



HealthStream Announces First Quarter 2001 Results

NASHVILLE, Tenn.--(BW HealthWire)--May 1, 2001--HealthStream, Inc. (NASDAQ/NM:HSTM) First Quarter Highlights:

- Net loss improved while revenues declined from last quarter--as projected
- 57 new hospital facilities contracted for ASP-based Healthcare Learning Center™ during the first quarter, bringing the total to 293
- North Atlantic Regional Medical Command (NARMC) licensed the installed learning management system for its 10 medical facilities
- 64 continuing education programs deliver record number of approximately 38,000 course completions at recent AORN Congress
- Acquisition of de'MEDICI Systems completed, adding 230 new hospital customers
- WebMD strategic relationship revised in new, non-exclusive three-year agreement. In conjunction with this agreement, HealthStream repurchased approximately 1.1 million shares of its common stock from WebMD.

HealthStream, Inc. (NASDAQ/NM:HSTM), a leading provider of e-learning solutions for the healthcare industry, announced today results for the first quarter ended March 31, 2001.

Financial Results

Revenues were \$3.1 million for the first quarter ended March 31, 2001, as compared with \$3.3 million for the quarter ended December 31, 2000, a decrease of 7%. Consistent with our expectations, revenues from the healthcare organization business unit (HCO) decreased by \$0.3 million principally due to fewer contracts of the installed learning management system as the Company redirected its efforts towards selling its ASP-based Healthcare Learning Center™. Increases in revenues from the Company's ASP customers were, to a large extent, offset by the expense related to the warrant granted in 2000 to HCA to purchase HealthStream stock and the decrease in installed product licenses. Revenues for the pharmaceutical and medical device business unit (PMD) increased slightly during the first quarter, primarily in the area of event development and registration activity.

Gross margins decreased during the first quarter of 2001 from the fourth quarter of 2000, primarily as a result of expenses associated with event development and registration, including the AORN Congress. Net loss decreased from \$6.0 million, or \$0.30 per share, for the fourth quarter of 2000 to \$4.4 million, or \$0.22 per share, for the first quarter of 2001. Excluding the impact of the \$1.5 million gain on the WebMD renegotiation, the loss per share was \$0.29. In addition to the gain on renegotiation of the WebMD deal, improvement in the net loss is also attributable to a decrease in marketing expenses, principally a decline in promotional spending and lower product development expenses due primarily to utilization of fewer contract labor personnel.

At March 31, 2001, the Company had cash, investments and related interest receivable of \$34.7 million, or \$1.71 per share. The \$6.8 million decrease in cash, investments, and related interest receivable during the first quarter resulted from the repurchase of common stock from WebMD for approximately \$2.0 million, \$0.3 million attributable to the acquisition of de'MEDICI, capital expenditures of \$0.3 million and monthly net operating cash consumption of approximately \$1.4 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 several million healthcare professionals.

A staff of over 25 field and sales professionals is driving growth in the HCO unit. In the first quarter, 57 new hospital facilities contracted for HealthStream's ASP-based Healthcare Learning Center™, representing a diverse range of healthcare organizations--including Sutter Health, the Iroquois Healthcare Alliance, and the University of Alabama Health Services. In addition, eight 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 that have contracted for HealthStream's ASP-based Healthcare Learning Center™ increased to 293.

During the first quarter, HealthStream's HCO sales team licensed 15 new installed learning management systems to a variety of customers, including the North Atlantic Regional Medical Command. The acquisition of de'MEDICI Systems in January added 230 hospital customers using installed learning management systems, bringing the total number of installed systems to 855.

Through sales of the ASP-based Healthcare Learning Center™ and the licenses of the installed learning management systems, as well as customers attained through four acquisitions, HealthStream now has approximately 1,150 hospital customers, up from the previously reported 1,050 at the end of 2000.

The pharmaceutical and medical device strategic 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 which include seven of the top ten pharmaceutical companies and eight of the top ten medical device companies.

A record number of approximately 38,000 courses--up from the previous high of approximately 35,000--from HealthStream's live continuing education (CE) programs were completed at the Association of Registered PeriOperative Nurses (AORN) Congress in Dallas in March 2001. The 64 HealthStream CE programs were held live on the floor of the Congress where 5,200 perioperative nurses chose to train from a diverse curriculum--including the well-received operating room protocol course, "Visitors in the OR," which was selected by 800 nurses.

As previously announced, HealthStream revised its strategic relationship with WebMD, setting forth a new business arrangement that resulted in a \$1.5 million gain during the first quarter. Under the new, non-exclusive three-year arrangement, HealthStream continues as the "preferred provider" of continuing medical education, continuing education, and board preparation courses for WebMD's professional portal. The Company's fixed payment commitments were also terminated and replaced by payments based on revenues generated through WebMD's portal. Further, in connection with this agreement, the Company repurchased approximately 1.1 million shares of its common stock from WebMD in February.

Second Quarter 2001 Financial Analysis

Revenue growth is anticipated for the second quarter of 2001 as our first quarter efforts further materialize. Gross margins are also expected to increase during the second quarter of 2001 due to increased revenues, particularly those associated with our ASP-based Healthcare Learning Center™. Expenses, excluding sales and marketing, are anticipated to increase during the second quarter of 2001, but decrease as a percentage of revenues. Sales and marketing expenses are expected to increase during the second quarter as a result of sales events and promotional spending consistent with our continued focus on increasing the penetration of our ASP-based e-learning solutions.

Commenting on first quarter results, Robert A. Frist, Jr., chief executive officer, said, "Key operational results showed consistent gains, maintaining our momentum, and validating our customer-driven strategic framework. We are pleased that we continued to achieve our goals of aggressive growth in the healthcare organization market, particularly as both existing and new HealthStream customers increasingly adopt our ASP-based Healthcare Learning Center™. We are excited about our prospects of expanding our market share of healthcare organizations."

About HealthStream

HealthStream (Nasdaq/NM: HSTM), based in Nashville, Tenn., with offices in Boston, 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 includes certain forward-looking statements (statements other than solely with respect to historical fact) including statements regarding expectations for the financial performance for second quarter of 2001. 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. 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.
 Unaudited Condensed Consolidated Statements of Operations
 (In thousands, except per share data)

	Three Months Ended March 31,	
	----- 2001 -----	2000(1) -----
Revenues(2)	\$3,054	\$1,445
Operating expenses (gain):		
Cost of goods	1,505	758
Product development	1,203	1,190
Sales and marketing	1,408	1,074
Depreciation and amortization	2,349	1,048
Gain on WebMD renegotiation	(1,500)	--
General and administrative	3,055	1,058
	-----	-----
Total operating expenses	8,020	5,128
Operating loss	(4,966)	(3,683)
Other income, net	585	178
	-----	-----
Net loss	\$(4,381)	\$(3,505)
	=====	=====
Net loss per share:		
Basic and diluted, actual	\$(0.22)	\$(0.74)
	=====	=====
Basic and diluted, pro forma	\$(0.22)	\$(0.19)
	=====	=====
Weighted average shares:		
Basic and diluted, actual	19,968	4,743
	=====	=====
Basic and diluted, pro forma	19,968	18,802
	=====	=====
(Operating loss excluding WebMD gain and before amortization of intangibles)		
Operating loss	\$(4,966)	\$(3,683)
Gain on WebMD renegotiation	(1,500)	--
Amortization of intangibles	1,860	958
	-----	-----
Operating loss excluding WebMD gain and before amortization of intangibles	\$(4,606)	\$(2,725)
	=====	=====
Operating loss excluding WebMD gain and before amortization of intangibles per share (actual)	\$(0.23)	\$(0.57)
	=====	=====
Operating loss excluding WebMD gain and before amortization of intangibles per share (pro forma)	\$(0.23)	\$(0.14)
	=====	=====

- (1) Certain prior year amounts have been reclassified to conform to current year presentation.
- (2) Revenues for the three months ended March 31, 2001 and 2000, are net of non-cash warrant expense of \$436 and 0.

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

	March 31, 2001 -----	Dec. 31, 2000(1) -----
	(Unaudited)	
ASSETS		
Current assets:		
Cash, short term investments and related interest receivable	\$28,992	\$28,655
Accounts and unbilled receivables, net	4,090	4,007
Prepaid and other current assets	2,004	1,993
	-----	-----
Total current assets	35,086	34,655
Investments	5,744	12,890
Property and equipment, net	4,186	4,275
Goodwill and intangible assets, net	17,130	18,024
Other assets	944	608
	-----	-----
Total assets	\$63,090 =====	\$70,452 =====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, accrued and other liabilities(2)	\$3,420	\$5,165
Deferred revenue	2,607	2,764
Current portion of long-term liabilities	252	289
	-----	-----
Total current liabilities	6,279	8,218
Long-term liabilities, net of current portion	169	216
	-----	-----
Total liabilities	6,448	8,434
Shareholders' equity:		
Common stock	90,096	91,222
Accumulated deficit and other comprehensive income	(33,454)	(29,204)
	-----	-----
Total shareholders' equity	56,642	62,018
Total liabilities and shareholders' equity	\$63,090 =====	\$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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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
	-----	-----
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
	-----	-----
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
	-----	-----
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
	-----	-----
Total current liabilities	8,218	3,079
Long-term liabilities, net of current portion	216	186
	-----	-----
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)
	-----	-----
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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