



HealthStream Announces Third Quarter 2001 Results

NASHVILLE, Tenn.--(BW HealthWire)--Oct. 30, 2001--HealthStream, Inc. (NASDAQ/NM:HSTM)

Highlights:

- Earnings per share and cash consumption improved, while revenues from the previous quarter declined to \$3.1 million
- 70 hospital facilities contracted for ASP-based Healthcare Learning Center™ during the third quarter--up from 35 in the previous quarter, bringing the total to approximately 400
- HealthStream signed new agreements with HealthTrust Purchasing Group and HCA in October, 2001. Concurrently, the warrant agreement with HCA was canceled.

HealthStream, Inc. (NASDAQ/NM:HSTM), a leading provider of learning solutions for the healthcare industry, announced today results for the third quarter ended September 30, 2001.

Financial Results

Revenues were \$3.1 million for the third quarter ended September 30, 2001, as compared with \$3.5 million for the quarter ended June 30, 2001, a quarter-to-quarter decrease of 13%. The decline in revenues was evenly divided between the healthcare organization business unit (HCO) and the pharmaceutical and medical device business unit (PMD). Lower sales of the installed learning management system and lower sales of live and Webcast events due to softness in pharmaceutical discretionary spending were the main causes.

Gross margins decreased to 60% for the third quarter from 68% in the second quarter of 2001, as a result of lower revenues and higher fixed expenses related primarily to live events. Net loss for the third quarter ended September 30, 2001 was \$4.8 million or \$0.24 per share compared to the second quarter loss of \$5.2 million or \$0.26 per share. Excluding the impact of the second quarter office consolidation charge of \$0.4 million or \$0.02 per share, the loss per share was comparative between the second and third quarters. Expense reductions instituted during the second quarter more than offset the decline in revenues and lower gross margins, resulting in comparable loss per share between the second and third quarters.

At September 30, 2001, the Company had cash, investments and related interest receivable of \$29.1 million, or \$1.43 per share compared to \$31.2 million, or \$1.53 per share at June 30, 2001. The \$2.1 million decrease in cash, investments, and related interest receivable during the third quarter resulted from content development payments of \$0.2 million, capital expenditures of \$0.3 million and other monthly net operating cash consumption of approximately \$0.5 million or quarterly consumption of \$1.6 million.

Business Updates

The healthcare organization business unit (HCO) continues to focus on expanding HealthStream's ASP-based Healthcare Learning Center™ to the nation's hospitals, which employ over four million healthcare professionals.

In the third quarter, a total of 70 hospital facilities contracted for HealthStream's ASP-based Healthcare Learning Center™, representing a diverse range of healthcare organizations--including Banner Health System, Pennsylvania Hospital, and the East Alabama Medical Center. Twenty-nine of the 70 hospital facilities contracted to transition from HealthStream's installed learning management system to the ASP-based Healthcare Learning Center™. As a result, the total number of healthcare organizations that have contracted for HealthStream's ASP-based Healthcare Learning Center™ increased to approximately 400 from approximately 330, as reported in the second quarter 2001 business update.

During the third quarter, HealthStream's HCO sales team licensed five new installed learning management systems, compared to 40 during the previous quarter. HealthStream's initiative to transition hospital customers to the ASP platform gained traction during the third quarter, with 29 of the Company's customers choosing to transition to the ASP platform during the third quarter (as noted above), compared to 11 during the second quarter. These quarter-to-quarter changes in activity are reflective of our initiative to focus on the ASP product offering. As a result, the net total number of customers using the installed learning management system dropped to 865 from 889, as reported in the second quarter 2001 business update.

Through sales of the ASP-based Healthcare Learning Center™ and licenses of the installed learning management systems, HealthStream now has approximately 1,260 hospital facility customers, up from the previously reported approximate of 1,220 at the end of second quarter of 2001.

HealthStream entered into three new strategic partnerships to offer additional courseware during the third quarter. Once the courses are made available on the Healthcare Learning Center™, the agreements will add management training courses through Development Dimensions International (DDI), HIPPA (Health Insurance Portability and Accountability Act) courseware through HCPPro, and long-term care courses through Care2Learn. Taking advantage of HealthStream's growing national hospital network, the three new agreements will enhance HealthStream's ability to extend the range of courseware offered to its hospital customers.

The pharmaceutical and medical device business unit (PMD) is focusing on expanding its services to existing accounts through its team of sales professionals and program managers. Merck, for example, continued to use HealthStream's WebEvent™ services in the third quarter. They held three Thought Leader Webevents™, two of which were used to reach their managed care audience for a training session on the "Management of OsteoArthritis" and one was used to reach a clinical audience to discuss research and development initiatives.

Medical device company customers, in addition to pharmaceutical customers, also chose to further utilize HealthStream's learning solutions. Zimmer sponsored three "Total Hip and Knee Forums," which were attended by a total of 360 orthopaedic physicians. And, Cordis Endovascular, a Johnson & Johnson company, sponsored 17 live seminars on "Peripheral Vascular Intervention." The seminars were designed to be highly focused events held for a select physician audience of no more than four per seminar, who were subsequently awarded continuing medical education (CME) credit for their participation.

HealthStream and the Association for PeriOperative Registered Nurses (AORN) launched a 21-course subscription for PeriOperative Nursing Online Continuing Education courses during August 2001. The subscription includes a combination of topics that range from general surgical topics like "Biochemical Markers in Myocardial Injury" to some of the newest, hot topics in perioperative nursing like "LASIK Surgery" and "Antibiotic Resistance." Designed for operating room nurses, the subscription is now being marketed to non-AORN members.

In October 2001, HealthStream announced that HealthTrust Purchasing Group (HPG), a group purchasing organization, signed an agreement that established HealthStream as the endorsed provider of e-learning solutions for their 587 hospital members. Concurrently, HealthStream announced that HCA, a member of the HPG, has chosen to extend their relationship with HealthStream by entering into a new four-year agreement for learning services. The terms of the new agreement include the delivery of the ASP-based Healthcare Learning Center™ and other learning services, totaling a minimum of \$12 million over the next four years.

In addition, HealthStream and HCA have mutually agreed to cancel the warrant held by HCA to purchase HealthStream common stock. As a result, HealthStream will no longer amortize the remaining cost of the warrant as a reduction of revenues.

Full Year 2001 Financial Analysis

Revenue growth is expected during the fourth quarter of 2001 as the Company continues to add customers and generate additional revenues from existing customers. In addition, the cancellation of the HCA warrant will also result in full recognition of revenues related to HCA. This change is expected to result in increased revenues of approximately \$0.6 million during the final quarter of 2001. Full year revenues are expected to approximate \$14.0 million. The 60% gross margin experienced during the first nine months of the year is expected to improve during the fourth quarter of 2001 due to increased revenues, particularly those associated with our ASP-based Healthcare Learning Center™ and the elimination of the warrant expense. Expenses for product development are anticipated to increase during the fourth quarter of 2001, but decrease as a percentage of revenues. Sales and marketing and other general and administrative expenses are expected to approximate current quarter levels, but decrease as a percentage of revenues during the fourth quarter of 2001.

Commenting on third quarter results, Robert A. Frist, Jr., chief executive officer, said, "The steady growth of our customer relationships and the expansion of HealthStream's national hospital network reflect our strong track record for providing solutions to meet the business needs of our customers. While our revenues marginally decreased this quarter, our operating cash burn decreased while our EPS improved. More importantly, as our existing customers migrate and new customers select our ASP-based Healthcare Learning Center™, our predictable, recurring revenue streams continue to grow."

About HealthStream

HealthStream (Nasdaq/NM:HSTM), based in Nashville, with offices in Denver and Raleigh, is a leading provider of learning solutions for the healthcare industry.

Healthcare organizations use HealthStream's e-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. Professionals use HealthStream's e-learning solutions to provide an instant, co-branded e-learning Web site for their users. HealthStream can be visited on the Web at www.healthstream.com.

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 fourth quarter of 2001, 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.

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

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	----- 2001	----- 2000(1)	----- 2001	----- 2000(1)
Income Statement Data:				
Revenues(2)	\$ 3,078	\$ 2,729	\$ 9,655	\$ 6,375
Operating expenses (gain):				
Cost of revenues	1,220	1,034	3,837	2,831
Product development	1,263	1,617	3,751	4,045
Sales and marketing	1,423	1,242	4,380	3,852
Depreciation and amortization	2,564	1,804	7,348	4,380
Office consolidation charge	--	--	401	--
Gain on WebMD renegotiation	--	--	(1,500)	--
Other general and administration	1,791	3,362	7,171	7,287
	-----	-----	-----	-----
Total operating expenses	8,261	9,059	25,388	22,395
Operating loss	(5,183)	(6,330)	(15,733)	(16,020)
Other income (expenses), net	395	1,064	1,356	1,693
	-----	-----	-----	-----
Net loss	\$ (4,788)	\$ (5,266)	\$ (14,377)	\$ (14,327)
	=====	=====	=====	=====
Net loss per share:				
Basic and diluted, actual	\$ (0.24)	\$ (0.27)	\$ (0.73)	\$ (1.00)
	=====	=====	=====	=====
Basic and diluted, pro forma	\$ (0.24)	\$ (0.27)	\$ (0.73)	\$ (0.74)
	=====	=====	=====	=====
Weighted average shares outstanding:				
Basic and diluted, actual	19,846	19,640	19,823	14,326
	=====	=====	=====	=====
Basic and diluted, pro forma	19,846	19,640	19,823	19,247
	=====	=====	=====	=====

Operating loss excluding nonrecurring items and before
amortization of intangibles:

Operating loss	\$ (5,183)	\$ (6,330)	\$(15,733)	\$(16,020)
Loss on office closures	--	--	401	--
Gain on WebMD renegotiation	--	--	(1,500)	--
Amortization of intangibles	1,871	1,563	5,610	3,830
	-----	-----	-----	-----
Operating loss excluding nonrecurring items and before amortization of intangibles	\$ (3,312)	\$ (4,767)	\$(11,222)	\$(12,190)
	=====	=====	=====	=====
Operating loss excluding nonrecurring items and before amortization of intangibles per share (actual)	\$ (0.17)	\$ (0.24)	\$ (0.57)	\$ (0.85)
	=====	=====	=====	=====
Operating loss excluding nonrecurring items and before amortization of intangibles per share (pro forma)	\$ (0.17)	\$ (0.24)	\$ (0.57)	\$ (0.63)
	=====	=====	=====	=====

(1) Certain prior year amounts have been reclassified to conform to current year presentation.

(2) Revenues for the three and nine months ended September 30, 2001, are net of non-cash warrant expense of \$549 and \$1,490. Revenues for the three and nine months ended September 30, 2000, are net of non-cash warrant expense of \$195 and \$525. Effective October 2001, no further warrant expense will be recognized as a result of the rescission of the HCA warrant.

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

	Sept. 30, 2001	Dec. 31, 2000(1)
	-----	-----
	(Unaudited)	
ASSETS		
Current assets:		
Cash, short term investments and related interest receivable	\$ 28,036	\$ 28,655
Accounts and unbilled receivables, net	4,182	4,007
Prepaid and other current assets	2,586	1,993
	-----	-----
Total current assets	34,804	34,655
Investments	1,026	12,890
Property and equipment, net	4,141	4,275
Goodwill and intangible assets, net	13,715	18,024
Other assets	566	608
	-----	-----
Total assets	\$ 54,252	\$ 70,452
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable, accrued and other liabilities(2)	\$ 3,206	\$ 5,165
Deferred revenue	2,792	2,764
Current portion of long-term liabilities	172	289
	-----	-----
Total current liabilities	6,170	8,218
Long-term liabilities, net of current portion		
	151	216
	-----	-----
Total liabilities	6,321	8,434
Shareholders' equity:		
Common stock	91,275	91,222
Accumulated deficit and other comprehensive income	(43,344)	(29,204)
	-----	-----
Total shareholders' equity	47,931	62,018
Total liabilities and shareholders' equity		
	\$ 54,252	\$ 70,452
	=====	=====

(1) Derived from audited financial statements contained in the Company's filing on Form 10-K for the year ended December 31, 2000.

(2) At December 31, 2000, includes \$1.5 million of accrued royalties related to HealthStream's agreement with WebMD, which was renegotiated during the quarter ended March 31, 2001.

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About HealthStream

HealthStream (Nasdaq/NM:HSTM), based in Nashville, Tenn., with offices in Denver and Raleigh, is a leading provider of e-learning solutions for the healthcare industry.

Healthcare organizations use HealthStream's e-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. Professionals use HealthStream's e-learning solutions to provide an instant, co-branded e-learning Web site for their users. HealthStream can be visited on the Web at www.healthstream.com.

Summary Financial Data
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000(1)	2001	2000(1)
Income Statement Data:				
Revenues(2)	\$3,523	\$2,201	\$6,577	\$3,646
Operating expenses (gain):				
Cost of revenues	1,112	1,092	2,617	1,850
Product development	1,285	1,238	2,488	2,428
Sales and marketing	1,549	1,536	2,957	2,610
Depreciation and amortization	2,435	1,528	4,784	2,576
Office consolidation charge	401	--	401	--
Gain on WebMD renegotiation	--	--	(1,500)	--
Other general and administration	2,325	2,814	5,380	3,872
Total operating expenses	9,107	8,208	17,127	13,336
Operating loss	(5,584)	(6,007)	(10,550)	(9,690)
Other income (expenses), net	376	451	961	629
Net loss	\$(5,208)	\$(5,556)	\$(9,589)	\$(9,061)
Net loss per share:				
Basic and diluted, actual	\$(0.26)	\$(0.30)	\$(0.48)	\$(0.78)
Basic and diluted, pro forma	\$(0.26)	\$(0.29)	\$(0.48)	\$(0.48)
Weighted average shares outstanding:				
Basic and diluted, actual	19,655	18,595	19,811	11,669
Basic and diluted, pro forma	19,655	19,292	19,811	19,050
Operating loss excluding nonrecurring items and before amortization of intangibles:				
Operating loss	\$(5,584)	\$(6,007)	\$(10,550)	\$(9,690)
Loss on office closures	401	--	401	--
Gain on WebMD renegotiation	--	--	(1,500)	--
Amortization of intangibles	1,880	1,309	3,740	2,267
Operating loss excluding nonrecurring items and before amortization of intangibles	\$(3,303)	\$(4,698)	\$(7,909)	\$(7,423)
Operating loss excluding nonrecurring items and before amortization of intangibles per share (actual)	\$(0.17)	\$(0.25)	\$(0.40)	\$(0.64)
Operating loss excluding nonrecurring items and before amortization of intangibles per share (pro forma)	\$(0.17)	\$(0.24)	\$(0.40)	\$(0.39)

(1) Certain prior year amounts have been reclassified to conform to current year presentation.

(2) Revenues for the three and six months ended June 30, 2001, are net of non-cash warrant expense of \$505 and \$941. Revenues for

the three and six months ended June 30, 2000, are net of non-cash warrant expense of \$330 and \$330.

HealthStream, Inc.

Condensed Consolidated Balance Sheets

(In thousands)

	June 30, 2001	Dec. 31, 2000(1)
	-----	-----
	(Unaudited)	
ASSETS		
Current assets:		
Cash, short term investments and related interest receivable	\$28,565	\$28,655
Accounts and unbilled receivables, net	4,396	4,007
Prepaid and other current assets	2,617	1,993
	-----	-----
Total current assets	35,578	34,655
Investments	2,680	12,890
Property and equipment, net	4,096	4,275
Goodwill and intangible assets, net	15,398	18,024
Other assets	698	608
	-----	-----
Total assets	\$58,450	\$70,452
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, accrued and other liabilities(2)	\$3,360	\$5,165
Deferred revenue	2,640	2,764
Current portion of long-term liabilities	174	289
	-----	-----
Total current liabilities	6,174	8,218
Long-term liabilities, net of current portion	141	216
	-----	-----
Total liabilities	6,315	8,434
Shareholders' equity:		
Common stock	90,716	91,222
Accumulated deficit and other comprehensive income	(38,581)	(29,204)
	-----	-----
Total shareholders' equity	52,135	62,018
Total liabilities and shareholders' equity	\$58,450	\$70,452
	=====	=====

(1) Derived from audited financial statements contained in the Company's filing on Form 10-K for the year ended December 31, 2000.

(2) At December 31, 2000, includes \$1.5 million of accrued royalties related to HealthStream's agreement with WebMD, which was renegotiated during the quarter ended March 31, 2001. At June 30, 2001, includes \$0.3 million of accrued expenses related to the office consolidation charge.

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 2001, 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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