



## HealthStream Announces Fourth Quarter 2001 Results

NASHVILLE, Tenn.--(BW HealthWire)--Feb. 25, 2002--HealthStream, Inc. (NASDAQ/NM:HSTM) Highlights:

- Fourth quarter 2001 revenues increased 25% to \$3.8 million over the previous quarter
- 96 new hospital facilities contracted for the learning network in fourth quarter
- Signed new agreements with HealthTrust Purchasing Group and HCA in October 2001 Concurrently, the warrant agreement with HCA was canceled
- Revenues for the year up 40% over 2000
- Monthly operating cash consumption decreased by 66% since January 2001
- Internet - based Learning Network:
  - Facilities now at approximately 500, up 115% since fourth quarter 2000
  - Course completions running over 100,000 per month, up over 900% since fourth quarter 2000
  - Contributing 33% of total revenue fourth quarter 2001, up 20% since fourth quarter 2000

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

### Financial Results: Fourth Quarter 2001

Revenues were \$3.8 million for the fourth quarter ended December 31, 2001, as compared with \$3.1 million for the quarter ended September 30, 2001, a quarter-to-quarter increase of 25 percent. The increase in revenues was partially attributable to the elimination of the warrant expense which is accounted as a reduction of revenue, with the remainder being divided between growth in the healthcare organization business unit (HCO) and the pharmaceutical and medical device business unit (PMD). Growth of customer revenues from the Internet-based learning network and live events were the main causes.

Gross margins decreased slightly to 56 percent for the fourth quarter from 58 percent in the third quarter of 2001, as a result of higher fixed expenses related primarily to live events. Net loss for the fourth quarter ended December 31, 2001 was \$5.2 million or (\$0.26) per share compared to the third quarter loss of \$4.8 million or (\$0.24) per share. Excluding the impact of the impairment charge of \$0.7 million or (\$0.04) per share, the loss per share improved from (\$0.24) per share for the third to (\$0.22) per share for the fourth quarter.

At December 31, 2001, the Company had cash, investments and related interest receivable of \$27.2 million, or \$1.34 per share compared to \$29.1 million, or \$1.43 per share at September 30, 2001. The \$1.9 million decrease in cash, investments, and related interest receivable during the fourth quarter resulted from content development payments of \$0.2 million, capital expenditures of \$0.4 million and other monthly net operating cash consumption of approximately \$0.43 million. At January 31, 2002, cash, investments, and related interest receivable totaled \$26.7 million.

### Financial Results: Full Year 2001

Revenues for the year ended December 31, 2001 were \$13.5 million as compared with \$9.7 million for 2000, an increase of 40 percent. Revenues for 2001 consisted of \$8.0 million for HCO and \$5.5 million for PMD. In 2000, revenues consisted of \$5.8 million from HCO and \$3.9 million from PMD. The growth in HCO revenues related primarily to the learning network growth while PMD increases resulted primarily from live events related to the full year impact of the acquisition of Education Design, Inc.

HealthStream's dynamic growth in revenues over the last five years was formally recognized in November 2001. Deloitte & Touche ranked HealthStream Number 323 on its 2001 Technology Fast 500 list, a ranking of the 500 fastest growing technology companies in North America. This is the second consecutive year that HealthStream has been awarded this honor.

Monthly net operating cash consumption for the fourth quarter ended December 31, 2001 was approximately \$0.43 million compared to \$1.29 million for the first quarter of 2001, representing a decrease of 66 percent. A steady decline in monthly net operating cash consumption marked each consecutive quarter in 2001 decreasing from \$1.29 million to \$0.93 million to \$0.54 million to \$0.43 million in the first, second, third, and fourth quarters, respectively. An improved sales record, along with efficient consolidation of office operations, accounts for the savings in cash consumption.

From a full year 2001 perspective, the Company missed its previous \$14 million revenue target by 4 percent. This resulted from lower sales activity of the installed product that has been, as planned, phasing out over this past year with a corresponding increase in sales activity of the Internet-based Healthcare Learning Center™. As a result, near term revenues are lower due to the loss of immediate revenue recognition on sales of the licensed installed product while, over the long term, revenues increase due to the ratable recognition of the HealthStream Learning Center™ over an average initial contract period of two years.

### **Healthcare Organization Business Unit (HCO) Update**

HCO's sales force of 25 field and inside sales professionals are driving growth and adoption of the Healthcare Learning Center™ to the nation's hospitals, which employ over four million healthcare professionals.

At year-end 2001, HealthStream's national, Internet-based learning network of healthcare organizations increased to include a total of approximately 500 hospital facilities, up from 228 at the start of 2001. In the fourth quarter alone, a quarterly record 96 hospital facilities selected HealthStream's Internet-based Healthcare Learning Center™. Forty-nine (49) of the 96 new contracts were derived from HealthStream customers who transitioned from its installed learning management system (currently used by over 800 hospital facilities) to the Internet-based learning network including, Sinai Health System, Waterbury Hospital, and Cottage Health System. The remaining 47 new contracts represent a diverse range of healthcare organizations including, Baptist Health System--Little Rock, Arkansas, Franciscan Health System, and the Centura Penrose St. Francis Hospital.

Approximately 300,000 healthcare professionals now rely on HealthStream's Internet-based Healthcare Learning Center™ for training and education. Concurrent with the growth of healthcare facilities, the rate of course completions by both clinical and non-clinical employees grew 910 percent during 2001; approximately 10,200 courses were completed in the month of December 2000 while approximately 103,000 were completed during December 2001.

The proportion of revenues that are predictable and recurring has increased as a consequence of the traction gained by HealthStream in growing its learning network of healthcare organizations using the Internet-based Healthcare Learning Center™. Since the Internet-based Healthcare Learning Center™ is an application service provider (ASP) based product, services are contracted for an average of two years and the associated revenues are recognized over the life of the contract. For the fourth quarter 2000, approximately 20 percent of revenues were derived from this learning network. For the fourth quarter 2001, the proportion increased to approximately 33 percent, representing predictable, recurring revenue streams for the Company.

In October 2001, the Company 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, chose 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 Internet-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, the Company will no longer amortize the remaining cost of the warrant as a reduction of revenues.

### **Pharmaceutical and Medical Device Business Unit (PMD) Update**

During the fourth quarter 2001, PMD's team of sales professionals and program managers serviced a number of existing accounts with extended contracts for additional products for the upcoming year. HealthStream's pharmaceutical and medical

device company customers continue to use our custom learning solutions to support their education programs.

Zimmer added 13 workshops for nurses on "Perioperative Blood Management: A Clinical Experience" that were held in the fourth quarter 2001. Ligand Pharmaceuticals held four WebEvents™ during the fourth quarter 2001 where thought leaders on Cutaneous Tcell Lymphoma (CTCL) discussed treatment options, extending their contract to include an additional 12 WebEvents™ to be held during 2002. Cordis Endovascular, a Johnson & Johnson company, contracted for an additional 29 live seminars on "Peripheral Vascular Intervention" to be held throughout 2002.

## Financial Analysis 2002

First quarter revenues are targeted at approximately \$3.3 million. This is down from the fourth quarter 2001 due to the seasonal impact of PMD's live event activities, which are concentrated in the second and fourth quarters, and the continued elimination of sales of installed learning management systems. Gross margins will decline in the first quarter due to lower revenues. As a result of sales and implementations of the Healthcare Learning Center™, HCO revenues are expected to continue to grow during the first quarter of 2002 and the remainder of the year.

Revenues are expected to grow approximately 25 percent over 2001, with approximately 60 percent of revenues expected to come from HCO and 40 percent from PMD. Gross margins are targeted to improve due to fewer personnel associated with installed product support and live events for the full year of 2002. Product development expenses are expected to increase slightly in 2002. Sales and marketing are also targeted to increase due to increased commissions related to the higher transactional sales volume, additional sales staff, and higher marketing spending. General and administrative expenses are slated to decline by approximately 35 percent due to consolidation of offices and duplicative functions. Depreciation and amortization will also decline by approximately 45 percent due to the implementation of new accounting standards that will result in a decrease in intangible asset amortization. Finally, interest and investment income will be lower than the fourth quarter 2001 due to lower rates of return and lower investment balances.

Our 2002 expectations include expenses of \$2.0-\$2.5 million related to new product development. These products, which will complement HealthStream's existing learning solutions, are expected to provide recurring revenue streams beginning in 2003 as they are introduced later this year and in 2003. Including these investments, loss per share is expected to improve by approximately 25-30 percent compared to actual results for 2001.

Commenting on 2001 results, Robert A. Frist, Jr., chief executive officer, said, "HealthStream's year-end metrics tell our story well. The increase in revenues by 40 percent in the last year, coupled with a 66 percent decrease in operating cash consumption, and a solid cash balance of over \$27 million--with no debt--all signify HealthStream's robust financial position as we continue to move toward profitability. Operationally, the learning network grew 115 percent last year with the rate of actual courses completed by healthcare professionals increasing over 900 percent in the same period. The strong growth of the Internet-based learning network results in predictable, recurring revenue streams for the Company, concurrently adding value to the network as an asset to our future business."

## 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 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).

HEALTHSTREAM, INC.

### Summary Financial Data (In thousands, except per share data)

Three Months Ended December 31,		Year Ended December 31,	
2001	2000(1)	2001	2000(1)
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Income Statement Data:

Revenues(2)	\$ 3,848	\$ 3,277	\$ 13,503	\$ 9,652
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Operating expenses (gain):				
Cost of revenues	1,690	1,405	5,772	4,357
Product development	1,290	1,593	5,041	5,639
Sales and marketing	1,515	1,939	5,895	5,791
Depreciation and amortization	2,523	2,370	9,936	6,901
Office consolidation charge	--	--	401	--
Impairment of long-lived assets	712	--	712	--
Gain on contract renegotiation	--	--	(1,500)	--
Other general and administration	1,762	2,623	8,624	9,637
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Total operating expenses	9,492	9,930	34,881	32,325
Operating loss	(5,644)	(6,653)	(21,378)	(22,673)
Other income (expenses), net	446	695	1,802	2,388
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Net loss	\$ (5,198)	\$ (5,958)	\$ (19,576)	\$ (20,285)
Net loss per share:				
Basic and diluted, actual	\$ (0.26)	\$ (0.30)	\$ (0.98)	\$ (1.29)
	=====	=====	=====	=====
Basic and diluted, pro forma	\$ (0.26)	\$ (0.30)	\$ (0.98)	\$ (1.04)
	=====	=====	=====	=====
Weighted average shares outstanding:				
Basic and diluted, actual	20,196	20,165	19,921	15,786
	=====	=====	=====	=====
Basic and diluted, pro forma	20,196	20,165	19,921	19,476
	=====	=====	=====	=====
Operating loss excluding nonrecurring items and before amortization of intangibles:				
Operating loss	\$ (5,644)	\$ (6,653)	\$ (21,378)	\$ (22,673)
Loss on office closures	--	--	401	--
Impairment of long-lived assets	712	--	712	--
Gain on contract renegotiation	--	--	(1,500)	--
Amortization of intangibles	1,818	1,803	7,441	5,634
Operating loss excluding nonrecurring items and before amortization of intangibles	\$ (3,114)	\$ (4,850)	\$ (14,324)	\$ (17,039)
	=====	=====	=====	=====
Operating loss excluding nonrecurring items and before amortization of intangibles per share				

(actual)	\$ (0.15)	\$ (0.24)	\$ (0.72)	\$ (1.08)
	=====	=====	=====	=====
Operating loss excluding nonrecurring items and before amortization of intangibles per share (pro forma)	\$ (0.15)	\$ (0.24)	\$ (0.72)	\$ (0.87)
	=====	=====	=====	=====

- (1) Certain amounts have been reclassified to conform to current year presentation.
- (2) Revenues for the three months and year ended December 31, 2001, are net of non-cash warrant expense of \$0 and \$1,490. Revenues for the three months and year ended December 31, 2000, are net of non-cash warrant expense of \$467 and \$992. Effective October 2001, no further warrant expense will be recognized as a result of the rescission of the warrant.

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

	December 31,	
	2001	2000(1)
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<b>ASSETS</b>		
Current assets:		
Cash, short term investments and related interest receivable	\$ 18,506	\$ 28,655
Accounts and unbilled receivables, net	4,343	4,007
Prepaid and other current assets	1,681	1,993
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Total current assets	24,530	34,655
Investments	8,709	12,890
Property and equipment, net	3,694	4,275
Goodwill and intangible assets, net	11,873	18,024
Other assets	441	608
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Total assets	\$ 49,247	\$ 70,452
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<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable, accrued and other liabilities(2)	\$ 3,184	\$ 5,165
Deferred revenue	3,274	2,764
Current portion of long-term liabilities	127	289
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Total current liabilities	6,585	8,218
Long-term liabilities, net of current portion	119	216
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Total liabilities	6,704	8,434
Shareholders' equity:		
Common stock	91,275	91,222

Accumulated deficit and other comprehensive income	(48,732)	(29,204)
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Total shareholders' equity	42,543	62,018
Total liabilities and shareholders' equity	\$ 49,247	\$ 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, included \$1.5 million of accrued royalties related to HealthStream's agreement with WebMD, which was renegotiated during the quarter ended March 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 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.

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