



HealthStream Announces Fourth Quarter Results

NASHVILLE, Tenn.--(BW HealthWire)--Feb. 26, 2001--

Highlights:

- Fourth quarter revenues increased 20% over third quarter 2000
- 30 new hospital facilities contracted for ASP-based Healthcare Learning Center™ during the fourth quarter, totaling 228
- 186 HCA hospitals now online, up from 118 at the end of third quarter 2000
- Agreement signed in the fourth quarter for 65 continuing education programs for nurses for 2001 AORN Congress
- 18 Thought Leader WebEvents™ were conducted in the fourth quarter for pharmaceutical and medical device companies, up from nine in the third quarter
- Acquisition of deMEDICI Systems completed in January 2001
- WebMD strategic relationship revised in new, non-exclusive three-year agreement in January 2001
- 1.1 million shares of HealthStream common stock repurchased from WebMD in February 2001.

HealthStream, Inc. (Nasdaq/NM:HSTM), a leading provider of e-learning solutions to the healthcare industry, announced results for the fourth quarter and year ended December 31, 2000.

Financial Results

Revenues were \$3.3 million for the fourth quarter ended December 31, 2000, as compared with \$2.7 million for the quarter ended September 30, 2000, an increase of 20%. Revenues from the healthcare organization business unit (HCO) increased by \$0.6 million due to the full quarter impact of the SynQuest acquisition completed in September 2000. In addition, continued implementation of the service agreement with HCA - The Healthcare Company (HCA) also resulted in increases that were, to a large extent, offset by the expense related to the warrant granted to HCA to purchase HealthStream stock.

Adoption of HealthStream's ASP-based Healthcare Learning Center™ continued to exceed the Company's previous expectations, although new sales of the installed learning management systems were lower than anticipated, resulting in lower than projected fourth quarter revenues. HealthStream believes that its ASP-based Healthcare Learning Center™ offers its customers a more robust training platform, while providing HealthStream with predictable, ongoing, subscription-based revenues.

Revenues for the pharmaceutical and medical device business unit (PMD) increased in the areas of Web cast events and event development and registration activity, but were more than offset by continuing softness in Web distribution revenues, enduring material sales and a drop off in courseware development during the fourth quarter of 2000.

Gross margins were comparable between the fourth and third quarters of 2000, while expenses increased as a result of the third quarter impact of the SynQuest acquisition on sales and marketing, amortization and other facility expenses. Net loss increased from \$5.3 million for the third quarter to \$6.0 million for the fourth quarter.

At December 31, 2000, the Company had cash, investments and related interest receivable of \$41.5 million, or \$1.96 per share. At December 31, 2000, the Company presented restricted cash balances (\$0.8 million) as a component of cash and investments. At September 30, 2000, the comparable balance of cash and investments totaled \$46.0 million. The decrease in cash during the fourth quarter resulted from capital expenditures of \$1.0 million and monthly operating cash consumption of approximately \$1.5 million. The other significant changes in the Company's financial position relate to decreases in accounts receivable and prepaid expenses as well as a decline in deferred revenue, primarily related to the seasonal nature of the event development and registration business. At January 31, 2001, cash, investments and related interest receivable totaled \$40.3 million.

Revenues for the year ended December 31, 2000, were \$9.7 million as compared with \$2.6 million for the same period last year, an increase of 276%. Revenues for 2000 consisted of \$4.7 million from HCO and \$5.0 million from PMD. In 1999, revenues consisted of \$1.3 million related to courseware development services, \$0.7 million of Web distribution and enduring materials sales, and \$0.6 million related to installed learning management system sales.

From a full year 2000 revenue perspective, the Company missed its previous estimate of \$10.0 million by approximately \$300,000. Continued softness in sales through the Web distribution channel, coupled with the impact of shifting from immediate revenue recognition for installed learning management systems to subscription-based ASP arrangements, caused the shortfall.

Business Update

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. Further expansion opportunities include long-term care and outpatient facilities, which employ an additional several million healthcare professionals.

A staff of over twenty-five field and inside sales professionals is driving growth in the HCO unit. In the fourth quarter, 30 new hospital facilities contracted for HealthStream's ASP-based Healthcare Learning Center™, while 68 HCA hospitals were activated in the same period. In addition, five hospitals 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 contracted for HealthStream's ASP-based Healthcare Learning Center™, including the 118 HCA hospitals that have already implemented the service at the end of the third quarter, has increased to 228.

During the fourth quarter, HealthStream's sales team sold 16 new installed learning management systems. In January 2001, the Company acquired de'MEDICI Systems, a producer of interactive, computer-based training resources for physicians, nurses, and allied health professionals. The acquisition added over 200 hospital customers using installed learning management systems, bringing the total number of installed systems to over 800.

Through sales of both the ASP-based Healthcare Learning Center™ and the installed learning management systems as well as four acquisitions, HealthStream now has over 1,050 hospital customers, bringing the Company's penetration in the hospital market to a 20% market share, nationwide.

The pharmaceutical and medical device business unit (PMD) continues to expand its educational development services that include Web cast events, courseware development, event development and registration, and sponsorship of online courseware and promotional events.

HealthStream's PMD unit announced that an agreement was signed to produce 65 new continuing education programs for nurses at the Association of Registered PeriOperative Nurses (AORN) Congress to be held in Dallas in March 2001.

Also during the fourth quarter, 18 live Thought Leader WebEvents™ were produced and held for several of HealthStream's PMD customers. The events were live broadcast Web training sessions conducted by a thought leader to educate other therapeutic thought leaders (i.e., physicians) about the latest indications and efficacies of new drug treatments or medical device products.

In January 2001, HealthStream announced a revised strategic relationship with WebMD that terminated prior agreements and established a new business arrangement. Under the new, non-exclusive three-year arrangement, HealthStream is the 'preferred provider' of continuing medical education, continuing education, and board preparation courses for WebMD's professional portal.

2001 Financial Analysis

For 2001, the Company now projects that revenues will exceed \$16 million, which reflects a year-to-year growth over 2000 of more than 65%. HealthStream's previous guidance anticipated approximately \$2.0 million of sales that the Company now does not expect to materialize through its Web distribution network partners, including its arrangement with WebMD. As noted, the Company's original agreement with WebMD has been terminated and, as HealthStream is still in the process of operationalizing the new arrangement, it has not incorporated any revenue estimates related to WebMD at this time.

Revenues for the first quarter of 2001 are expected to be moderately below the \$3.3 million in revenues from the fourth quarter 2000 due to seasonal factors. Gross margins are also expected to decrease slightly during the first quarter of 2001 due to the seasonality factors noted above and then improve throughout 2001. Full year gross margins are expected to be comparable with 2000 margins of 55-60%. Product development, sales and marketing, and general and administrative expenses are expected to increase, but decrease as a percentage of revenues when compared with 2000.

The Company expects to recognize a gain on the termination of the original WebMD agreement of \$1.5 million during first quarter 2001. Also in connection with the new, non-exclusive agreement, the Company repurchased 1.1 million shares of its common stock from WebMD in February 2001. The repurchase of these shares will reduce HealthStream's weighted average

shares outstanding for the remainder of 2001. Including the impact of the gain and the decrease in outstanding shares, the Company expects 2001's net loss to be in the range of \$1.25 to \$1.35 per share.

Robert A. Frist, Jr., chief executive officer, added, "We are pleased with the progress we made during 2000. In the past year, HealthStream has doubled its sales force, acquired six companies, and has grown its hospital customer base to approximately 20% of market share nationwide. All of this was accomplished with quarter-to-quarter revenue growth that has consistently been 20% or greater while preserving cash which, at year's end, was over \$41 million. We are well positioned to continue to grow our customer base and further penetrate the \$6 billion e-learning opportunity in the healthcare industry."

A listen-only simulcast as well as a 30-day replay of HealthStream's fourth quarter conference call will be available online at the Company's Web site at www.healthstream.com/investor or at www.streetevents.com on February 27, 2001, beginning at 11:00 a.m. Eastern time.

About HealthStream

HealthStream (Nasdaq/NM:HSTM), based in Nashville, Tenn., with offices in Boston, Dallas, Raleigh, and Denver, 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.

This press release contains forward-looking statements that involve risks and uncertainties regarding HealthStream. Investors are cautioned that such results or events predicted in these statements may differ materially from actual future events or results. Factors that could cause actual events or results to differ from anticipated events or results include HealthStream's limited operating history, its ability to integrate the operations and realize the results of recently completed acquisitions, as well as other risks that are contained in HealthStream's Registration Statement on Form S-1, together with other reports and documents filed from time to time with the Securities and Exchange Commission. Some of these risks and uncertainties relate to HealthStream's ability to: attract and maintain a large base of end users; develop its infrastructure, including additional hardware and software, customer support, personnel and facilities, to support its business; develop and introduce desirable services and compelling content; establish and maintain strategic relationships with content and distribution partners; establish and maintain relationships with sponsors and advertisers; and respond effectively to competitive and technological developments.

HealthStream, Inc.

Condensed Consolidated Statements of Operations

(In thousands, except per share data)

	Three Months Ended December 31,		Year Ended December 31,	
	2000	1999	2000	1999
	(Unaudited)			
Revenues(1)	\$3,277	\$804	\$9,652	\$2,568
Operating expenses:				
Cost of goods	1,315	1,045	4,146	2,119
Product development	1,593	787	5,639	2,037
Sales and marketing	1,939	333	5,792	1,002
Depreciation and amortization	2,198	118	6,578	452
General and administrative	2,885	395	10,170	1,518
Total operating expenses	9,930	2,678	32,325	7,128
Operating loss	(6,653)	(1,874)	(22,673)	(4,560)
Other income, net	695	157	2,388	104

Net loss	\$ (5,958)	\$ (1,717)	\$ (20,285)	\$ (4,456)
	=====	=====	=====	=====
Net loss per share:				
Basic and diluted, actual	\$ (0.30)	\$ (0.41)	\$ (1.29)	\$ 1.19
	=====	=====	=====	=====
Basic and diluted, pro forma	\$ (0.30)		\$ (1.04)	
	=====		=====	
Weighted average shares:				
Basic and diluted, actual	20,165	4,158	15,786	3,757
	=====	=====	=====	=====
Basic and diluted, pro forma	20,165		19,476	
	=====		=====	
(Operating loss before amortization of intangibles)				
Operating loss	\$ (6,653)	\$ (1,874)	\$ (22,673)	\$ (4,560)
Amortization of intangibles	1,804	88	5,634	213
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Operating loss before amortization of intangibles	\$ (4,849)	\$ (1,786)	\$ (17,039)	\$ (4,347)
	=====	=====	=====	=====
Operating loss before amortization of intangibles per share (actual)	\$ (0.24)	\$ (0.43)	\$ (1.08)	\$ (1.16)
	=====	=====	=====	=====
Operating loss before amortization of intangibles per share (pro forma)	\$ (0.24)		\$ (0.87)	
	=====		=====	

(1) Revenues for the three months and year ended December 31, 2000, are net of non-cash warrant expense of \$467 and \$992, respectively.

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

	Dec. 31, 2000	Dec. 31, 1999
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ASSETS		
Current assets:		
Cash, short term investments and related interest receivable	\$28,655	\$13,632
Accounts and unbilled receivables, net	4,007	563
Prepaid and other current assets	1,993	264
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Total current assets	34,655	14,459

Investments	12,890	86
Property and equipment, net	4,275	1,334
Goodwill and intangible assets, net	18,024	1,135
Other assets	608	441
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Total assets	\$70,452	\$17,455
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, accrued and other liabilities(2)	\$5,165	\$892
Deferred revenue	2,764	791
Current portion of long-term liabilities	289	1,396
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Total current liabilities	8,218	3,079
Long-term liabilities, net of current portion	216	186
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Total liabilities	8,434	3,265
Shareholders' equity:		
Common stock	91,222	4,009
Preferred stock	--	19,172
Accumulated deficit and other comprehensive income	(29,204)	(8,991)
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Total shareholders' equity	62,018	14,190
Total liabilities and shareholders' equity	\$70,452	\$17,455
	=====	=====

(2) At December 31, 2000, includes \$1.5 million of accrued royalties related to HealthStream's agreement with WebMD.

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