



HealthStream Announces Second Quarter 2002 Results

NASHVILLE, Tenn.--(BW HealthWire)--July 30, 2002--HealthStream, Inc. (NASDAQ/NM:HSTM)

Second Quarter Highlights:

- Record revenues of \$4.1 million for second quarter, up 17% from first quarter 2002
- Activations of healthcare professional subscribers increased to a total of 450,000, up from 380,000 in the prior quarter, an increase of 18%
- Course completions soared by 66% to a record 527,000, up from 318,000 in the prior quarter
- 28 new hospital facilities contracted to subscribe to the Internet-based Healthcare Learning Center, bringing the total to 565 facilities
- "e-Learning Summit 2002" held with 263 corporate healthcare attendees
- Delivered 70 continuing education programs, resulting in 38,000 activity registrations by OR nurses at recent AORN Congress
- Frank E. Gordon elected to board of directors

HealthStream, Inc. (NASDAQ/NM:HSTM), a leading provider of learning solutions for the healthcare industry, announced today results for the second quarter ended June 30, 2002.

Financial Results

Second Quarter 2002 compared to First Quarter 2002

Revenues were \$4.1 million for the second quarter ended June 30, 2002, as compared with \$3.5 million for the previous quarter ended March 31, 2002, an increase of 17 percent. Both business units experienced improved results. Gross margins improved from 48 percent in the prior quarter to 62 percent for the current quarter primarily as a result of increased revenues and, to a lesser extent, due to transition expenses we incurred in the first quarter related to the relocation of customer service operations from our Raleigh facility, which we have closed, to our Nashville office.

Second Quarter 2002 compared to Second Quarter 2001

Relative to the prior year second quarter, revenues were \$4.1 million for the three months ended June 30, 2002, as compared to \$3.5 million for the three months ended June 30, 2001, an increase of 17 percent. The increase resulted from an increase in subscription revenues from our Internet-based HealthCare Learning Center™ of \$0.6 million (net of the warrant expense of \$0.5 million that was previously recorded as a reduction of revenues in the prior year) and an increase of \$0.4 million from learning services to our pharmaceutical and medical device customers. As a result of our strategy to shift subscribers to our Internet-based Healthcare Learning Center™, our revenues from less predictable one-time site licenses of our installed learning management products declined \$0.7 million from the prior year. Revenues from pharmaceutical and medical device customers increased due to growth in live workshops, online development, and association services, while WebEvents™ declined.

Gross margins declined to 62 percent for the second quarter from 67 percent in the second quarter of 2001. The decline in gross margin is a result of increased direct personnel expenses and increased materials costs associated with our live workshop activities. Net loss for the second quarter ended June 30, 2002 was \$3.2 million, or (\$0.16) per share, compared to a net loss of \$5.2 million, or (\$0.26) per share, for the second quarter ended June 30, 2001. Effective January 1, 2002, we adopted a new accounting standard that discontinued goodwill amortization. For comparison purposes, net loss for the second quarter 2001 would have been \$3.9 million, or (\$0.20) per share, if goodwill amortization had been excluded.

At June 30, 2002, the Company had cash, investments, and related interest receivable of \$22.4 million, compared to \$24.6 million at March 31, 2002. The \$2.2 million decrease in cash, investments, and related interest receivable during the second quarter resulted from a net operating cash consumption of approximately \$2.0 million and capital expenditures of \$0.2 million. Our operating cash consumption rate improved from the \$2.3 million rate experienced during the first quarter 2002 and the \$2.7 million rate experienced during the second quarter 2001.

We recorded a \$5.0 million, or (\$0.25) per share, non-cash charge as a cumulative effect of a change in accounting principle

related to the adoption of SFAS No. 142 "Goodwill and Other Intangible Assets." SFAS 142 requires that goodwill and intangible assets with indefinite lives be tested for impairment annually rather than amortized over time. The impaired goodwill is entirely related to the HCO business unit. This charge is reflected in our financial statements, as of January 1, 2002, as required by SFAS 142.

Healthcare Organization Business Unit (HCO) Update

The healthcare organization business unit remains focused on growing HealthStream's Internet-based learning network of healthcare organizations that subscribe to the Healthcare Learning Center™.

Approximately 450,000 healthcare professional subscribers are activated and now utilize HealthStream's Internet-based Healthcare Learning Center™ for training and education, up from 380,000 at the end of first quarter 2002. Concurrent with a larger number of subscribers is significantly greater usage of the Healthcare Learning Center™ during the second quarter. A record high of over 527,000 course completion certificates were awarded to healthcare professionals in the second quarter of 2002, a 66 percent increase over the previous quarter. These metrics reflect the sustained momentum of HealthStream's customers to actively use the Healthcare Learning Center™ as their ongoing learning solution.

Additional efforts are now being directed at identifying learning needs over and above the Company's core regulatory courseware offerings. To that end, in April HealthStream published the premier issue of its courseware catalog, which is targeted at a variety of healthcare workers who look to improve their skills and/or expand their knowledge in clinical and organizational areas.

At June 30, 2002, HealthStream's Internet-based learning network of healthcare organizations increased to include a total of 565 contracted hospital facilities, up from 537 at the end of first quarter 2002. In the second quarter, 28 hospital facilities entered into contracts for HealthStream's Internet-based Healthcare Learning Center™. Twelve of the 28 new contracts resulted from HealthStream customers who transitioned from one of our installed learning management systems (currently used by over 760 hospital facilities) to the Internet-based Healthcare Learning Center™, including the Georgetown Hospital System and the University of Maryland Medical Center. The remaining 16 new contracts represent a diverse range of healthcare organizations, including Kaiser Permanente - Santa Teresa and Hutchinson Hospital Corporation.

To support its customers' enthusiasm to embrace online learning, HealthStream held the second annual "e-Learning Summit" for its existing and prospective customers in April. Attended by 263 healthcare professionals from over 170 healthcare organizations across the nation, the annual Summit is the only conference in the e-learning industry held exclusively for healthcare professionals. Internationally recognized e-learning expert, Brandon Hall, delivered the keynote address.

Pharmaceutical and Medical Device Business Unit (PMD) Update

During the second quarter 2002, PMD's team of sales and program managers serviced a number of existing customers with additional products, while also introducing new customers to HealthStream's learning solutions.

Produced on behalf of 49 pharmaceutical and medical device company customers, HealthStream offered 70 continuing education programs for nurses at the Association of periOperative Registered Nurses (AORN) Congress, held April 21-25, 2002 in Anaheim, California. Each of the 70 programs was attended by an average of 500 nurses, resulting in more than 38,000 activity registrations.

Medtronic, an established PMD customer, contracted for additional online and offline learning products during the second quarter. HealthStream continues to add new pharmaceutical and medical device companies to its customer roster. In the second quarter, Medicis, an emerging pharmaceutical company focusing on dermatology, pediatrics, and podiatry, contracted with HealthStream to develop and produce a series of WebEvents™ targeting thought leading dermatologists to discuss advanced knowledge on sun damaged skin.

Also in the second quarter, Howmedica Osteonics, a division of Stryker Corporation, contracted for 600 student enrollees in HealthStream's new Surgical Environment Training (SET) curriculum, featuring the online courses, OR Protocol and Bloodborne Pathogens. Enrollees will typically be medical device sales representatives who elect to complete this online training that imparts knowledge and tools to avoid inherent risks within the surgical environment. Since the courses are AORN recognized and JCAHO compliant, a course completion card is awarded to student enrollees that confirms proof of education to healthcare facilities where access is sought.

Corporate Update Announcement

Mr. Frank E. Gordon, vice president of development and managed care of MediSphere Health Partners, Inc., was elected to serve a three-year term on the Company's board of directors. As a veteran business leader in the healthcare industry, Mr.

Gordon will join the board of directors in overseeing HealthStream's corporate and strategic initiatives. His extensive range of experiences, depth of knowledge of the healthcare industry, and distinguished record of accomplishments will prove valuable to the Company, further enhancing HealthStream's competitive edge.

Third Quarter 2002 Financial Analysis

Third quarter revenues are targeted at approximately \$4.3 million. As a result of sales and implementations of the HealthCare Learning Center™, HCO revenues are expected to continue to grow during the third quarter of 2002 and the remainder of the year. Revenues are expected to decline slightly for PMD during the third quarter due to the seasonality of their live workshop activities, which are concentrated in the second and fourth quarters. We expect gross margins to remain similar to the current quarter. We also expect average monthly net operating cash consumption to decline over the rate experienced during the second quarter of 2002, as well as the rate experienced during the third quarter of 2001.

Commenting on second quarter results, Robert A. Frist, Jr., chief executive officer, said, "Without question, a major highlight this quarter was the opportunity that we had to personally meet many of our customers, listen to their excitement about online learning, and hear the stories they told of HealthStream's learning solutions having an impact on the day-to-day work lives of healthcare professionals. Both the AORN Congress and the e-Learning Summit each provided a robust forum for strengthening customer bonds and learning more about the training and education they want and need for their organizations. Customers' feedback, coupled with a record high number of course completion certificates awarded on the Healthcare Learning Center™, reinforces our commitment to innovate products that will improve the way healthcare professionals train, streamlining their work life to help them provide better patient care."

About HealthStream

HealthStream (Nasdaq/NM:HSTM), based in Nashville, Tennessee, with an additional office in Denver, Colorado, is a leading provider of learning solutions for the healthcare industry.

Healthcare organizations use HealthStream's learning solutions to improve learning, increase compliance, and enhance organizational effectiveness for nurses, technicians, staff workers, physicians, and all clinical and non-clinical healthcare employees throughout the enterprise. Pharmaceutical and medical device companies use HealthStream's learning solutions to launch educational programs and reach healthcare professionals. Content providers use HealthStream's learning solutions to expand the reach of their programs worldwide. Healthcare portals for professionals use HealthStream's learning solutions to provide an instant, co-branded Web site for their users. HealthStream can be visited on the Web at www.healthstream.com.

HEALTHSTREAM, INC.
Summary Financial Data
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001(1)	2002	2001(1)
Income Statement Data:				
Revenues(2)	\$ 4,134	\$ 3,523	\$ 7,668	\$ 6,577
Operating expenses (gain):				
Cost of revenues	1,558	1,175	3,390	2,801
Product development	1,217	1,285	2,226	2,488
Sales and marketing	1,658	1,549	3,219	2,957
Depreciation and amortization(3)	1,132	2,474	2,292	4,885
Office consolidation charge	--	401	--	401
Gain on WebMD contract renegotiation	--	--	--	(1,500)
Other general and administration	1,978	2,223	3,628	5,095
Total operating expenses	7,543	9,107	14,755	17,127

Operating loss	(3,409)	(5,584)	(7,087)	(10,550)
Other income (expenses), net	170	376	418	961
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Net loss, actual before cumulative effect of a change in accounting principle	\$ (3,239)	\$ (5,208)	\$ (6,669)	\$ (9,589)
Cumulative effect of a change in accounting principle	--	--	(5,000)	--
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Net loss, actual	(3,239)	(5,208)	(11,669)	(9,589)
Net loss per share:				
Basic and diluted, before cumulative effect of a change in accounting principle	\$ (0.16)	\$ (0.26)	\$ (0.33)	\$ (0.48)
Cumulative effect of a change in accounting principle	--	--	(0.25)	--
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Net loss, basic and diluted, actual	\$ (0.16)	\$ (0.26)	\$ (0.58)	\$ (0.48)
	=====	=====	=====	=====
Pro forma net loss(4)	\$ (3,239)	\$ (3,866)	\$ (6,669)	\$ (8,409)
	=====	=====	=====	=====
Net loss per share, basic and diluted pro forma	\$ (0.16)	\$ (0.20)	\$ (0.33)	\$ (0.42)
	=====	=====	=====	=====
Weighted average shares:				
Basic and diluted, actual and pro forma	20,251	19,655	20,224	19,811
	=====	=====	=====	=====
Operating loss excluding gain and before amortization of goodwill and other intangibles:				
Operating loss	\$ (3,409)	\$ (5,584)	\$ (7,087)	\$ (10,550)
Loss on office closures	--	401	--	401
Gain on WebMD contract renegotiation	--	--	--	(1,500)
Amortization of goodwill and other intangibles(3)	479	1,880	958	3,746
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Operating loss excluding gain and before amortization of goodwill and other intangibles, actual	\$ (2,930)	\$ (3,303)	\$ (6,129)	\$ (7,903)
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Operating loss excluding gain and before amortization of goodwill and other intangibles per share, actual	\$ (0.14)	\$ (0.17)	\$ (0.30)	\$ (0.40)

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- (1) Certain prior year amounts have been reclassified to conform to current year presentation.
- (2) There was \$0 of non-cash warrant expense for the three and six months ended June 30, 2002. Revenues for the three and six months ended June 30, 2001, are net of non-cash warrant expense of \$505 and \$941, respectively.
- (3) Amortization for 2002 excludes amortization of goodwill, which was eliminated upon implementation of new accounting standards. For the three and six months ended June 30, 2001, goodwill amortization expense was \$1,342 and \$2,680, respectively.
- (4) Pro forma numbers for the three and six month periods ended June 30, 2001 reflect actual results adjusted to reflect the change in goodwill accounting and the elimination of the gain on WebMD contract renegotiation. Pro forma numbers for the six months ended June 30, 2002 reflect actual results adjusted for the cumulative effect of a change in accounting principle.

HealthStream, Inc.
Condensed Consolidated Balance Sheets
(In thousands)

	June 30, 2002	Dec. 31, 2001(1)
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	(Unaudited)	
ASSETS		
Current assets:		
Cash, short term investments and related interest receivable	\$ 10,380	\$ 18,506
Accounts and unbilled receivables, net	4,749	4,343
Prepaid and other current assets	1,076	1,681
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Total current assets	16,205	24,530
Investments in marketable securities	12,046	8,709
Property and equipment, net	3,251	3,694
Goodwill, net	3,307	8,307
Intangible assets, net	2,608	3,566
Other assets	585	441
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Total assets	\$ 38,002	\$ 49,247
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LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, accrued and other liabilities	\$ 3,102	\$ 3,184
Deferred revenue	3,907	3,274
Current portion of long-term liabilities	91	127
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Total current liabilities	7,100	6,585
Long-term liabilities, net of current portion	70	119
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Total liabilities	7,170	6,704
Shareholders' equity:		

Common stock	91,325	91,275
Accumulated deficit and other comprehensive income	(60,493)	(48,732)
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Total shareholders' equity	30,832	42,543
Total liabilities and shareholders' equity	\$ 38,002	\$ 49,247
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(1) Derived from audited financial statements contained in the Company's filing on Form 10-K for the year ended December 31, 2001.

This press release includes certain forward-looking statements (statements other than solely with respect to historical fact), including statements regarding expectations for the financial performance for the second half of 2002, that involve risks and uncertainties regarding HealthStream. These statements are based upon management's beliefs, as well as assumptions made by and data currently available to management. This information has been, or in the future may be, included in reliance on the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that such results or events predicted in these statements may differ materially from actual future events or results. The Company's preliminary financial results, while presented with numerical specificity, are forward-looking statements which are based on a variety of assumptions regarding the Company's operating performance that may not be realized, and which are subject to significant uncertainties and potential contingencies associated with the Company's year-end financial and accounting procedures and other matters referenced from time to time in the Company's filings with the Securities and Exchange Commission. Consequently, such forward-looking information should not be regarded as a representation or warranty by the Company that such projections will be realized. Actual results may differ materially from those anticipated in any such forward-looking statements. The Company undertakes no obligation to update or revise any such forward-looking statements.

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