolving credit line with our lender, together with anticipated cash flows from operations, will be sufficient to meet our working capital needs for the next twelve months. However, we may be required to raise additional funds in order to accelerate development of new and existing services and products, to respond to competitive pressures or to possibly acquire complementary products, businesses or technologies. There can be no assurance that any required additional financing will be available on terms favorable to us, or at all. If additional funds are raised by the issuance of equity securities, our shareholders would experience dilution of their ownership interest and these securities may have rights senior to those of the holders of the common stock. If additional funds are raised by the issuance of debt securities, we may be subject to certain limitations on our operations, including limitations on the payment of dividends. If adequate funds are not available or not available on acceptable terms, we may be unable to take advantage of acquisition opportunities, develop or enhance services and products or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition and results of operations.

Off-Balance Sheet Arrangements

We do not have any material off-balance sheet arrangements.

Recent Accounting Pronouncements

For information with respect to new accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 1 of the Notes to Consolidated Financial Statements.

Income Taxes

We adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109" ("FIN 48") on January 1, 2007. This standard prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition issues. We recognized tax benefits from all tax positions we have taken, and there has been no material adjustment to any carryforwards, NOL or R&D credits, as a result of the implementation of FIN 48. Therefore, there are no material unrecognized tax benefits and related FIN 48 tax liabilities at December 31, 2008 and 2007. In addition, future changes in the unrecognized tax benefits will likely have no impact on our effective tax rate due to the existence of the valuation allowance.

As of December 31, 2008 and 2007, we have no accrual requirement for interest or penalties related to uncertain tax positions since the tax benefits have not been included in prior income tax return filings. Accrued interest relating to uncertain tax positions would be recorded as interest expense and penalties related to uncertain tax positions would be recorded as general and administrative expenses.

The tax years 2005 to 2008 remain open to examination by the major taxing jurisdictions to which we are subject. Additionally, upon inclusion of the NOL and R&D credit carryforward tax benefits in future tax returns, the related tax benefit for the period in which the benefit arose may be subject to examination.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not have operations of a material nature that are subject to risks of foreign currency fluctuations, nor do we use derivative financial instruments in our operations or investment portfolio. Our exposure to risk and related changes in interest rates relates primarily to our investment portfolio and our variable rate debt. As of December 31, 2008, we had $1,377,000 of cash and $47,000 in restricted cash. Due to the short-term nature of our investment portfolio, we believe that even a sudden 10 percentage points change in interest rates would not have a material effect on the value of the portfolio. However, in connection with an early payment on the Capital Source Loan, we recognized a loss of $296,000 on the sale of interest bearing short-term investments. The average yield on our cash and cash equivalents at December 31, 2008 was approximately 0.1%. The impact on our future interest income depends largely on the gross amount of our investment portfolio. We do not expect our operating results or cash flows to be affected to any significant degree by a sudden change in market interest rates.

As of December 31, 2008, we had a total of $10,000,000 in variable rate debt at differing interest rates tied to LIBOR. If the interest rates on our existing variable rate debt were to increase by 10 percentage points over the next twelve months, we would incur $1,000,000 of additional interest expense over a 12-month period and would potentially be in default of the long-term debt covenants.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements, including notes thereto, and the reports of independent registered public accounting firms are filed as Exhibit 99.1 to this Report and incorporated herein by reference.

Reports of Independent Registered Public Accounting Firms
Consolidated Balance Sheets at December 31, 2008 and 2007
Consolidated Statements of Operations for the years ended December 31, 2008, 2007 and 2006
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2008, 2007 and 2006
Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006
Notes to Consolidated Financial Statements

Quarterly Financial Information

The table below presents certain unaudited quarterly statements of operations data for each of the eight quarters beginning January 1, 2007 and ending December 31, 2008. Such information, in the opinion of management, includes all adjustments necessary for a fair presentation of that information. The results of operations for any quarter are not necessarily indicative of the results to be expected for any future quarter. Certain reclassifications have been made to 2007 quarterly information related to gross profit and operating income. We reclassified sales related expenses from cost of revenues to sales and marketing in the amount of $137,000 for first quarter, $204,000 for second quarter, and $196,000 for third quarter.

In the fourth quarter of 2007, we had significant adjustments to the financial statements. A severance accrual was recorded in the amount of $529,000 and a deferred tax benefit was recorded for $1,510,000. In the fourth quarter of 2008, we also had significant adjustments to the financial statements, including 2,193,000 for facility consolidation and 813,000 for a loan refinance.

	2008 Three Months Ended			
	March 31	**June 30**	**September 30**	**December 31**
	(In thousands, except per share data)			
Revenues, net	$7,123	$7,189	$7,139	$ 7,406
Gross profit	5,695	5,803	5,532	5,927
Operating income (loss)	1,291	1,151	1,020	(1,642)
Net income (loss)	547	810	688	(2,007)
Earnings per share, basic	$ 0.06	$ 0.08	$ 0.07	$ (0.20)
Earnings per share, diluted	$ 0.05	$ 0.08	$ 0.06	$ (0.19)

	2007 Three Months Ended			
	March 31	**June 30**	**September 30**	**December 31**
	(In thousands, except per share data)			
Revenues, net	$6,546	$7,024	$6,676	$ 7,633
Gross profit	5,037	5,191	5,405	5,676
Operating income	1,151	1,437	1,345	831
Net income	466	861	788	1,824
Earnings per share, basic	$ 0.05	$ 0.09	$ 0.08	$ 0.19
Earnings per share, diluted	$ 0.04	$ 0.08	$ 0.07	$ 0.17

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Our audit committee approved the dismissal of and dismissed Tauber and Balser, P.C. (“Tauber and Balser”) as our independent registered public accounting firm on July 11, 2008.

The reports of Tauber and Balser on the consolidated financial statements of the Company as of and for the fiscal years ended December 31, 2006 and December 31, 2007 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principle. During the fiscal years ended December 31, 2006 and December 31, 2007 and the subsequent periods through July 16, 2008, there were no disagreements with Tauber and Balser on any matter of accounting principles, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of Tauber and Balser would have caused them to make reference thereto in Tauber and Balser’s reports on the financial statements of the Company for such fiscal years. During the fiscal years ended December 31, 2006 and December 31, 2007 and the subsequent period through July 16, 2008, there were no “reportable events” (as defined in Regulation S-K Item 304(a)(1)(v)), except that Tauber and Balser advised the Company of a material weakness related to controls around the Company’s accounting for stock options from the period ending June 30, 2007, which was subsequently remediated.

Also on July 11, 2008, our audit committee appointed Grant Thornton LLP ("Grant Thornton") to serve as the Company's independent registered public accounting firm for the Company's fiscal year ended December 31, 2008. We did not consult with Grant Thornton regarding either: (a) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's financial statements, nor did Grant Thornton provide written or oral advice to the Company that Grant Thornton concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue; or (b) any matter that was either the subject of a "disagreement" (as defined in Regulation S-K Item 304(a)(1)(iv) and the related instructions), or a "reportable event" (as defined in Regulation S-K Item 304(a)(1)(v)) prior to their appointment.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Our management, including our principal executive and principal financial officers, has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2008. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in this annual report on Form 10-K has been appropriately recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, to allow timely decisions regarding required disclosure. Based on that evaluation, our principal executive and principal financial officers have concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

(b) Changes in internal control over financial reporting.

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

There were no changes in our internal control over financial reporting that occurred during the fourth quarter of 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

(c) Management's report on internal control over financial reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2008. Management reviewed the results of their assessment with our Audit Committee. This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

ITEM 9B. OTHER INFORMATION

None.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated herein by reference to our proxy statement for our 2009 Annual Meeting of Shareholders.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to our proxy statement for our 2009 Annual Meeting of Shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated herein by reference to our proxy statement for our 2009 Annual Meeting of Shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated herein by reference to our proxy statement for our 2009 Annual Meeting of Shareholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated herein by reference to our proxy statement for our 2009 Annual Meeting of Shareholders.

PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Annual Report:

(1) Index to Consolidated Financial Statements

	Page Number
Consolidated Balance Sheets at December 31, 2008 and 2007	F-1
Consolidated Statements of Operations for the years ended December 31, 2008, 2007 and 2006	F-2
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2008, 2007 and 2006	F-3
Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006	F-4
Notes to Consolidated Financial Statements	F-5
Report of Independent Registered Public Accounting Firm—GRANT THORNTON LLP.	F-23
Report of Independent Registered Public Accounting Firm—Tauber & Balser, P.C.	F-24

(2) Financial Statement Schedules

Schedule II. Valuation and Qualifying Accounts

The following table shows an analysis of each valuation and qualifying account for years ended December 31, 2008, 2007 and 2006.

	Balance at Beginning of Year	Additions and Deductions Charged to Expense	Additions Acquired	Deductions	Balance at End of Year
Year ended December 31, 2008					
Allowance for doubtful accounts	$ 424,376	$ 53,477	$ —	$ (133,329)	$ 344,524
Allowance for deferred tax asset	$13,794,000	$(1,224,000)	$ —	$ (50,000)	$12,520,000
Year ended December 31, 2007					
Allowance for doubtful accounts	$ 279,753	$ 311,897	$ —	$ (167,274)	$ 424,376
Allowance for deferred tax asset	$17,953,000	$(2,536,000)	$ 506,000	$(2,129,000)	$13,794,000
Year ended December 31, 2006					
Allowance for doubtful accounts	$ 141,912	$ 54,111	$ 109,616	$ (25,886)	$ 279,753
Allowance for sales returns and allowances	$ 5,308	$ —	$ —	$ (5,308)	$ —
Allowance for deferred tax asset	$ 9,976,000	$ 451,000	$8,005,000	$ (479,000)	$17,953,000

(3) Exhibits

EXHIBIT INDEX

The following exhibits are filed as part of, or are incorporated by reference into, this report on Form 10-K:

Exhibit No.	Description
3.1	Restated Articles of Incorporation (incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-8, File No. 333-140926, dated February 27, 2007)
3.3	By-Laws (incorporated by reference to the Company's Registration Statement on Form S-1, File No. 33-96864, dated September 12, 1995, as amended)
10.1	Amended and Restated 1992 Stock Option Plan (incorporated by reference to the Company's Registration Statement on Form S-1, File No. 33-96864, dated September 12, 1995, as amended)
10.2	401(k) Adoption Agreement and Trust (incorporated by reference to the Company's Registration Statement on Form S-1, File No. 33-96864, dated September 12, 1995, as amended)
10.3	Second Amended and Restated Employment Agreement between the Company and Robert S. Cramer (incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the quarter ended March 31, 2005)
10.3.1	Amendment to the Second Amended and Restated Employment Agreement between the Company and Robert S. Cramer (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005)
10.3.2	Second Amendment to Second Amended and Restated Employment Agreement between the Company and Robert S. Cramer (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005)
10.4	Employment Agreement between the Company and Kevin S. Noland, dated December 21, 2001 (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001)
10.4.1	First Amendment to Employment Agreement between the Company and Kevin S. Noland (incorporated by reference to Exhibit 10.2 of the Form 8-K filed by the Company on March 18, 2005)
10.4.2	Modification to Compensation Arrangements with Kevin S. Noland (incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2005)
10.4.3	Second Amendment to Employment Agreement between the Company and Kevin S. Noland (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005)
10.4.4	Third Amendment to Employment Agreement between the Company and Kevin S. Noland (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005)
10.5	Bridge Note and Warrant Purchase Agreement between Union Street Partners, L.P and Robert S. Cramer, Jr. and the Company dated December 31, 1999 (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1999)
10.6	Registration Rights Agreement between Union Street Partners, L.P and Robert S. Cramer, Jr. and the Company dated December 31, 1999 (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1999)
10.7	Common Stock Purchase Agreement dated May 22, 2003 between the Company and Fusion Capital Fund II, LLC (incorporated by reference to the Company's Registration Statement of Form S-3, File No. 333-45294, dated September 7, 2000, as amended)

Exhibit No.	Description
10.8	2002 Stock Incentive Plan (incorporated by reference to the Company's definitive proxy statement filed on May 24, 2002 in connection with its 2002 Annual Meeting of Shareholders)
10.9	Agreement and Plan of Merger dated August 14, 2006 by and among A.D.A.M., Inc., ADAM Merger Sub, Inc. and Online Benefits, Inc. (incorporated by reference to Exhibit 2.1 of the Form 8-K filed by the Company on August 16, 2006)
10.10	Employment Agreement between the Company and Mark B. Adams, dated April 10, 2006 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2007)
10.11	Loan and Security Agreement between the Company and RBC Bank (USA), dated December 31, 2008 (incorporated by reference to Exhibit 10.1 of the Form 8-K filed by the Company on January 7, 2009)
10.12	Form of Stock Option Agreement (filed herewith)
14.1	Code of Ethics for Senior Officers (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2005)
21.1	Subsidiaries of the Company (filed herewith)
23.1	Consent of Independent Registered Public Accounting Firm—GRANT THORNTON LLP (filed herewith)
23.2	Consent of Tauber & Balser, P.C. (filed herewith)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
99.1	Financial Statements (filed herewith)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 20, 2009

A.D.A.M., INC.
(Registrant)

By /s/ KEVIN S. NOLAND

Kevin S. Noland
President and Chief Executive Officer
(principal executive officer)

Date: March 20, 2009

A.D.A.M., INC.
(Registrant)

By /s/ MARK B. ADAMS

Mark B. Adams
Chief Financial Officer and Corporate Secretary
(principal financial officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated, on March 20, 2009.

Signature	Title
/s/ KEVIN S. NOLAND **Kevin S. Noland**	President and Chief Executive Officer
/s/ MARK B. ADAMS **Mark B. Adams**	Chief Financial Officer and Corporate Secretary
/s/ ROBERT S. CRAMER, JR. **Robert S. Cramer, Jr.**	Chairman of the Board of Directors
/s/ CLAY SCARBOROUGH **Clay Scarborough**	Director
/s/ DANIEL S. HOWE **Daniel S. Howe**	Director
/s/ MARK KISHEL, M.D. **Mark Kishel, M.D.**	Director

Exhibit 99.1

A.D.A.M., Inc.
Consolidated Balance Sheets
(In thousands, except share data)

	December 31, 2008	December 31, 2007
Assets		
Current assets		
Cash and cash equivalents	$ 1,377	$ 5,425
Investments, short term	—	2,809
Accounts receivable, net of allowances of $345 and $424, respectively	3,986	3,940
Restricted cash	47	46
Inventories, net	33	65
Prepaids and other assets	597	839
Deferred income tax asset	558	793
Total current assets	6,598	13,917
Property and equipment, net	1,592	801
Intangible assets, net	9,979	9,953
Goodwill	27,617	27,468
Other assets	206	152
Deferred financing costs, net	92	852
Deferred income tax asset	7,062	6,827
Total assets	$ 53,146	$ 59,970
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued expenses	$ 3,880	$ 3,658
Deferred revenue	5,995	5,676
Current portion of long-term debt	2,000	3,250
Current portion of capital lease obligations	44	105
Total current liabilities	11,919	12,689
Capital lease obligations, net of current portion	112	85
Other liabilities	1,293	899
Long-term debt, net of current portion	8,000	16,750
Total liabilities	21,324	30,423
Shareholders' equity		
Common stock, $0.01 par value; 20,000,000 shares authorized; 10,152,019 shares issued and 9,882,260 shares outstanding at 12/31/2008; 9,958,617 shares issued and 9,688,858 shares outstanding at 12/31/2007	102	100
Treasury stock, at cost, 269,759 shares	(1,088)	(1,088)
Additional paid-in capital	58,475	56,406
Unrealized loss on investments	—	(166)
Accumulated deficit	(25,667)	(25,705)
Total shareholders' equity	31,822	29,547
Total liabilities and shareholders' equity	$ 53,146	$ 59,970

The accompanying notes are an integral part of these consolidated financial statements.

A.D.A.M., Inc.
Consolidated Statements of Operations
(In thousands, except per share data)

	Year Ended December 31,		
	2008	**2007**	**2006**
Revenues, net			
Licensing	$25,395	$23,563	$13,818
Product	1,182	1,642	1,594
Professional services and other	2,280	2,673	1,093
Total revenues, net	28,857	27,878	16,505
Cost of revenues			
Cost of revenues	4,201	5,092	2,490
Cost of revenues—amortization	1,699	1,477	951
Total cost of revenues	5,900	6,569	3,441
Gross profit	22,957	21,309	13,064
Operating expenses			
Product and content development	4,297	4,666	2,704
Sales and marketing	8,961	6,026	2,903
General and administrative	7,897	5,858	4,325
Total operating expenses	21,155	16,550	9,932
Operating income	1,802	4,759	3,132
Interest expense	(1,495)	(2,565)	(1,102)
Interest income	27	235	518
Loss on sale of investments	(296)	—	—
Income before income taxes	38	2,429	2,548
Income tax benefit	—	1,510	—
Net income	$ 38	$ 3,939	$ 2,548
Basic net income per common share	$ 0.00	$ 0.42	$ 0.30
Basic weighted average number of common shares outstanding	9,813	9,461	8,630
Diluted net income per common share	$ 0.00	$ 0.38	$ 0.25
Diluted weighted average number of common shares outstanding	10,642	10,442	10,074

The accompanying notes are an integral part of these consolidated financial statements.

A.D.A.M., Inc.
Consolidated Statements of Changes in Shareholders' Equity
(In thousands, except share data)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2005	8,482,772	$ 85	(269,759)	$(1,088)	$50,350	$ (11)	$(32,192)	$17,144
Comprehensive income								
Net income	—	—	—	—	—	—	2,548	2,548
Unrealized gain on investments	—	—	—	—	—	9	—	9
Total comprehensive income								2,557
Stock-based compensation expense	—	—	—	—	136	—	—	136
Common shares issued related to OBI acquisition	529,100	5	—	—	2,995	—	—	3,000
Exercise of common stock options	375,006	4	—	—	628	—	—	632
Balance at December 31, 2006	9,386,878	94	(269,759)	(1,088)	54,109	(2)	(29,644)	23,469
Comprehensive income								
Net income	—	—	—	—	—	—	3,939	3,939
Unrealized loss on investments	—	—	—	—	—	(164)	—	(164)
Total comprehensive income								3,775
Stock-based compensation expense	—	—	—	—	758	—	—	758
Exercise of common stock options	571,739	6	—	—	1,539	—	—	1,545
Balance at December 31, 2007	9,958,617	100	(269,759)	(1,088)	56,406	(166)	(25,705)	29,547
Comprehensive income								
Net income	—	—	—	—	—	—	38	38
Unrealized loss on investments, now realized	—	—	—	—	—	166	—	166
Total comprehensive income	—	—	—	—	—	—	—	204
Stock-based compensation expense	—	—	—	—	903	—	—	903
Common stock warrants issued	—	—	—	—	366	—	—	366
Exercise of common stock options	186,582	2	—	—	800	—	—	802
Issuance of restricted stock awards	6,820	—	—	—	—	—	—	—
Balance at December 31, 2008	10,152,019	$102	(269,759)	$(1,088)	$58,475	$ —	$(25,667)	$31,822

The accompanying notes are an integral part of these consolidated financial statements.

A.D.A.M., Inc.
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31,		
	2008	2007	2006
Cash flows from operating activities			
Net income	$ 38	$ 3,939	$ 2,548
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,149	1,927	1,161
Deferred financing cost amortization and writeoff	852	339	140
Stock-based compensation expense	903	758	136
Common stock warrants expense	366	—	—
Deferred income taxes	—	(1,510)	—
Loss on sale of assets	249	4	2
Loss on sale investments	296	—	—
Changes in assets and liabilities, net of effects from acquisition			
Accounts receivable	(46)	(858)	(17)
Inventories	32	9	(6)
Prepaids and other assets	188	833	(137)
Accounts payable and accrued expenses	222	(417)	245
Deferred revenue	319	1,229	(780)
Other liabilities	394	(414)	33
Net cash provided by operating activities	5,962	5,839	3,325
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired of $1,548	—	—	(29,128)
Purchases of property and equipment	(1,426)	(387)	(187)
Proceeds from sales of property and equipment	2	7	—
Goodwill, additional cost of previous acquisition from earnout payments	(149)	(195)	—
Net change in restricted cash	(1)	2,148	(667)
Software product and content development costs	(1,725)	(1,154)	(974)
Proceeds from investments	2,716	—	7,661
Purchase of investments	(37)	(180)	(1,097)
Net cash provided by (used in) investing activities	(620)	239	(24,392)
Cash flows from financing activities			
Proceeds from issuance of term note	10,000	—	20,000
Proceeds from issuance of convertible note	—	—	5,000
Payment of deferred financing costs	(92)	—	(1,339)
Payment on note payable	—	(1,500)	—
Payment on long-term debt	(20,000)	(5,000)	—
Proceeds from exercise of common stock options	802	1,544	631
Payments on capital leases	(100)	(143)	(79)
Net cash provided by (used in) financing activities	(9,390)	(5,099)	24,213
Increase (decrease) in cash and cash equivalents	(4,048)	979	3,146
Cash and cash equivalents, beginning of year	5,425	4,446	1,300
Cash and cash equivalents, end of year	$ 1,377	$ 5,425	$ 4,446
Interest paid	$ 1,263	$ 2,838	$ 600
Supplemental disclosure of non-cash activities			
Equipment acquired through capital lease obligations	$ 66	$ —	$ 84
Assets acquired and liabilities assumed related to the acquisition of OnlineBenefits:			
Current assets other than cash	$ —	$ —	$ 3,741
Property and equipment	—	—	549
Intangibles	—	—	9,300
Goodwill	—	—	25,840
Long-term assets	—	—	157
Current liabilities	—	—	(5,858)
Noncurrent liabilities	—	—	(1,601)
Less: issuance of common stock related to the acquisition	—	—	(3,000)
Cash paid to acquire OnlineBenefits	$ —	$ —	$ 29,128
Deferred tax asset valuation adjustment impact on goodwill	$ —	$ 610	$ —

The accompanying notes are an integral part of these consolidated financial statements.

A.D.A.M., Inc.
Notes to Consolidated Financial Statements

1. Description of Business and Summary of Significant Accounting Policies

Business

A.D.A.M., Inc. (Nasdaq: ADAM) primarily provides online information and technology solutions for employers, benefits brokers, healthcare organizations and online media companies. Our solutions are divided into two categories:

- Health information and health decision support tools that we market to healthcare organizations, online media companies, and Internet search and technology firms; and
- Benefits communications and decision support, human resources productivity, and benefits broker tools that we market to local and regional benefits brokers and national agencies with employer clients having less than 500 employees, and employers with more than 500 employees.

Our solutions are delivered through a Platform as a Service-type model (PaaS) that provides rapid and efficient deployment of our products and allows us to integrate third party products and services that we monetize across our network of clients and end users.

For the end users of our solutions—consumers, employees, patients, and health plan members—our products and services help people to better understand their health, and the benefits plans their employers provide, and make well informed decisions about their healthcare and benefits selections. In addition, we help people understand the relationship between their benefits and the costs associated with them. This connection between financial understanding and benefits choice and use of benefits is increasingly important as consumers are assuming more of the financial responsibilities for their healthcare. For our brokers and employer clients, our solutions provide the platform necessary to communicate, educate and enroll in benefits plans. For our healthcare and consumer health clients, our health information platform provides a broad portfolio of health reference products designed to promote services, build site traffic, and aid in the management of healthcare.

In addition to our health information and benefits solutions, we also market a series of anatomy and physiology products for the K-12 and undergraduate educational market.

Summary of Significant Accounting Policies

Principles of consolidation

The accompanying consolidated financial statements include the accounts of A.D.A.M., Inc. and its wholly owned subsidiaries, Online Benefits, Inc. (“OnlineBenefits”), Integrative Medicine Communications, Inc. (“IMC”) and Nidus Information Services, Inc. (“Nidus”). On December 20, 2006, IMC and Nidus were merged into A.D.A.M., Inc. On December 31, 2008, OnlineBenefits was merged into A.D.A.M., Inc. All inter-company transactions and balances have been eliminated.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of net revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

We derive revenues from the following sources: (1) electronically delivered software, which includes software license and post contract customer support (PCS) revenue, (2) hosted software, which includes software license, hosting and PCS revenue, (3) professional services and (4) product sales. We recognize revenue when: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed or determinable; and (4) collectability is reasonably assured. When a contract includes multiple elements, such as software and services, the entire fee is allocated to each respective element based on vendor specific objective evidence of fair value, and recognized when the revenue criteria for each element is met.

Electronically delivered software, which includes software license and PCS revenue, is recognized in accordance with Statement of Position No. 97-2, "Software Revenue Recognition," with the entire amount recognized ratably over the term of the license agreement. For software revenue arrangements in which we sell through a reseller, we recognize revenue only after an agreement has been finalized between the customer and our authorized reseller and the content has been delivered to the customer by the reseller.

Hosted software, which includes software license, hosting and PCS revenue, is recognized using GAAP principles for service revenue recognition as per Emerging Issues Task Force (EITF) Issue No. 00-3. The entire amount of revenue is recognized ratably over the term of the license agreement, which matches the service that is being provided.

Professional service revenues are generally recognized upon completion and acceptance by the customer. For revenue arrangements in which we sell through a reseller, we recognize revenue only after an agreement has been finalized between the customer and our authorized reseller and the content has been delivered to the customer by the reseller.

Product sales revenues are generally recognized at the time title passes to customers, distributors or resellers. In 2007, we adopted a return policy related to education product for a limited group of customers. The policy allows for the return of certain sellable product within 60 days of the invoice date.

Concentration of sales and credit risk

Financial instruments that potentially subject us to concentration of credit risk consist primarily of trade receivables. For the years ended December 31, 2008, 2007, and 2006, no single customer accounted for more than 10% of net revenues or total customer receivables.

A.D.A.M. has certain financial instruments that potentially subject the Company to significant concentrations of credit risk which consist principally of cash and cash equivalents, short term investments and accounts receivable. Cash and cash equivalents are maintained in short-term money market accounts. Our bank accounts are currently covered by the Federal Deposit Insurance Corporation, (the "FDIC"). The FDIC raised the coverage amount on normal checking and money market accounts to $250,000, until December 31, 2009. We maintain a money market balance below this $250,000 limit. Our bank also participates in FDIC program that fully insures all non-interest bearing checking accounts until December 31, 2009.

Fair value of financial instruments

The following methods were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

- Investments, short-term. For investment in securities, fair values are based on quoted market prices or dealer quotes, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities;
- Notes payable and debt instruments. For those debt instruments with adjustable interest rates, the carrying amount is a reasonable estimate of fair value. For debt instruments with fixed interest rates, the fair value is estimated by discounting future cash flows using current rates at which similar debt could be obtained.

The estimated fair value of the Company's financial instruments approximates the carrying value.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits and highly liquid investments with original maturities of three months or less when purchased.

Investments, short-term

Mutual funds are categorized as available-for-sale, which requires the securities to be reported at fair value, with unrealized gains and losses reported as a separate component of shareholders' equity. Realized gains or losses, if any, are recorded within the statement of operations as other income (loss). For the purpose of computing realized gains and losses, cost is identified on a specific identification basis.

Investment in companies

Investments in companies where we own more than 20% and less than 50% are accounted for under the equity method. Investments in companies where we own less than 20% are accounted for under the cost method.

Advertising

Advertising costs are expensed as incurred and recorded in sales and marketing expenses in the Consolidated Statements of Operations.

Accounts receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has performed reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. We grant credit to our customers without requiring collateral. The amount of accounting loss for which we are at risk in these unsecured accounts receivable is limited to their carrying value.

Inventories

Inventories consist principally of computer software media, books and related shipping materials and are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. The valuation of inventory requires the Company to estimate net realizable value. Inventory is written down for estimated obsolescence or to the lesser of cost or market value.

Deferred financing costs

Costs related to obtaining debt financing are capitalized and amortized over the term of the related debt using the effective interest method. When a loan is paid in full, any unamortized financing costs are removed from the related accounts and charged to interest in the period.

Property and equipment

Property and equipment are recorded at cost and depreciated over their estimated useful lives using the straight-line method. Property and equipment held under capital leases and leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the related asset. Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to income. Repairs and maintenance costs are expensed as incurred.

Intangible assets

Intangible assets consist of purchased intellectual content, purchased customer contracts, purchased customer relationships, capitalized software product and content development costs to be sold, leased or otherwise marketed, and capitalized software development costs for internal use software.

Capitalized software product and content development costs to be sold, leased or otherwise marketed consist of development costs incurred for applications after technological feasibility has been established. These costs consist principally of salaries and certain other expenses directly related to the development and modifications of software products and content. Amortization of capitalized software product and content development costs is provided at the greater of the ratio of current product revenue to the total of current and anticipated product revenue or on a straight-line basis over the estimated economic life of the software, generally two years.

Capitalized software development costs for internal use software consists of costs of developing applications or the purchase of software for internal use. Capitalized costs are amortized over their estimated useful life, generally three years.

Impairment of long-lived assets and goodwill

Impairment of long-lived assets is evaluated, including property and equipment and intangible assets with finite lives, whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, an impairment loss is recognized. Measurement of an impairment loss for long-lived assets is based on discounted cash flows and the fair value of the asset.

Goodwill is evaluated annually or more often if an event occurs or circumstances change that would more likely than not reduce the fair value of an asset group below its carrying value. These events or circumstances would include a significant change in stock price, business climate, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business or other factors. The carrying value of goodwill is evaluated in relation to the operating performance and estimated future discounted cash flows of the asset group.

Product and content development expenditures

Product and content development expenditures include costs incurred in the development, enhancement and maintenance of our content and technology. These costs have been charged to expense as incurred.

Income taxes

Income tax benefit is computed utilizing the liability method. Deferred income tax assets and liabilities are determined based on the differences between the financial reporting and income tax basis of assets and liabilities and the income tax carryforwards and credits given the provisions of the enacted tax laws. A valuation allowance is provided against deferred tax assets for which it is more likely than not that the asset will not be realized.

A.D.A.M. adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" on January 1, 2007. This standard prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition issues.

Statement of cash flows

For 2006 acquisitions, we consider funds borrowed from third party lenders and disbursed directly to the selling shareholders to be "constructive receipt and disbursements" and, as such, has been reported as cash flows in our statement of cash flows.

Recent accounting pronouncements

In September, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157 ("SFAS 157"), "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require fair value

measurement in which the FASB concluded that fair value was the relevant measurement, but does not require any new fair value measurements. We adopted SFAS 157 effective January 1, 2008, except for the nonfinancial assets and liabilities that are subject to a one-year deferral allowed by FASB Staff Position FAS 157-2 ("FSP FAS157-2"), "Effective Date of FASB Statement No. 157" issued February 12, 2008. The standard applies to assets and liabilities that are carried at fair value on a recurring basis. FSP FAS157-2 delays the effective date of SFAS 157 until fiscal years beginning after November 15, 2008 for nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of SFAS 157 did not have a material impact on our results of operations, financial position or cash flows. We are evaluating the impact SFAS 157 will have on our financial statements beginning in fiscal 2009 as it relates to the items subject to the one-year deferral allowed by FSP FAS 157-2.

On January 1, 2008, we adopted the provisions of Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits many financial instruments and certain other items to be measured at fair value at our option. Most of the provisions in SFAS 159 are elective; however, the amendment to SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," applies to all entities with available-for-sale and trading securities. The fair value option established by SFAS 159 permits the choice to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. The adoption of SFAS 159 did not have a material impact on our results of operations, financial position or cash flows.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" which requires the acquiring entity in a business combination to record all assets acquired and liabilities assumed at their respective acquisition-date fair values, changes the recognition of assets acquired and liabilities assumed arising from contingencies, changes the recognition and measurement of contingent consideration, and requires the expensing of acquisition-related costs as incurred. SFAS 141(R) also requires additional disclosure of information surrounding a business combination, such that users of the entity's financial statements can fully understand the nature and financial impact of the business combination. We will implement SFAS No. 141(R) on January 1, 2009 and we will apply it to any business combinations with an acquisition date after January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also established reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owner. We will implement SFAS No. 160 on January 1, 2009. We do not expect the adoption of this standard to have a material impact on our consolidated statements of operations, financial position or cash flows.

In June 2008, the FASB issued FSP No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." FSP EITF 03-6-1 requires that unvested share-based payment awards containing nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) be considered participating securities and included in the computation of EPS pursuant to the two-class method of SFAS No. 128, "Earnings per Share." We will implement FSP EITF 03-6-1 on January 1, 2009. All prior-period EPS data presented shall be adjusted retrospectively to conform to this FSP. This FSP is not anticipated to have a material impact on our EPS.

Stock-based employee compensation

Effective January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123 (Revised 2004), "Share Based Payment" ("SFAS 123R"). SFAS 123R establishes accounting for stock-

based awards exchanged for employee services. Accordingly, stock-based compensation cost is measured at grant date based on the fair value of the award, and is recognized as an expense on a straight-line basis over the employee's requisite service period.

Net income per common share

Net income per share is computed in accordance with SFAS No. 128, "Earnings Per Share." Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding for each period. Diluted net income per share is based upon the addition of the effect of common stock equivalents (stock options, stock warrants and convertible debt) to the denominator of the basic net income per share calculation using the treasury stock method, if their effect is dilutive. The computation of net income per share for the years ended December 31, 2008, 2007 and 2006 is as follows (in thousands, except per share data):

	Year Ended December 31,		
	2008	2007	2006
Net income	$ 38	$ 3,939	$ 2,548
Weighted average common shares outstanding	9,813	9,461	8,630
Weighted average common share equivalents	829	981	1,444
Weighted average diluted common shares outstanding	10,642	10,442	10,074
Net income per share:			
Basic	$ 0.00	$ 0.42	$ 0.30
Diluted	$ 0.00	$ 0.38	$ 0.25
Anti-dilutive stock options, stock warrants and convertible debt outstanding	1,406	934	1,206

Reclassification

Certain reclassifications have been made to the 2007 consolidated financial statements to conform to the 2008 financial statement presentation.

2. ACQUISITION OF ONLINE BENEFITS, INC. AND SUBSIDIARIES

On August 14, 2006, we acquired all of the outstanding capital stock of Online Benefits, Inc. and its subsidiaries ("OnlineBenefits"), for an aggregate purchase price of $33,676,000, which is comprised of $29,500,000 in cash, 529,100 shares of our common stock having a value of $3,000,000, and $1,176,000 in transaction costs pursuant to the Agreement and Plan of Merger dated as of August 14, 2006.

The acquisition of OnlineBenefits was made to expand the Company's distribution and customer base. The results of operations of OnlineBenefits are included in the accompanying consolidated financial statements of A.D.A.M. commencing on August 14, 2006.

The allocation of the purchase price consideration to the assets acquired and liabilities assumed was based upon estimates of the fair market value of the acquired assets and assumed liabilities. The fair values assigned to the intangibles acquired were formulated based on an independent third-party valuation.

The purchase price of the acquisition is set forth below (in thousands):

Issuance of common stock	$ 3,000
Cash paid	29,500
Total consideration paid to sellers	32,500
Additional cash paid for transaction costs	1,176
Total purchase price	33,676
Less: noncash item of issuance of common stock	(3,000)
Less: cash acquired in the acquisition	(1,548)
Net cash paid for acquisition	$29,128

In addition, we established escrow deposit accounts related to the acquisition of OnlineBenefits, which have been recorded on the accompanying consolidated balance sheet as restricted cash.

The estimate of the fair value of the assets acquired and liabilities assumed is set forth below (in thousands):

Assets acquired:	
Current assets	$ 5,289
Property and equipment	549
Intangible asset—purchased customer relationships	8,800
Intangible asset—purchased capitalized software products	500
Long-term assets	157
Total assets acquired	15,295
Liabilities assumed:	
Current liabilities	(5,858)
Non-current liabilities	(1,601)
Total liabilities assumed	(7,459)
Net assets acquired	7,836
Costs in excess of net assets acquired (recorded goodwill)	25,840
Total fair value of net assets acquired and goodwill	$33,676

The following unaudited combined pro forma financial information presents the results of operations of A.D.A.M. as if the acquisition had occurred at the beginning of 2006. Adjustments to the combined financial information related to the acquisition that affect the results of operations include the interest expense associated with the debt issued in conjunction with the acquisition and amortization of the fair value of intangible assets. This pro forma information does not purport to be indicative of what would have occurred had the acquisition occurred as of January 1, 2006 or of results of operations that may occur in the future.

	2006
Revenues, net	$24,773
Operating income	3,287
Net income (loss)	(1,199)
Basic net income (loss) per common share	(0.14)
Diluted net income (loss) per common share	(0.12)

The increase in goodwill for 2007 and 2008 was related to the purchase of Captiva Software, Inc. by OnlineBenefits. The earn out payments are related to and calculated based on revenue from Captiva related products, until the earn out period ends on January 14, 2009.

3. Debt and Restricted Cash

Note Payable

During August 2006, we assumed a debt of $1,500,000 in conjunction with the acquisition of OnlineBenefits. This debt was secured by a first priority lien on the software product OnlineBenefits developed under the Joint Development Agreement and a second priority lien on all other assets of OnlineBenefits so long as any senior obligations, as defined, were outstanding after which this debt would be secured by all the assets of OnlineBenefits. Accrued interest, at an 8% rate per annum, amounted to approximately $590,000 at December 31, 2006. At December 31, 2006, the Company had $2,148,000 in restricted cash for the payment of principal and interest related to this note, as the note was in dispute with the creditor at the acquisition date.

During the first quarter of 2007, the dispute with the creditor was settled and the note and accrued interest were paid in full from the escrow account.

Long-term debt

In conjunction with the acquisition of OnlineBenefits, we entered into a credit agreement (the "2006 Credit Agreement") with Capital Source Finance LLC ("Capital Source"). The 2006 Credit Agreement provided for a revolving credit facility of up to $2,000,000, which would have matured in August 2011, a $20,000,000 term loan, which would have matured in June 2011, and a $5,000,000 convertible note (the "Convertible Note"), which would have matured in August 2011. At the time of each maturity, all outstanding amounts and letter of credit for the related debt would have been due and payable. The 2006 Credit Agreement also contained a provision for a prepayment of 50% of excess cash flow, as defined in the 2006 Credit Agreement. The 2006 Credit Agreement with related debt balances, including current portion, at December 31, 2007, is summarized below (numbers in column are in thousands):

$2,000,000 revolver with Capital Source—principal repayable in full in August 2011; interest at LIBOR plus 4% (8.88% at 12/31/07) or the prime rate plus 2.75%, payable quarterly in arrears; revolver unused facility fee of 0.5% per annum of the average daily balance of the unused portion, payable monthly in arrears	$ —
$20,000,000 term loan with Capital Source—principal repayable in quarterly installments of varying amounts ($1,000,000 from December 2007 through September 2008, $1,250,000 through September 2010, and $1,500,000 through September 2011), interest same as revolver (8.88% at 12/31/07); prepayment premium of either 2% (prior to first anniversary) or 1% (between first and second anniversary) of prepaid amount	15,000
$5,000,000 convertible note with Capital Source—principal repayable in full in August 2011; interest at LIBOR plus 2.5% (7.38% at 12/31/07) or the prime rate plus 1.25%, payable quarterly in arrears; prepayment premium same as term loan; all or any portion of the principal balance is convertible at the option of the Lender into common stock of A.D.A.M. at a conversion price per share as defined in the agreement	5,000
	$20,000

The 2006 Credit Agreement was secured by (i) a first lien on all existing and future tangible and intangible assets and personal property and equity stock of A.D.A.M. and any existing and future subsidiaries and (ii) a pledge of 100% of our subsidiaries capital stock. There were customary financial covenants for earnings as well as ratios related to total debt to earning, debt and interest due to earnings, interest to earnings, and capital expenditures, as defined in the agreement. This credit facility generally prohibited us from paying dividends on our common stock.

In connection with the 2006 Credit Agreement, we entered into a Conversion and Registration Rights Agreement dated as of August 14, 2006, which specifies terms applicable to the conversion of the convertible note and provides Capital Source with certain registration rights with respect to the shares issuable on conversion of the Convertible Note.

As of December 31, 2006, we were in violation of a technical provision of the 2006 Credit Agreement related to a change in our organizational structure. We entered into the First Amendment to the 2006 Credit Agreement, dated March 20, 2007, which modified certain terms of the 2006 Credit Agreement, including revision to certain covenant ratios, and cured this default. The repayment terms above were also modified whereas a single payment of $2,000,000 was due March 19, 2007, in lieu of two payments of $1,000,000 each due December 31, 2007 and March 31, 2008. No other changes were made to the remaining payment terms. On November 30, 2007, the Company made an additional early payment of $3,000,000. We made another early payment of $5,000,000 on January 28, 2008.

All outstanding obligations under the 2006 Credit Agreement were repaid in full and the agreement was terminated on December 31, 2008.

In connection with the termination of the 2006 Credit Agreement and as consideration for Capital Source's agreement to the prepayment of the Convertible Note, which we were not otherwise able to prepay, we issued a warrant to an affiliate of Capital Source to purchase up to 411,667 shares of our common stock at a price of $3.65 per share, to replace the equity component of the Convertible Note. This warrant is exercisable immediately and expires on either August 14, 2011 or August 14, 2014, depending on whether, as of August 14, 2011. we have issued any shares of any class of capital stock, which is preferred as to dividends or as to the distribution of assets upon the voluntary or involuntary dissolution, liquidation or winding up of the shares issued upon exercise of the warrant. This warrant was issued in a transaction not involving a public offering pursuant to the exemption provided under Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"). The shares of our common stock to be issued upon exercise of the warrant have not been registered under the Securities Act and may not be offered or sold in the United States in the absence of an effective registration statement or exemption from the registration requirements.

The deferred financing fees related to the 2006 Credit Agreement were a gross amount of $1,340,000 with an accumulated amortization of $488,000 at December 31, 2007. During 2008 we recognized $446,000 in interest expense on these fees and the remaining $406,000 of unamortized financing fees were expended upon refinancing of the 2006 Credit Agreement. In connection with the prepayment of the 2006 Credit Agreement, we recorded a non-cash charge of $813,000 related to the write-off of unamortized financing fees, issuance of the warrants, and other miscellaneous fees.

On December 31, 2008, we entered into a Loan and Security Agreement (the "2008 Loan Agreement") with RBC Bank (USA) ("RBC Bank"). The credit facility under the 2008 Loan Agreement consists of a revolving line of credit, a term loan facility and a letter of credit facility.

Under the term loan facility, on December 31, 2008, we borrowed $10.0 million from RBC Bank. The term loan bears interest at a floating rate per annum equal to 30-day LIBOR plus 3.25% (3.71% at 12/31/08). Monthly payments of $166,667 principal plus interest are due and payable on the first calendar day of each month until December 1, 2011, when one final payment of the remaining balance of principal, interest and any other fees and expenses outstanding under the 2008 Loan Agreement are due and payable in full. There are no prepayment penalties associated with the term loan facility. Proceeds from the term loan facility under the 2008 Loan Agreement were used to prepay in full the Company's obligations under the 2006 Credit Agreement.

Under the revolving line of credit, we may request advances in an amount that may not exceed at any time (i) the lesser of $3.0 million or (ii) the Borrowing Base (as defined in the 2008 Loan Agreement), minus the aggregate face amount of all outstanding Letters of Credit (as defined in the 2008 Loan Agreement). Under the 2008 Loan Agreement, the revolving loan bears interest at a floating rate per annum equal to 30-day LIBOR plus 2.75% (3.21% at 12/31/08). Interest payments on advances made under the revolving line of credit are due and payable in arrears on the first calendar day of each month until December 1, 2010. Principal and accrued and unpaid interest are due and payable on December 31, 2010. There are no prepayment penalties associated with the revolving line of credit. As of December 31, 2008, we had not requested any advances under the revolving line of credit.

Under the letter of credit facility, through December 31, 2010, we may request RBC Bank to issue letters of credit for its account in an aggregate outstanding face amount not to exceed the amount of advances under the revolving line of credit at the time of the issuance of the letter of credit. Subject to other limitations set forth in the 2008 Loan Agreement, the amount of aggregate outstanding amount of letters of credit shall not exceed $500,000. We are required to pay RBC Bank a fee of 1.5% per annum of the face amount of the letters of credit issued pursuant to the 2008 Loan Agreement.

Loans made under the 2008 Loan Agreement are secured by a first lien security interest on all assets, including intellectual property, of the Company and certain of its subsidiaries.

The 2008 Loan Agreement contains customary representations, warranties, affirmative and negative covenants (including a requirement that we maintain our primary operating depository accounts with RBC Bank),

agreements, default provisions and indemnities. We are also subject to certain specified financial covenants with respect to a minimum funded debt to EBITDA ratio and a modified fixed charge coverage ratio. This credit facility generally prohibits us from paying dividends on our common stock.

Maturities of debt under the credit facility with RBC Bank are as follows:

Year Ending December 31,	
2009	$ 2,000
2010	2,000
2011	6,000
	$10,000

We incurred $92,000 in financing fees related to the 2008 Loan Agreement. This amount has been deferred and will be amortized over the 36 months of the loan term. Accumulated amortization at December 31, 2008 was $0.

4. Investments

Short-term investments at December 31, 2007 included the following (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Mutual Funds				
—AIM Floating Fund	$2,975	$385	$(551)	$2,809

5. Property and Equipment

Property and equipment are summarized as follows (in thousands):

	Estimated Useful Life (Years)	Year Ended December 31, 2008	Year Ended December 31, 2007
Computers	3	$ 874	$ 1,845
Equipment	5	435	385
Furniture and fixtures	5-10	520	304
Leasehold improvements	5-10	189	257
		2,018	2,791
Accumulated depreciation		(426)	(1,990)
		$1,592	$ 801

Computers includes capital leases of $319,000 in 2007. Equipment includes capital leases of $152,000 at December 31, 2008 and $83,000 at December 31, 2007. Accumulated depreciation includes $37,000 at December 31, 2008 and $210,000 at December 31, 2007 related to capital leases. Depreciation expense for the years ended December 31, 2008, 2007 and 2006 for all property and equipment, including capital leases, was $450,000, $450,000 and $209,000, respectively. Depreciation expense is recorded within operating expenses.

6. Product and Content Development Expenditures

Product and content development expenditures are summarized as follows (in thousands):

	Year Ended December 31,		
	2008	2007	2006
Total product and content development expenditures	$ 6,022	$ 5,820	$3,678
Less: additions to capitalized software product and content development	(1,725)	(1,154)	(974)
Product and content development expense	$ 4,297	$ 4,666	$2,704

7. Intangible Assets

Intangible assets are summarized as follows (in thousands):

	Estimated amortizable lives (years)	December 31,	
		2008	2007
Intangible Assets:			
Internally developed software	2-3	$ 7,467	$ 5,742
Purchased software	3	500	500
Purchased intellectual content	3	1,431	1,431
Purchased customer contracts	2	333	333
Purchased customer relationships	15	8,800	8,800
Intangible assets, gross		18,531	16,806
Less accumulated amortization:			
Internally developed software		(4,994)	(4,048)
Purchased software		(397)	(230)
Purchased intellectual content		(1,431)	(1,431)
Purchased customer contracts		(333)	(333)
Purchased customer relationships		(1,397)	(811)
Accumulated amortization		(8,552)	(6,853)
Intangible assets, net		$ 9,979	$ 9,953

Amortization expense for the years ended December 31, 2008, 2007 and 2006 was $1,699,000, $1,477,000 and $950,000, respectively. This expense included amortization expense for internally developed software for the years ended December 31, 2008, 2007 and 2006 of $946,000, $723,000 and $662,000, respectively.

Estimated future amortization expense for intangible assets on A.D.A.M.'s December 31, 2008 consolidated balance sheet for the next five fiscal years ending December 31, is as follows (in thousands):

2009	$1,934
2010	1,335
2011	1,068
2012	587
2013	587
	$5,511

8. Goodwill

The changes in the carrying amount of goodwill during the years ended December 31, 2008 and 2007 are as follows (in thousands):

Balance, January 1, 2007	$27,883
Additional payments related to earn-out provisions of previous acquisition	195
Deferred tax asset valuation adjustment	(610)
Balance, December 31, 2007	27,468
Additional payments related to earn-out provisions of previous acquisition	149
Balance, December 31, 2008	$27,617

A valuation analysis of the carrying amount of goodwill was performed as of November 1, 2008 and the goodwill was deemed not impaired. If our market price remains significantly below the November 1, 2008 level, this could indicate that the carrying value has become impaired and the Company will need to re-evaluate and potentially lower the carrying amount of goodwill.

9. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following (in thousands):

	December 31,	
	2008	2007
Accounts payable	$ 596	$ 580
Accrued compensation and employee benefits	1,069	1,580
Other accrued expenses	2,215	1,498
	$3,880	$3,658

10. Income Taxes

The provision for income taxes differs from the amount computed by applying the applicable U.S. statutory federal income tax rate of 34 percent to income before income taxes as a result of the following (in thousands):

	Year Ended December 31,		
	2008	2007	2006
Federal tax provision on income before income taxes at statutory federal income tax rate	$ (13)	$ (826)	$ (866)
Net operating loss carryforwards acquired from OnlineBenefits acquisition	—	506	8,005
Reclassification to goodwill	—	(610)	—
Change in valuation allowance	1,274	4,159	(7,977)
State taxes, net of federal benefit	(1)	(64)	(68)
Expired NOL & Capital Loss impacting change in valuation allowance	(795)	(2,442)	—
Other differences	(465)	787	906
Total income tax benefit	$ —	$ 1,510	$ —

The components of our deferred tax assets and liabilities are as follows (in thousands):

	December 31,	
	2008	2007
Deferred tax assets		
Accrued expenses and other liabilities	$ 1,199	$ 1,028
Allowance for doubtful accounts	131	161
Property and equipment	179	159
Research and development credits	1.022	1,022
Capitalized product and content development	305	497
Capital loss carryforwards	128	176
Net operating loss carryforwards	20,754	21,865
	23,718	24,908
Deferred tax liabilities		
Intangible assets	(2,487)	(2,660)
Software development costs	(1,091)	(834)
Net deferred tax asset before valuation allowance	20,140	21,414
Valuation allowance	(12,520)	(13,794)
Net deferred tax asset	$ 7,620	$ 7,620

In periodically assessing the Company's ability to realize deferred tax assets, management considers whether it is more likely than not that some portion or all of our deferred tax assets will be realized. Management analyzes several factors, including the amount and timing of the scheduled expiration and reversals of our net operating loss carryforwards (NOLs) and deferred tax items, as well as potential generation of future taxable income over the periods for which the NOLs are applicable. Certain estimates used in this analysis are based on the current beliefs and expectations of management, as well as assumptions made by, and information currently available to, management. Although it is the belief that the expectations reflected in these estimates are based upon reasonable assumptions, the Company can not give assurance that actual results will not differ materially from these expectations. We periodically evaluate the deferred tax positions and valuation allowances. The evaluations resulted in no tax expense or benefit for 2008 and an income tax benefit of $1,510,000 in 2007. At December 31, 2008, approximately $9,390,000 of the valuation allowance was attributable to the acquisition of OnlineBenefits. Also, at December 31, 2008 approximately $1,900,000 of the valuation allowance was attributable to tax deductions for the exercise of employee stock options in excess of related compensation expense recorded in the financial statements. The reversal of this portion of the deferred tax asset valuation allowance would be recorded as additional paid-in capital.

In 2007 the Company recognized an income tax benefit of $1,510,000 as a result of an adjustment to the deferred tax asset and related valuation allowance based on its analysis of realizability as described above. At December 31, 2008, we had NOL and R&D credit carryforwards available for tax purposes of approximately $54,620,000 and $1,022,000, respectively, which will expire on December 31 in years 2009 through 2022 and 2009 through 2023, respectively. The Company acquired $29,510,000 of NOL carryforwards as a result of the acquisition of OnlineBenefits in August 2006. Internal Revenue Code Section ("IRC") 382 limits the utilization of NOL carryforwards when a change in ownership, as defined by the Internal Revenue Service, occurs. The acquisition of OnlineBenefits resulted in ownership change within the meaning of IRC 382. Of the total $29,510,000 NOLs acquired from OnlineBenefits, the NOLs estimated to be available for use after the application of the IRC 382 limitation is approximately $26,300,000. The Company continues to track and monitor ownership changes as defined by IRC 382 to identify any future limitations on the use of NOL's to offset tax liability. As of December 31, 2008, no additional ownership changes have been identified.

NOL carryforwards expiring over the next five years are as follows (in thousands):

Year Ending December 31,	
2009	$ 3,452
2010	4,023
2011	5,828
2012	—
2013	—
	$13,303

A.D.A.M. adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" ("FIN 48") on January 1, 2007. There are no material unrecognized tax benefits and related FIN 48 tax liabilities at December 31, 2008 and 2007. Penalties related to uncertain tax positions would be recorded as a component of general and administrative expenses. Interest relating to uncertain tax positions would be recorded as a component of interest expense.

The tax years 2005 to 2008 remain open to examination by the major taxing jurisdictions to which we are subject. However, upon utilization of the NOL and R&D credit carry forward tax benefits in future tax returns, the related tax benefit for the period in which the benefit arose is subject to examination.

11. Stock-based Compensation

On January 14, 1999, certain option grants were canceled at the election of their holders and then replaced that day on a one-for-one basis with new options with an exercise price equal to the closing market price that day, $5.25. These options are accounted for in accordance with FASB Interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions involving Stock Compensation (an interpretation of APB 25)", which provides guidance on the accounting for certain stock option transactions and subsequent amendments to stock option transactions, and was subsequently superceded by SFAS123(R). FIN 44 required compensation cost for these variably priced options to be recorded to the extent that the current market price exceeded the options' grant price. The expense is to be adjusted for increases or decreases in the intrinsic value of the modified awards in subsequent periods until the awards have been exercised, forfeited, or expired. The Company had 170,149 variably priced options outstanding at May 22, 2007. There were 173,149 and 224,638 variably priced options outstanding at December 31, 2006 and 2005, respectively, all of which had fully vested by January 2002 and were accounted for under FIN 44 (see paragraph below for modifications).

On May 22, 2007, the term of these variably priced options was modified, affecting 11 employees. This modification is accounted for in accordance with the SFAS 123(R) modification provisions. The modified options resulted in an incremental cost of $16,103 on the modification date since the options were fully vested. As a result of the modification, all compensation cost associated with the options was recorded as of the modification date and variable accounting no longer applies. Including this incremental modification cost, we recorded stock-based compensation expense of $31,000 for the year ended December 31, 2007 on these grants. For the years ended December 31, 2006, we recorded stock-based compensation benefit of $158,000 for these grants. For 2006, the stock-based compensation benefit of $158,000 had a $0.02 benefit to basic and diluted net income per common share.

Effective January 1, 2006, the Company adopted Statement 123(R) using the modified prospective method and, therefore, reflects compensation expense in accordance with the SFAS 123(R) transition provisions. Under the modified prospective method, prior periods are not restated to reflect the impact of adopting the new standard at earlier dates.

On May 22, 2007, certain 2006 options were modified for the service and performance vesting conditions, affecting 20 employees. This modification was accounted for in accordance with the SFAS 123(R) modification

provisions. The modified options resulted in no incremental cost on the modification date since the variables were the same at the modification date. The vesting criteria changed from service and performance based in 2007, 2008 and 2009 to performance based in 2007 and service based in 2008 and 2009. At the modification date the Company did not believe that it was probable that certain performance targets would be met, but did believe that the new performance targets would be met. A new fair value associated with the options was calculated at the date of modification and this cumulative compensation cost will be recognized over the vesting period of the options.

In accordance with SFAS 123(R), the Company recorded $903,000, $727,000, and $294,000 of stock-based compensation expense for the years ended December 31, 2008, 2007, and 2006 respectively, related to employee stock options, not including those variable options described above. We expect to incur approximately $822,000 of expense over a weighted average of 1.6 years for all unvested options outstanding at December 31, 2008.

A.D.A.M. used the Black-Scholes method (which models the value over time of financial instruments) to estimate the fair value at grant date of the options. The Black-Scholes method uses several assumptions to value an option. The following assumptions were used:

- Expected Dividend Yield—because the Company does not currently pay dividends, the expected dividend yield is zero;
- Expected Volatility in Stock Price—reflects the historical change in A.D.A.M.'s stock price over the expected term of the stock option;
- Risk-free Interest Rate—reflects the average rate on a United States Treasury bond with maturity equal to the expected term of the option; and
- Expected Life of Stock Awards—is based on historical experience that was modified based on expected future changes.

The weighted-average assumptions used in the option pricing model for stock option grants were as follows:

Year Ended December 31,	2008	2007	2006
Expected Dividend Yield	—	—	—
Expected Volatility in Stock Price	45.0%	50.1%	57.8%
Risk-Free Interest Rate	2.2%	4.8%	4.7%
Expected Life of Stock Awards—Years	3.5	3.5	3.5
Weighted Average Fair Value at Grant Date	$2.60	$2.65	$2.65

In 2002, our Board of Directors and shareholders approved the 2002 Stock Incentive Plan, under which 1,500,000 shares of common stock were reserved pursuant to the grant of incentive or non-qualified stock options to full-time employees and key persons. Under this plan, a number of additional shares are reserved annually. This number is 3% of the number of shares of stock outstanding on January 1 of each year, not to exceed 250,000 shares annually. Options are granted at an exercise price as determined by A.D.A.M.'s Board of Directors, which may not be less than the fair market value of our common stock at the date of the grant, and the options generally vest ratably over a three-year period. Options granted under this plan generally expire ten years from the date of grant.

As of December 31, 2008, there were options outstanding to purchase a total of 2,622,292 shares of our common stock under our 2002 Stock Incentive Plan and our 1992 Option Plan with an aggregate intrinsic value of $1,097,362. Under the 1992 Option Plan, 4,500,000 shares of common stock were reserved and no additional options may be granted under the 1992 Plan. At December 31, 2008, there were approximately 772,515 shares available for future option grants under the 2002 Stock Incentive Plan.

The following table summarizes stock option activity for the years ended December 31, 2008, 2007 and 2006:

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2005	2,818,331	$3.81
Granted	842,600	$5.56
Exercised	(375,006)	$1.68
Canceled or expired	(37,533)	$7.02
Outstanding at December 31, 2006	3,248,392	$4.45
Granted	331,725	$6.31
Exercised	(571,739)	$2.70
Canceled or expired	(264,053)	$5.48
Outstanding at December 31, 2007	2,744,325	$4.92
Granted	252,500	$7.39
Exercised	(186,582)	$4.31
Canceled or expired	(187,951)	$5.98
Outstanding at December 31, 2008	2,622,292	$5.13

The weighted average remaining contractual term at December 31, 2008 for options outstanding was 4.19 years and for options exercisable was 3.23 years.

As of December 31, 2008, 2007 and 2006 there were 2,154,699, 2,172,492 and 2,568,124 options exercisable, respectively. During 2008, the aggregate intrinsic value of those options exercised was $545,658. As of December 31, 2008, the aggregate intrinsic value of options exercisable was $1,097,362. The fair value of stock options vesting during the years ended December 31, 2008, 2007, and 2006 was $508,840, $395,238 and $656,438, respectively.

On January 3, 2008, we awarded a total of 6,820 shares of restricted stock to our Board of Directors with a grant date fair value of $8.80 per share. These shares had a fair value of $60,000 and were expensed from the date issued until the vesting date of December 31, 2008.

12. Benefit Plan

In 1995, the Company adopted a defined contribution plan that covers all full-time eligible employees of the Company. The plan allows eligible employees to contribute any amount of their pre-tax annual compensation up to the statutory limit prescribed by the Internal Revenue Service. The Company matches 75% of the first 4% contribution per participant on an annual basis. The Company contributed approximately $257,000, $230,000 and $48,000 to the plan for the years ended December 31, 2008, 2007 and 2006, respectively.

13. Related Party Transactions

Chairman of the Board of Directors

Effective December 31, 2006, A.D.A.M. and A.D.A.M.'s Chairman of the Board, Robert S. Cramer, Jr., agreed to terminate Mr. Cramer's employment agreement with A.D.A.M. without cause. Mr. Cramer would continue to serve as a non-executive Chairman of the Board at a reduced level of compensation that initially will be set at $25,000 per year, in addition to any compensation to which he will otherwise be entitled for service as a director. Under the terms of the agreement, we will pay Mr. Cramer twenty-four months of his salary ($350,000) and reimburse Mr. Cramer for certain health insurance and life insurance costs for a period of 24 months. The total amount due of $379,000 was paid during 2007.

Investment with BeBetter Networks, Inc.

At December 31, 2008 and 2007, the Company had a 2% investment in BeBetter Networks, Inc. ("BeBetter"). As of December 31, 2008 and 2007, the Chairman of the Board of Directors held an approximate

2% voting interest in this company. The investment was accounted for under the cost method, as the Company has less than a 20% ownership and does not exercise significant influence over the investee.

At December 31, 2008 and 2007, the carrying value of the investment in BeBetter was $0. The Company has no plans to make additional investments in BeBetter in the future.

Investment and sublease with ThePort Network, Inc.

As of November 24, 2008, ThePort Network, Inc. (“ThePort”) closed a $4,100,000 Preferred Stock financing designated Series B Preferred Stock at $0.165 per share, including investment by our chairman. The Chairman of our Board of Directors also currently serves as the Chairman of the Board of Directors and Chief Executive Officer of ThePort.

As a result of the financing, at December 31, 2008, we held an approximate 3% voting interest in ThePort, compared to an approximate 29% at December 31, 2007. The Chairman of our Board of Directors held an approximate 27% voting interest in ThePort at December 31, 2008, compared to 9% at December 31, 2007, and held a convertible note from ThePort in the amount of approximately $590,000 and $3,574,000 at December 31, 2008 and December 31, 2007, respectively. Two of the other directors of A.D.A.M. also own equity interests in ThePort. Historically ThePort was accounted for under the equity method. The financing in 2008 diluted our voting interest in ThePort, therefore for 2008 and going forward, the Company will account for this investment under the cost method.

As of September 10, 2008, ThePort converted its outstanding notes into a Preferred Stock designated Series A Preferred Stock at $0.30 per share, including notes held by our chairman. As part of the conversion, A.D.A.M. exchanged its prior Series A Preferred Stock, which had been purchased at $0.80 per share, for the new Series A Preferred Stock at $0.30 per share.

At December 31, 2008 and 2007, the carrying value of the investment in ThePort was $0. The Company has not adjusted its investment below zero for the Company’s share of ThePort’s losses since the Company has not provided or committed to provide any additional financial support to ThePort.

In September 2006, ThePort vacated the space A.D.A.M. had been subleasing to them on a month to month basis at $1,200 per month.

14. Commitments and Contingencies

The Company leases office space and equipment under non-cancelable lease agreements expiring on various dates through 2019 as well as capital lease commitments for certain equipment. Certain of these leases contain escalation clauses, which has resulted in the recording of a $237,000 deferred rent liability balance at December 31, 2008. At December 31, 2008, future minimum rentals for noncancelable leases with terms in excess of one year were as follows (in thousands):

Year Ending December 31,	Future Minimum Office Lease Payments	Office Sublease Rentals	Operating Lease Payments	Operating Leases, Net	Capital Leases
2009	$ 1,858	$ (553)	$ 70	$ 1,375	$ 69
2010	2,159	(572)	61	1,648	43
2011	1,490	(292)	12	1,210	43
2012	727	—	—	727	43
2013	749	—	—	749	31
Thereafter	4,393	—	—	4,393	—
Total future minimum rental and lease payments	$11,376	$(1,417)	$143	$10,102	229

Year Ending December 31,	Future Minimum Office Lease Payments	Office Sublease Rentals	Operating Lease Payments	Operating Leases, Net	Capital Leases
Less amounts representing interest					(73)
Present value of future minimum lease payments					156
Less current portion					(44)
Capital lease obligations, net of current portion					$112

Rent expense for the years ended December 31, 2008, 2007 and 2006 was $1,364,000, $1,354,000 and $544,000, respectively, including space that was sublet. A.D.A.M.'s headquarters are located in approximately 24,000 square feet of leased office space in Atlanta, Georgia. The space is leased for a term ending in April 2019.

There is additional leased office space of 36,000 square feet in Uniondale, New York. The space is leased for a term ending in June 2011, for an amount of $124,000 per month. This space is sublet to unrelated third parties for terms ending June 2011, for amounts totaling $1,417,000. In conjunction with the purchase of OnlineBenefits in 2006, the difference between the cost of unused components of the Company's Uniondale lease and the related income from the sublease contracts, present valued, was recorded as a liability of $1,443,000. This liability was reduced due to payments to $1,332,000 and $1,041,000 at December 31, 2006 and December 21, 2007, respectively. At December 31, 2008, the liability decreased to $673,000 due to payments, offset by increased costs of sublease termination and replacement. Of this amount, $250,000 is included in accounts payable and accrued expenses, and the remainder in other liabilities. This liability excludes the Facility Consolidation Program discussed below.

The Company indemnifies customers from third party claims of intellectual property infringement relating to the use of our products. Historically, costs related to this guarantee have not been significant and the Company is unable to estimate the potential impact of this guarantee on future results of operations.

15. 2008 Facility Consolidation Program and Loan Refinancing Costs

In the fourth quarter 2008, we recorded expense of $3,006,000 related to a facility consolidation program and loan refinancing costs. These activities were started and completed in the fourth quarter and the related costs are reflected in general and administrative expense on the Consolidated Statements of Operations.

The Facility Consolidation Program led to our Uniondale, New York office space being subleased on November 1, 2008. The closing of the office allowed us to consolidate our customer focused operations to the Atlanta office. We recorded expense of $2,193,000 primarily related to the facility consolidation of this office space. The costs associated with the restructure included severance, fixed asset write-offs, contract and other office shut-down costs of $985,000; and loss on the sublease of $1,208,000. The sublease loss was recorded at fair value when the right to use the space ceased and was made up of a $1,417,000 liability offset by a previously existing deferred rent liability of $208,000. This $1,417,000 liability recorded at the date of restructuring was based primarily on the present value of the net cash flows from the future rental payments of $2,016,000 less estimated sublease rental income of $469,000. At December 31, 2008 this liability had been reduced to $1,380,000 as a result of payments. Of this amount, $509,000 is included in accounts payable and accrued expenses and the remainder in other liabilities.

The loan refinancing costs were related to the termination of the 2006 Credit Agreement with Capital Source and the 2008 Loan agreement with RBC bank. The total amount related to the refinancing was $813,000, consisting primarily of $406,000 and $366,000 related to the write-off of unamortized deferred financing fee, and the fair value of the warrants issued to Capital Source, respectively.

16. Operating segments

Statement of Financial Accounting Statements No. 131, *Disclosures about Segments of an Enterprise and Related Information* ("SFAS 131"), establishes standards for reporting information about operating segments. It

defines operating segments as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision-maker is our Chief Executive Officer. We have two operating segments which aggregate into one reportable segment under SFAS 131. Under SFAS 131, two or more operating segments may be aggregated into a single operating segment for financial reporting purposes if aggregation is consistent with the objective and basic principles of SFAS 131, if the segments have the similar economic characteristics, and if the segments are similar in each of the following areas: nature of product and services, nature of the production process, class of customer for products and services, and the methods used to distribute the products and services.

We sell a portfolio of products related to the healthcare market. Sales and certain financial data is available by geographic regions and product lines. The largest product groups (our two operating segments) relate to our health information products, and our benefits communications and broker systems. Our chief operating decision-maker, our Chief Executive Officer, reviews financial information in aggregate and by products when making decisions for allocating resources and evaluating financial performance. Periodic decisions may be made separately for the two product groups due to customer strategies, product releases, market conditions, acquisitions, or staffing resources, but the common long term growth outlook for each segment remains constant. The two aggregated operating segments have similar economic characteristics and the aggregation into one reportable segment is not done to hide unprofitable segments.

Geographic Information

The Company sells products through agreements which grant territorial rights to international and domestic distributors. During the years ended December 31, 2008, 2007 and 2006, net revenues from international sales were approximately $432,000, $638,000 and $653,000, respectively. Disclosed in the table below is geographic information for each country that comprised greater than one percent of our total revenues for fiscal years 2008, 2007 and 2006 (in thousands):

	Year Ended December 31,		
	2008	2007	2006
United States	$28,425	$27,240	$15,852
Other foreign countries	432	638	653
	$28,857	$27,878	$16,505

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
A.D.A.M., Inc.

We have audited the accompanying consolidated balance sheet of A.D.A.M., Inc. and subsidiaries (the "Company") as of December 31, 2008, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended. Our audit of the basic financial statements included the consolidated financial statement schedule listed in the index appearing under Item 15(a)(2). These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of A.D.A.M., Inc. and subsidiaries as of December 31, 2008 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related consolidated financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ GRANT THORNTON LLP
Atlanta, Georgia
March 20, 2009

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
A.D.A.M., Inc.

We have audited the accompanying consolidated balance sheet of A.D.A.M., Inc. and subsidiaries (the "Company") as of December 31, 2007, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the two years in the period ended December 31, 2007. Our audit of the basic financial statements included the financial statement schedule listed in the index appearing under Item 15(a)(2). These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of A.D.A.M., Inc. and subsidiaries as of December 31, 2007, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, effective January 1, 2006.

/s/ Tauber & Balser, P.C.
Atlanta, Georgia
March 17, 2008

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