



## HealthStream Announces Second Quarter 2001 Results

NASHVILLE, Tenn., Jul 31, 2001 (BW HealthWire) -- HealthStream, Inc. (Nasdaq/NM:HSTM):

### Second Quarter Highlights:

- Second quarter revenues increased 15% and monthly cash consumption decreased compared to first quarter 2001
- 35 hospital facilities contracted for ASP-based Healthcare Learning Center™ during the second quarter, bringing the total to 328
- Long-term care strategy launched with customers Harborside Healthcare and Kendal Corporation
- International live lecture series held in Okinawa, Japan
- "e-Learning Summit 2001" held with 150 corporate healthcare attendees
- Linda Rebrovick elected to board of directors.

HealthStream, Inc. (Nasdaq/NM:HSTM), a leading provider of e-learning solutions for the healthcare industry, announced today results for the second quarter ended June 30, 2001.

### Financial Results

Revenues were \$3.5 million for the second quarter ended June 30, 2001, as compared with \$3.1 million for the quarter ended March 31, 2001, a quarter-to-quarter increase of 15%. Revenues from the healthcare organization business unit (HCO) increased by \$0.3 million or 21% due to new ASP contract implementations and sales of the installed learning management system. Revenues for the pharmaceutical and medical device business unit (PMD) increased by \$0.2 million or 12% during the second quarter, primarily due to sponsored courseware and Web cast events.

Gross margins increased to 68% for the second quarter from 51% in the first quarter of 2001, primarily as a result of lower non-personnel direct expenses and, to a lesser degree, royalties. Net loss for the second quarter ended June 30, 2001 was \$5.2 million or \$0.26 per share compared to the first quarter loss of \$4.4 million or \$0.22 per share, which included a one time \$1.5 million gain (\$0.07 per share) on the renegotiation of the WebMD agreement. During the second quarter of 2001, we completed our acquisition-related consolidation, which resulted in combining the activities of our Dallas and Boston offices into our corporate office. We recorded a charge related to this consolidation of \$0.4 million (\$0.02 per share), but expect to achieve ongoing annual savings of approximately \$0.5 million as a result. Excluding the nonrecurring charge and WebMD gain, net loss per share declined to \$0.24 per share for the second quarter compared to \$0.29 per share for the first quarter. Improvement in the net loss is attributable to a decrease in other general and administrative expenses, principally due to consolidation of corporate functions. Spending for sales and marketing and product development increased by approximately \$0.2 million over the first quarter as a result of the HCO summit and a slight increase in personnel expenses.

At June 30, 2001, the Company had cash, investments and related interest receivable of \$31.2 million, or \$1.53 per share. The \$3.5 million decrease in cash, investments, and related interest receivable during the second quarter resulted from content development payments of \$0.4 million, capital expenditures of \$0.4 million and other monthly net operating cash consumption of approximately \$0.9 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. Further expansion opportunities include long-term care and outpatient facilities, which employ an additional two and one-half million healthcare professionals.

In the second quarter, a total of 35 hospital facilities contracted for HealthStream's ASP-based Healthcare Learning Center™, representing a diverse range of healthcare organizations - including Providence Health System, San Francisco General Hospital, and the Connecticut Health System. Eleven of the 35 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 328.

During the second quarter, HealthStream's HCO sales team licensed new installed learning management systems to 40 hospital facilities, including Christus Health, Jefferson Health System, and the Arizona Heart Hospital. Consequently, the total number of installed systems increased to 889.

Through sales of the ASP-based Healthcare Learning Center™ and licenses of the installed learning management systems, HealthStream now has approximately 1,220 hospital customers, up from the previously reported approximate of 1,150 at the end of first quarter of 2001.

In an initiative to support the effective implementation and practical use of e-learning in healthcare organizations, HealthStream held the first annual "e-Learning Summit" for its existing and prospective customers on April 26 and 27, 2001. Attended by over 150 participants representing over 50 healthcare systems, the Summit offered insight about e-learning from thought leaders in healthcare education, perspectives from early adopters of online learning in healthcare, industry trends, and practical solutions to everyday challenges in training. Internationally recognized e-learning expert, Elliot Masie, delivered the keynote address.

Also in the second quarter of 2001, HealthStream launched a comprehensive strategy to penetrate the long-term care facilities segment of the healthcare industry. A new long-term care curriculum, comprised of 25 online courses, has been developed by HealthStream to meet the education and training needs of the 2.5 million healthcare professionals working in long-term care facilities. To initiate this strategy, HealthStream announced new agreements with Harborside Healthcare and the Kendal Corporation. We expect to begin deriving revenue from this market during the third quarter.

The pharmaceutical and medical device business unit (PMD) is sustaining focus on the expansion of its customer base, while also extending the depth of services to existing accounts. The PMD team of sales professionals and program managers is driving further acceleration of growth of our accounts. Stryker Howmedica Osteonics, Inc., for example, sponsored an international live lecture series, "Current Techniques in Joint Replacement," that was held in Okinawa, Japan, June 14 through June 16, 2001. An international consortium of faculty from France, Japan, the United States, the Netherlands, and Great Britain lectured and held seminar sessions with 158 surgeons from Japan and the United States.

Ms. Linda Rebrovick, executive vice president and chief marketing officer of KPMG Consulting, Inc., was elected to serve on the Company's board of directors. As a seasoned executive with more than 22 years, collectively, in the consulting industry, Ms. Rebrovick's experience working directly with healthcare companies is extensive. During the past three years, she has held the position of national leader of the Health Care line of business for KPMG Consulting, Inc. and in January 2000, Ms. Rebrovick established the KPMG Consulting e-Learning practice. Her dual expertise in healthcare and e-learning will be valued as she joins the board in overseeing HealthStream's corporate and strategic initiatives.

## **Second Half 2001 Financial Analysis**

Revenue growth is expected to continue for the second half of 2001 as we continue to add customers and generate additional revenues from existing customers. In this regard, we anticipate moderate expansion of our sales force to further penetrate the long-term care market, to accelerate the transition from the installed product to our ASP-based e-learning solutions, and to garner additional content sales to our existing customer base. The 60% gross margin experienced during the first half of the year is expected to moderately increase during the second half of 2001 due to increased revenues, particularly those associated with our ASP-based Healthcare Learning Center™. Expenses for product development are anticipated to increase during the second half of 2001, but decrease as a percentage of revenues. Other general and administrative expenses, excluding the first quarter gain related to the renegotiation of the WebMD agreement, are expected to decline as a percentage of revenues during the second half of 2001 due to the consolidation of corporate functions into fewer offices.

Commenting on second quarter results, Robert A. Frist, Jr., chief executive officer, said, "With increased revenues from both our business units, improved gross margins, conservative expense management, and improved EBITDA margins, we are entering the second half of the year strongly positioned as we drive toward profitability. As I have previously mentioned, HealthStream continues to build this business for the long-term. Our operational and financial results this quarter reflect our firm commitment to balance steady growth with responsible expense control."

## **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](http://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)	
<b>ASSETS</b>		
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
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
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.

**CONTACT:**

HealthStream Inc., Nashville  
Arthur Newman, 615/301-3300  
[ir@healthstream.com](mailto:ir@healthstream.com)

or

**Media:**  
Mollie B. Condra, 615/301-3237  
[mollie.condra@healthstream.com](mailto:mollie.condra@healthstream.com)  
[www.healthstream.com](http://www.healthstream.com)