

244 Fifth Ave., 2nd Fl., Ste. 2801 • New York, NY 10001 • Tel: (212) 726 1408 • Fax: (413) 215 0880

drkoop.com (NASDAQ: KOOP)

Comparison of drkoop.com's model with those of other leading e-Health companies

Rating: MARKET PERFORM

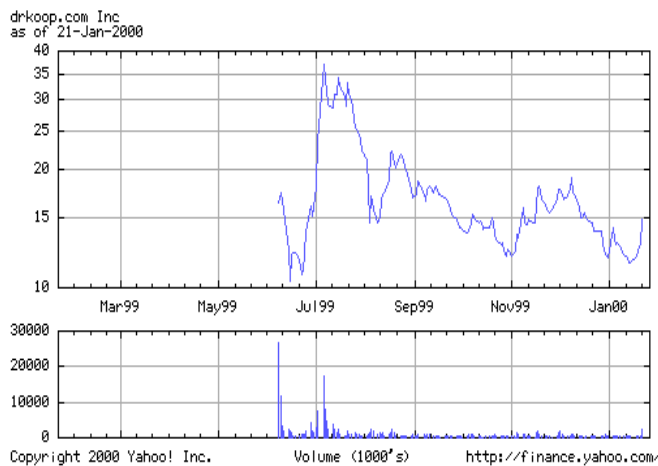
February 29, 2000

KEY CONSIDERATIONS

- Drkoop.com distinguishes itself as a leader in the eHealth content market by leveraging its pre-established name and providing ever-improving "best of breed" content and user-friendly interactive tools.
- Despite a history of loss and unsatisfactory stock performance since August 1999, the Company continues to pour money in advertising and marketing in order to build brand awareness. On January 24th, 2000, the Company achieved a milestone of one million registered users, a 1,700% increase since 1998. In December 1999, drkoop.com announced its global expansion plan.
- KOOP's comprehensive healthcare content is provided by distinguished third parties such as The American Council of Science and Health (ACSH), World Book, and Dartmouth Medical School. The Company also has been successfully partnered with some of the top Internet web sites, including AOL, Yahoo, Netscape, Go Network, etc., to increase its market visibility and advertiser attractiveness.
- In the long run, to improve its stock performance, we believe drkoop.com needs to compete more aggressively with its ever-increasing competitors by developing a more diversified business model to satisfy a broader spectrum of customer needs.

Recent Price (02/28/00)	\$8.88
52WK Low	\$8.88
52WK High	\$45.75
P/E	N/M
P/Book	3.77
P/Sales	28.6
Market Capitalization	\$268.9M
Shares Outstanding	30.30M
Float	9.40M
Daily Volume (3-month Average)	0.59M
EPS	
1998	\$ -0.32
1999A	\$ -2.70
2000E	\$ -1.61
Current Ratio (MRQ)	2.97
Total Debt to Equity	0.00
LT Debt	
LT Debt	0.00
Total Cash (MRQ)	\$35.7M

ONE-YEAR PRICE AND VOLUME GRAPH



COMPANY PROFILE

Drkoop.com has the distinct advantage of being a leading consumer-centric, Internet based healthcare network that is chaired by distinguished former U.S. Surgeon General, Dr. C. Everet Koop. Drkoop.com provides its users with comprehensive healthcare information, services and tools that include access to medical database, publications, news, interactive communities, and the opportunity to purchase health related products and services online. The web site was launched in July 1998, and boasts being the most visited healthcare sit within its first 100 days. It went public in June 1999. In October 1999, KOOP achieved 15 million page views and was ranked as the No.1 dedicated health web site by PC Data and Media Metrix.

This report was prepared by Joseph Leone, Ling Tang and David R. Rivas, Ph.D.

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INDUSTRY OUTLOOK

Overview. E-Health, broadly defined, is considered to be anything taking place in the healthcare system evolving around business to business (B2B) and business to consumer (B2C) transactions occurring online. The sector can be subdivided into three main categories: healthcare content (drkoop.com), e-commerce (PlanetRx.com) and communication and transaction processing companies (Healtheon/WebMD). As this industry matures, we believe that these sectors will merge to create five or six companies for consumers to focus their attention. These leading companies will serve as a one-stop shop for a broad spectrum of healthcare transactions via the Internet, resulting in a more cost efficient and time efficient system.

Factors in Support of an e-Health Business. Healthcare is the largest industry in the world in terms of dollars spent (approximately \$1 trillion) and market size, (essentially everyone is a healthcare consumer). Despite the unlimited amount of available information, healthcare is one of the most inefficient and technologically underinvested markets. Consumers, as well as healthcare professionals, need and desire reputable sources of information in order to make intelligent decisions regarding healthcare for themselves and their families. And new medicines, medical devices and advanced analytical systems for diagnosing illnesses are being developed faster than ever.

In a study by Cybercitizen Health: 12.3 million online health information users currently take prescription drugs, 10 million U.S. adults seek pharmaceutical content online and 62 percent of online health information users trust online health information when the "site isn't trying to sell anything". According to Forrester Research, the online healthcare industry has a very healthy future: \$370 billion by 2004. The major portion (\$348 billion) of these revenues will derive from B2B transactions with retail business taking up only 5.9% (\$22 billion). Both institutional players and small practices will seek to cut costs using the Internet as well. By 2004, Forrester expects 24% of hospital purchasing to be done online.

Key Concerns Facing e-Health Companies

1. *How will government regulations of prescription drugs and healthcare information systems impact upon e-health commerce?*
 - The Health Insurance Portability and Accountability Act of 1996 (HIPAA), if approved, will require the adoption of a standard electronic format for healthcare information systems by all parties in the healthcare system. According to a recent Wall Street Journal article, the cost of compliance to HIPAA by the nations' nursing homes, doctors offices, insurers and claims administrators could be well over \$8 billion. E-Health companies who implement these systems and offer the service to healthcare providers will create tremendous value.
2. *What type of business model will work best to optimize content and retain a loyal customer base?*
 - Drkoop.com is focused solely on being the premier healthcare content provider. Other companies' business models range from purely e-commerce to a three pronged strategy of content, e-commerce and communication and transaction processing. As the industry evolves, we expect the latter business model to dominate as it provides a one-stop shop for consumer needs.
3. *What can online health sites and portals expect from sponsorships by pharmaceutical and OTC drug advertisers?*
 - Pharmaceutical companies have been surprisingly absent from marketing on the Internet. While they have provided product specific websites, direct to consumer (DTC) marketing on the Internet is an opportunity this sector is not jumping at. Diversified e-Health companies will be able to provide a higher return on investment for the pharmaceutical marketer than print or television advertising.

THE COMPANY

Drkoop.com was co-founded in 1997 by its present day Chairman of the Board and namesake, Dr. C. Everett Koop, and by Donald W. Hackett, its CEO and largest shareholder. One of the fundamental business objectives for drkoop.com is to become a trusted source for healthcare information and services. With better information and communications, the Company believes that consumers can achieve a better understanding

of their medical conditions and treatment options. This, in turn, can empower consumers to work together more productively with their physicians and with other providers to manage those conditions successfully.

As an Internet-based consumer healthcare network, drkoop.com consists of a consumer-focused interactive Web site that provides users with comprehensive healthcare information and services, as well as affiliate relationships with portals, other Web sites, healthcare organizations and traditional media outlets. Boasting more than 1.4 million unique visitors, the Web site, www.drkoop.com, is a healthcare portal which integrates dynamic healthcare content on a wide variety of subjects, including information on acute ailments, chronic illnesses, nutrition, fitness and wellness, and access to medical databases, publications, and real-time medical news. The site also provides interactive communities consisting of over 13 hosted chat support groups and tools that permit users to personalize their on-line experience. Besides, drkoop.com offers its customers opportunities to purchase healthcare-related products and services on-line.

Drkoop.com garners revenue primarily through content subscription and software licensing fees, advertising, and e-commerce. Drkoop.com is also the largest health information provider to AOL.

CONTENT AND INTERACTIVE TOOLS

Drkoop.com has greatly increased its speed to market by licensing much of its content from leading medical institutions, news services, healthcare content providers and medical databases. It also produces proprietary content through its in-house editorial staff, freelancers, and exclusive relationships with well-known health advisors. Drkoop.com offers an extensive mix of interactive tools including numerous secure and anonymous online communities and hosted chat rooms, specific to various health issues. Koop also has one of the most recognized online drug interaction database tools, and it plans to offer a Personal Medical Record feature that will allow people to keep track of all their health and medical information in a secure database. Finally, the website enables e-commerce transactions via third parties that offer prescription refills, vitamin and nutritional supplement purchases, and even access to online insurance services.

In addition to having a Health Search tool that allows users to search the entire drkoop.com site (as well as other healthcare sites) for specific information, drkoop.com offers six main content categories with subtopics that can be reached from any of its 70,000 pages of content. Just to give you an idea of KOOP's comprehensive nature, the following chart outlines the content categories and subtopics:

Table 1.

Health News	Family Health	Health Resources	Health & Wellness	Interactive Community	Conditions & Concerns
<ul style="list-style-type: none"> • Announcement & Recalls • Editorials • Focus • Polls • Special Reports • Sports Medicine 	<ul style="list-style-type: none"> • Dr. Nancy Snyderman • Children's Health • Men's Health • Women's Health • Aging Healthy 	<ul style="list-style-type: none"> • Personal Drug Store • Drug Checker • Insurance Center • Clinical Trials • Health Site Reviews • Local Resources 	<ul style="list-style-type: none"> • Fitness Center • Mental Health Center • Nutrition Center • Preventionaire Center • Prevention Center • Tacking Tobacco • Weight Loss 	<ul style="list-style-type: none"> • In the Spotlight • Health Chat • Message Boards • A Day In My Life • Addiction & Recovery 	<ul style="list-style-type: none"> • Medical Encyclopedia

Tools

- **Drug Checker.** The purpose of this tool is to help reduce the estimated 180,000 annual deaths attributable to adverse drug reactions. Multum Interactive Services provides its extensive drug interaction database to compare multiple prescriptions, over the counter drugs, and food products to identify any possible adversities. The Drug Checker is automatically used when a prescription is purchased online via drkoop.com's links.
- **Insurance Center.** Quotesmith.com, which operates the largest insurance database in America, provides its high speed health and medicare supplement insurance price comparison technology to drkoop.com. Users can apply for coverage after having compared various insurance companies.

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- **Clinical Trials.** Through its relationship with Quintiles Transnational, the largest clinical trials management organization, drkoop.com allows interested users to be pre-screened for possible participation in clinical drug trials. The idea is that such online programs will greatly increase the speed and efficiency of the drug development process, while also giving hope of relief to its participants. For only two months since its launch at the end of June, the Clinical Trials Center attracted over 80,000 unique visitors, and is expected to start generating revenue, via referral fees, during the fourth quarter.
 - **Personal Medical Record.** PMR will allow users to keep track of all their basic health information; like health histories, medical tests, treatments, doctor visits and costs incurred. Individuals who keep such information in drkoop.com's database can easily access their records (or give permission to their healthcare professionals) via the Internet or a desktop. Drkoop.com is currently beta-testing this feature with several of its community partners.

STRATEGIES FOR GROWTH

General. The Company's business model assumes that consumers will be attracted to and use healthcare information and related content available its Internet-based consumer healthcare network that will, in turn, allowing it the opportunity to sell advertising designed to reach those consumers. It also assumes that those consumers will access important healthcare needs through electronic commerce using drkoop.com and that local healthcare organizations will affiliate with the Company.

Create brand name awareness. The company intends to establish, maintain and strengthen its brand in order to attract users to its network and generate advertising, sponsorship and e-commerce revenue. A key element of the Company's strategy is its association with former U.S. Surgeon General C. Everett Koop, Chairman of the Board of the company and a person is viewed by consumers as a trustworthy and credible leader in the healthcare field.

Establish Affiliations. The company has already entered into numerous relationships with other portals and websites where drkoop.com is the primary source of consumer healthcare content. It also has numerous affiliations with local hospitals, payor entities and local media outlets.

Revenue Sharing. KOOP earns a service fee when users on its Web site purchase prescription pharmacy products from certain of its e-commerce partners. However, the fee is not based on the value of the sales transaction. In addition, KOOP markets insurance on-line, offered by unrelated third parties, and receives referral fees from those providers in connection with this activity. The ability of the company to consistently grow its community of users and unique page views per month will be of paramount importance in growing revenues.

International Expansion. In early December, the Company announced it would sharpen its focus on international markets by establishing local joint ventures and licensing agreements across the globe. Drkoop.com will model its international ventures in part after its successful partner and affiliate programs in the U.S.

PARTNERSHIPS AND STRATEGIC ALLIANCES

Drkoop.com has been successful in establishing key strategic distribution alliances with leading Internet portals, other healthcare content sites and media companies. In addition to the local healthcare and media outlets in the drkoop.com Network, drkoop.com partners with five AOL brands and three Web sites of the GO Network as well as GO's ABCNEWS.com. Through the Network, drkoop.com has potential access to more than 169 million people. These relationships are instrumental in increasing customer traffic, brand awareness and advertiser awareness, thus making them a significant source of potential revenue.

Regarding the alliance with AOL, KOOP is one of four companies competing in AOL's health section. Content there is provided by Thriveonline, KOOP, CBSHealthwatch and the Mayo Clinic. Also, CARI announced that it has signed up several organizations, amounting to seven million members, for its consumer portal. The portal is being co-developed by CARI and AOL and will be ready in late 2000. The AOL alliance is indeed a

strategic advantage but a more exclusive relationship could have provided an enormous boost for KOOP's subscriber base.

- **Community Partners Program (CPP)** – The CPP helps leading local healthcare organizations with their online initiatives by developing co-branded websites, where drkoop.com integrates its own content into its partners site. CP's pay annual fees between \$50,000 and \$150,000 annually, depending on the amount of content and service exclusivity. As of the end of the fourth quarter of 1999, drkoop.com had 24 partnerships and 8 pending agreements.
- **Expanded Television Partnerships** - Drkoop.com, Inc. announced that ten more local television stations have joined its Television Partner Program as of December 1999. With the addition of these partner stations, spanning the country from Buffalo, New York to San Jose, California, drkoop.com has broadened the potential reach of its local television news station initiative to more than 15 million households.
- **Warner Lambert** - On December 27th drkoop.com announced that Warner-Lambert Company will be the premier sponsor of drkoop.com's Diabetes Center. Under the one-year agreement, a variety of Warner-Lambert products will be featured in advertising sections in drkoop.com's Diabetes Center. The newly expanded center features top news in diabetes research, community support groups and events, an extensive diabetes library and new personalization tools to help users get detailed, accurate information.
- **Hi-Ethics** - More than a dozen online health information competitors have formed an alliance (Health Internet Ethics) to pledge an ethical code of conduct to consumers. Focusing on content, advertising and privacy issues, the group will develop standards designed to ensure that consumers are provided with health information that is reliable, safe and trustworthy. These Alliance members represent approximately 27 percent of the total Internet audience according to PC Data. The members agreed that they owe it to the more than 60 million healthcare consumers who get medical information from the Internet to provide the same high standards of ethics and privacy that they receive in their doctors' offices. Though this will not have a direct impact on revenue growth it will add credibility and build trust in drkoop.com and other e-health companies.
- **Epilepsy Foundation** - The Epilepsy Foundation, which maintains a Web site rich with original information developed by the Foundation under leading authorities in epilepsy treatment and research, will provide consumer information on seizures and epilepsy to drkoop.com, Inc. The Foundation will assist the drkoop.com Network by providing dynamic epilepsy-related content, in addition to basic information on medical and psychosocial issues affecting people with seizure disorders.
- **Tennis Online (TOL)**- TOL unveiled its ``Training & Fitness" section and announced a contract to license interactive content from drkoop.com, Inc. The TOL ``Training and Fitness" section will allow an unlimited number of users to research information on sports medicine, general health and fitness. Using the drkoop.com fitness calculators, users will be able to keep track of such key indices as calories burned, carbohydrates needed, ideal weight and target heart rate.
- **Shared Medical Systems Corp. (SMS)** – SMS, which provides software and Internet services to the healthcare industry, formed an alliance with Koop to develop and market online services linking healthcare professionals and patients. Over 2,000 U.S. healthcare organizations, and more than 200,000 doctors use SMS' services. Under the deal, the companies combined sales force of more than 400 will jointly market drkoop.com to SMS affiliated doctors and healthcare organizations, including hospitals and academic facilities. Also, the companies will jointly market an SMS physician service called ``Dashboard," which gives doctors on computer networks data about patients, and their insurance eligibility.

- **SelfCare.com** - Under the agreement, SelfCare.com will be the premier e-commerce company featured throughout the entire drkoop.com Network, including its more than 300 healthcare system affiliates and 18 local television station partners. The agreement also provides SelfCare.com the license to feature the world-class content and interactive health tools from drkoop.com on its site. Drkoop.com and SelfCare.com will also participate in co-promotional marketing activities throughout the year. The alliance, valued at \$30 million over three years, also gives drkoop.com the potential for additional revenue from e-commerce transactions.
- **WholeHealthMD** – KOOP has signed an agreement with WholeHealthMD, a leading Internet source for physician-directed information and therapies based on integrative medicine. The two-year agreement names WholeHealthMD as the premier provider and sponsor for services and content within the drkoop.com Alternative Medicine Center. Launch of the drkoop.com Alternative Medicine Center is expected to take place later this quarter.

COMPETITION

Competition in the healthcare industry encompasses traditional media and healthcare providers in addition to e-health companies and the Internet. Insurance companies, HMO's, pharmaceutical companies, healthcare organizations, consumer groups, drugstores and e-health companies are all vying for the consumers loyalty. Not all of these players have web based efforts, though some, such as CVS.com and Walgreens.com, also compete with the parent brick and mortar companies.

Restricting our analysis of the competition to publicly traded companies results in the group shown in Table 2 below.

	Drkoop.com	HealthCentral	OnHealth	CareInsite	Healtheon/ Web MD	PlanetRx
Symbol	KOOP	HCEN	ONHN	CARI	HLTH	PLRX
Unique Users (Dec99)*	4.153M	0.471M	4.63M	N/A	2.426M (WebMD.com)	1.193M
Strengths	Brand and excellent content. Numerous interactive tools and best drug interaction database.	e-Commerce through HealthcentralRx.com. A lot of quality content.	Excellent content. Easy to navigate. Partnership with drugstore.com	Transaction processing services via the internet. Partnerships with AOL and Cerner Corp.	End to end Internet services dedicated to all participants. Exclusive partnership with CVS.com	Disease specific websites sponsored by pharmaceutical co.'s. Strong distribution network. 20,000 pages of healthcare content.
Weakness	Not diversified, only provides information, no transaction services.	A little cumbersome to navigate.	Does not involve all healthcare participants.	No online drugstore partnership. No content partnerships.		No brick and mortar partnership.

*Unique visitors for December 1999 from PCData.com

KOOP's strategy of being a premier information site has worked well for the moment. But the competition has not been complacent; rather, competitors have been extremely active in seizing opportunities to diversify from being pure content providers. For example, Healtheon/WebMD (HLTH), with its new exclusivity agreement with CVS.com, has catapulted to the forefront of e-health commerce. Also occurring recently, HLTH signed a pact with Humana Inc. that, in our view, signals strong endorsement of HLTH's

solution for payers. The HLTH site provides information, e-commerce and provider transaction services. Consumers are now being offered a single, comprehensive Internet based business for all their healthcare needs.

In early December, HealthCentral.com (HCEN) went public. The site offers health news and advice, and an online drug store, HealthCentralRx.com, which has a relationship with Bergen Brunswig for health and beauty aids, over-the-counter products and prescription drugs. On January 10, HCEN announced it became Microsoft's premier provider of health and fitness newsletters, essentially mirroring KOOP's agreement with AOL.

PlanetRx (PLRX), which is mainly an online drugstore, also has 29 satellite content sites. PLRX does not have a "bricks and mortar" partnership like primary competitor drugstore.com does with Rite Aid. Its content sites are used to drive traffic to the e-commerce site. PLRX owns such domain names as depression.com, obesity.com, diabetes.com and arthritis.com. The company gets pharmaceutical and other healthcare companies to sponsor those websites, in essence subsidizing those sites. PLRX sends e-mail reminders to subscribers to refill prescriptions and can also send that prescription to them because they have their own distribution network.

The sheer volume of healthcare websites is not enough to deter new competitors from entering the arena. The Mayo Clinic, a nonprofit organization based in Rochester, Minnesota, announced plans on December 6, 1999 to launch a Web site next spring with the intention to become a major consumer information resource. Mayo hopes to generate new revenue through advertising, sponsorships, licensing agreements, and e-commerce. It publishes various books and newsletters related to health education and medical research, which may be sold on the Web site, among other products.

PAGE VIEWS PER MONTH, A SIGN OF CONSUMER ACCEPTANCE

KOOP announced it drew more than 15 million page views for the month of October according to its own logs, audited by Nielsen I/PRO. October reports from PC Data and Media Metrix complement drkoop.com's own records, with both companies ranking drkoop.com as the No. 1 dedicated health Web site in October. That marked the eighth straight month drkoop.com has received this ranking from PC Data. The October report from Media Metrix ranked drkoop.com as the No. 25 site in its News/Information /Entertainment category, the highest ranking of any dedicated health Web site. OnHealth (ONHN) reported page views of 13 million in October and that this figure jumped 22%, to 15.9 million, in November. According to Media Metrix, ONHN has become the 56th largest site on the Internet in December, up from 83rd in November, which gives you an idea of how successful the company has been with increasing its online community.

We believe that the adoption of a more diversified approach to the e-health business model will be the main driver for increasing page views per month. As competition increases we expect customers to focus on about five or six main Internet companies that will each provide a comprehensive healthcare package.

KEY RISK FACTORS

- **Limited Operating History.** The Company has an extremely limited operating history. Investors must consider the risks, uncertainties, expenses and difficulties frequently encountered by companies in their early stages of development, particularly companies in new and rapidly evolving markets, including the internet market.
- **Validation of Business Model.** Although the Company includes e-commerce opportunities as an alternative revenue source, we believe it still positions itself as the best healthcare content provider, at least for the moment. As of September 30, 1999, no e-commerce revenue has been reported in its quarterly report. It is hard to predict that, for how long, and to what an extent, drkoop.com's current business model will ensure its growth and success. We believe the pure content business model has the lowest barrier to entry into the eHealth industry since most content can be licensed from established sources. Further, we believe brand name awareness, scope of content and quality customer service to be the most important factors in becoming a leading company with the pure content business model.

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- **Competitive Landscape.** The Internet industry is highly competitive and changing rapidly. The number of Internet web sites offering users healthcare content, products and services is vast and increasing at a fast rate. In addition, traditional media and healthcare providers also compete for customers' attention through traditional means as well as through new Internet initiatives. Whether or not the Company is able to respond promptly and effectively to the challenges posted by competitors' innovations, evolving customer expectations and technological changes will eventually determine drkoop.com's market share.
 - **Government Regulations.** In addition to new government regulations relevant to the entire Internet (regarding user privacy, content and distribution) drkoop.com may have to be wary of both state and federal law regarding very new- and so far legally untouched- issues involving Internet based dispensation of prescription pharmaceuticals, and insurance marketing. Healthcare is one of the most heavily regulated sectors in the U.S. As of right now, drkoop.com has no related pending litigation, and as far as it knows, has not broken any health-related statutes. Given the relative novelty and highly sensitive nature of eHealth there are bound to be more laws in the future. The possibility of such laws poses a threat to many of drkoop.com's sources of revenue including referral and e-commerce fees.

REVENUE MODEL

- **Advertising.** Online advertising an enormous revenue opportunity for drkoop.com, especially given its highly targeted nature. Advertising accounted for 46%, 77%, 83% and 84% of KOOP's first, second third and fourth quarter revenues respectively, and is expected to comprise the majority of revenues for the next two years. About one quarter of KOOP's thirty-two advertisers are Fortune 500 Companies, including Pfizer, Johnson & Johnson, Schering-Plough, Biogen and SmithKline Beecham. Most contracts last between six months to two years. Drkoop.com has three major types of advertising relationships: banner advertisements, anchor tenancies, and sponsorships.
- **Content Subscription and Software Licensing.** Content subscription and software licensing revenues are primarily earned via its Community Partners and comprised about 16% of KOOP's third quarter revenues in 1999, declining from 54% for the same period in 1998. During the three months ended September 30, 1999, drkoop.com signed an additional 15 new Community Partner Program contracts, bring the total number of new contracts to 30 for the nine months ended September 1999.
- **E-commerce.** The Company currently does not derive any e-commerce revenues, but expects to grow this revenue stream significantly over the next two years. These expected revenues are to come from its Personal Drugstore, Personal Insurance Center, and its Clinical Trials features.

KEY FINANCIALS

Revenues. Climbing from \$2,910,000 to \$5,090,000, total revenue for the fourth quarter ended December 1999 nearly grew 75%, reflecting drkoop.com's accelerating momentum and substantial growth within the online health information market. The Company's strong revenue growth was fueled by its increasing advertiser base, significant Community Partner demand and the expansion of certain sponsorship agreements. We expect that advertising and sponsorships will account for the majority of near-future revenue, while licensing revenue will also increase, but at a lower rate. In addition, there have not been any e-commerce revenues recognized yet, although we did expect to see some by the end of the fourth quarter in 1999.

Cost of Operations. Production, content and product development expense went up by \$1.43 million from \$2.4 million to \$3.83 million between the third and the fourth quarter — a 59% increase. The cost of operations will continue to grow significantly for the next two years, but at a lower rate than revenues. Sales and Marketing expenses will account for the majority of the cash outflows, being that the payments to some major partners (including AOL and Infoseek, etc.) will be recognized as such. Given the infant nature of the company and its aggressive branding strategy, Sales and Marketing will continue to increase at a faster pace than Product Development. However, Sales and Marketing expenses will begin to decrease as drkoop.com matures.

General and Administrative. As the company grows in infrastructure and staff we expect G&A costs to rise somewhat quickly over the next two years, but will remain relatively constant in the future.

Net Loss. Drkoop.com could continue to incur losses and negative EPS figures for the next two years. This is not unusual for infant Internet companies. Accounting for the expected effects of the AOL deal, we expect KOOP to move into positive earnings territory by the end of 2001.

A RELATIVE APPROACH TO VALUATION

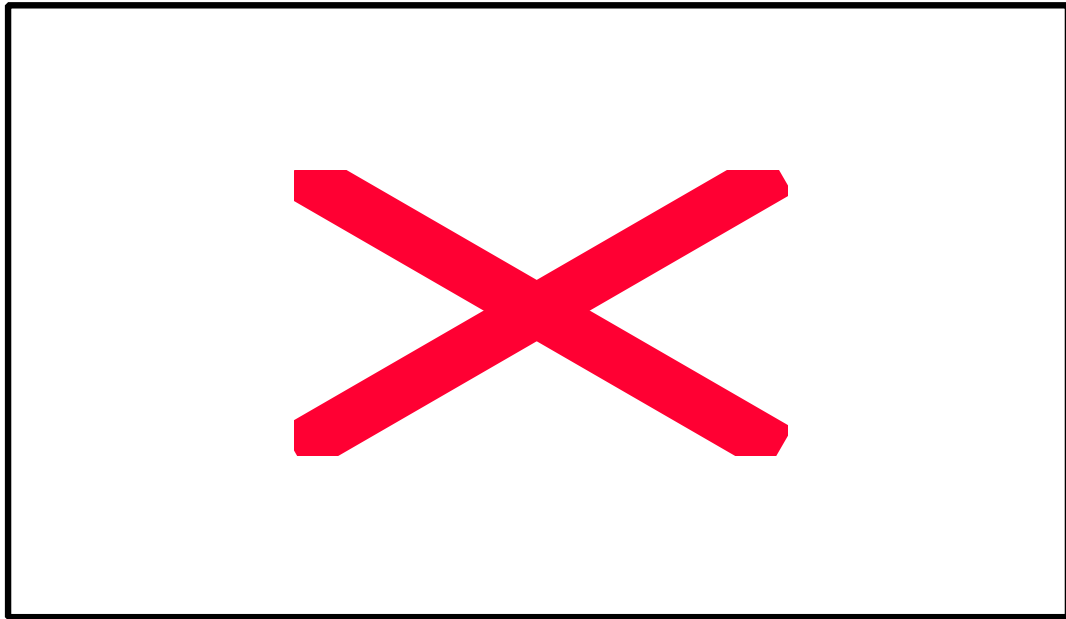
Many Internet start-up companies remain unprofitable for years, and their performance is highly unpredictable due to the fast changing nature of the industry. Therefore, traditional valuation methods are not practical for valuing these companies. However, the price to sales ratio is a good valuation and comparison indicator for Internet companies. Other factors such as revenues, customer base, and sector leadership are also important in truly evaluating an online business.

What further complicates a thorough valuation for drkoop.com is its extremely limited operating history. The company has only been public for just about 7 months, and its first year of operations had nothing to do with its present functioning as an online healthcare network, thus we can not seriously take 1997' s financials into account. Furthermore, although there are thousands of health content sites, there are not many that are public, thus further limiting what little financial comparisons we can make. For this reason we will include comparisons with transactions oriented eHealth companies (Healtheon and CareInsite - whose market strength we view as indicative of investor acknowledgement of the large opportunity with-in eHealth), as well as with some other e-commerce companies (PlanetRx.com, HealthCentral). We believe that such analysis helps give a much-needed broader perspective of drkoop.com' s relative success. Lastly but not least importantly, we also believe that, in the near future, as the distinctions between different company categories blur, KOOP will eventually face direct competition with these companies.

The Internet Sector and the Competitors. The graph below compares drkoop.com' s short performance history to the Amex Internet Index (IIX) and 6 of its major competitors. The comparison shows the relative volatility of KOOP, which again, is not unusual for new Internet start-ups. The enormous price jump in early July was a result of the AOL deal announcement. However, despite its decline since then, KOOP continued to significantly outperform the IIX up until the downwards trend of the Nasdaq' s Internet sector. The general decline was a result of inflationary and interest rate fears, as well as of an overcrowded IPO market.

Stock performance comparison between drkoop.com and its competitors shows that, despite the general decline trend, the Company had continuously outperformed almost all of its six major competitors during 1999 except for CareInsite (CARI), the strongest performer among all with an amazing 170% rate of return. However, starting Jan. 00, we found that Healtheon/Web MD and PlanetRX.com had been moving upwards significantly, while KOOP remains volatile. We believe that KOOP needs to take these competitors seriously. Although they are not primarily information sites, Healtheon/Web MD does offer health-related information along with e-commerce and transaction services. Both companies have good fundamentals and have been quite active in seeking greater market share by merger, diversification, partnership, and aggressive marketing. They've been very successful in striking some good deals recently, leading to the most recent upward movements in their stock prices. The market appears to be able to distinguish between the pure content, the e-commerce and the transaction processing (B2B) companies. The content sites seem to be out of favor with investors, therefore validating the business model of e-commerce and transaction processing companies.

As discussed in our previous sections, even without current head-on competition, drkoop.com's dominant position and competitive advantage as being the sole and the best health information provider may vanish as the industry evolves.



Price to Sales Ratio. Trading at 28.52XTTM revenues, drkoop.com has a P/S ratio well below the 64.32 multiple average of its competitors (excluding CareInsite). While the average P/S ratio of Internet companies hovers around 20, we believe the discount of KOOP's P/S ratio is a result of its' focus on content and a general uncertainty in that business model. Comparing the current scenario with that of three months ago, we found that KOOP's P/S ratio has declined relatively, and its leadership position is certainly challenged by almost all of its competitors listed here, let alone stars such as Healthon/MD and CareInsite.

Financial Comparison with Relevant Internet Companies					
02/28/00					
Table 3	\$ Price as of 02/28/00	Market Cap. (Millions)	Shares Outstanding	Sales (TTM) (Millions)	Price to Sales (TTM)
Drkoop.com <i>KOOP</i>	8.88	268.9	30.30 M	\$9.43	28.52
Healthon/Web MD <i>HLTH</i>	55.68	8172.1	146.75 M	\$100.7	81.15
OnHealth <i>ONHN</i>	9.50	183.54	19.32 M	\$3.77	48.68
HealthCentral <i>HCEN</i>	5.88	115.95	19.72	\$1.19	97.43
PlanetRx <i>PLRX</i>	11.38	592.67	52.08	\$9.0	65.85
CareInsite <i>CARI</i>	68.50	4823.1	70.41	\$4.49	1074.2

(Source: <http://www.marketguide.com>)

Other Key Metrics

During the fourth quarter ended December 30, 1999, drkoop.com continued to experience strong growth in key metrics.

- Fourth quarter page views increased 22% to 49.4 million, from 40.4 million reported last quarter

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- Unique visitors increased 36% to 11.8 million, from 8.7 million in the third quarter
 - Registered users increased 1700% to 1,000,000, compared with the 58,000 registered users as of the end of the 1998.
 - Drkoop.com's Community Partner Program experienced significant growth in the fourth quarter, more than doubling the number of partners from 14 to 32. The CPP is now comprised of 300 healthcare facilities
 - Drkoop.com's advertising base continued to expand, totaling 32 advertisers at the end of the quarter.

Investment Opinion

Drkoop.com was off to an excellent beginning and continues to be a premiere content site. But, in our opinion, the pure content business model faces the lowest barrier to entry since much of the content is licensed from third parties and can be complemented by a qualified staff of physicians. KOOP's competitors have been moving more aggressively, acquiring and aligning themselves with the e-commerce and transaction processing side of the business. KOOP's major competitor, Healtheon/MD, has announced its intention to acquire two star players in this market, CareInsite and OnHealth. This would create an even stronger challenge to KOOP's business development program in the long run. To some extent, these events may impact investors' choices to the disadvantage of KOOP.

The e-healthcare market has grown tremendously in the last twelve months, with a number of companies presenting equity offerings. We believe that the space will continue to evolve as new IPO's come to market and companies continue to forge alliances. With expansion will likely come consolidation, keeping analysts and investors alike tuned in.

- Long-term Valuation

Drkoop.com faces ever-increasing competition as the numbers of similar companies keep increasing and the services and products provided become more sophisticated and diversified. We believe that the e-Health industry will evolve into five or six premier companies providing the three cornerstones of healthcare services: content, e-commerce and transaction processing. Should KOOP become more aggressive in pursuing this three pronged strategy, we believe the shares will be more attractive to investors. Therefore we give the stock a MARKET PERFORM recommendation.

- Short-term Valuation

Based on the expected return of KOOP's stock and recent downturn in the overall market, we give the shares an ACCUMULATE rating.

drkoop.com, Inc.
Condensed Statement of Operations
(in millions, except per share data)
(Unaudited)

	1997	1998	Q1 99	Q2 99	Q3 99	Q4 99	1999	2000E
Revenues:								
Advertising	-	-	0.20	0.80	2.40	4.30	7.67	32.00
Content Licensing	-	-	0.20	0.20	0.50	0.79	1.70	9.60
Other	-	0.04			0.05	0.00	0.06	4.40
Total Revenues	-	0.04	0.40	1.00	2.95	5.09	9.43	46.00
Cost of Operations								
Production, Content and Product Development	0.50	4.40	1.00	2.10	2.40	3.83	9.36	21.80
Sales and Marketing	-	2.00	2.00	8.00	18.60	16.92	45.56	66.40
Total Cost of Sales	0.50	6.40	3.00	10.10	21.00	20.75	54.92	88.20
Gross Income	(0.50)	(6.36)	(2.60)	(9.10)	(18.05)	(15.66)	(45.49)	(42.20)
General and Administrative Expense	0.20	2.60	1.60	2.30	2.25	4.40	9.50	12.60
Operating Income	(0.70)	(8.96)	(4.20)	(11.40)	(20.30)	(20.06)	(54.99)	(54.80)
Nonoperating Income and Expense:								
Interest (Net)	-	-	-	0.10	0.55	0.76	1.34	1.70
Other	-	-	-	-	0.84	0.57	2.49	-
Pretax Income (before nonrecurring)	(0.70)	(8.96)	(4.20)	(11.30)	(20.59)	(19.87)	(56.13)	(53.10)
Provision for Income Taxes	-	-	-	-	-	-	-	-
Income Before Nonrecurring	(0.70)	(8.96)	(4.20)	(11.30)	(20.59)	(19.87)	(56.13)	(53.10)
Nonrecurring Items			(20.10)	(6.30)			(26.40)	
NET INCOME	(0.70)	(8.96)	(24.30)	(17.60)	(20.59)	(19.87)	(82.53)	(53.10)
Weighted Average Shares - Primary	28.00	28.00	29.60	29.60	30.14	30.40	30.56	33.00
EPS - Primary	(0.03)	(0.32)	(0.82)	(0.59)	(0.68)	(0.65)	(2.70)	(1.61)
Margin Analysis								
Gross Margin	N/A	(159)	(7)	(9)	(6)	(3)	(5)	(1)
Operating Margin	N/A	(224)	(11)	(11)	(7)	(4)	(6)	(1)
Production Expense Margin	N/A	110	3	2	1	1	1	0
Sales and Marketing Margin	N/A	50	5	8	6	3	5	1