



## HealthStream Announces First Quarter 2002 Results

**NASHVILLE, Tenn., Apr 30, 2002 (BW HealthWire)** -- HealthStream, Inc. (NASDAQ/NM:HSTM), a leading provider of learning solutions for the healthcare industry, announced today results for the first quarter ended March 31, 2002.

### Highlights:

- Recurring revenues from the Internet-based Healthcare Learning Center(TM) increased to 39% of revenues in the first quarter, up from 33% of revenues in the fourth quarter of 2001 and from 22% for the first quarter of 2001
- 380,000 healthcare professional subscribers are now using Internet-based Healthcare Learning Center(TM), up from 300,000 at year-end 2001
- Internet-based Learning Network increased by 56 new hospital facilities to total 537 facilities, up 12% since fourth quarter 2001
- Relationship announced last November with Ontario Hospital Association resulted in first Canadian healthcare organization joining Internet-based Learning Network
- Dey, L.P., an Associate of Merck KgaA, Darmstadt, Germany, contracted for 20 Internet-based WebEvents(TM) to be broadcast during 2002

### Financial Results

Revenues were \$3.5 million for the first quarter ended March 31, 2002, as compared with \$3.8 million for the quarter ended December 31, 2001. This performance was better than expected and is reflective of our previously communicated strategy to transition the source of our revenues from less predictable one-time site licenses and custom content development services to more predictable and recurring products--such as our Internet-based Healthcare Learning Center™. As a result, the Healthcare Learning Center™ accounted for 39 percent of total revenues in the first quarter, up from 33 percent in the fourth quarter of 2001, while revenues from site licenses of our installed learning management products and custom content development activities accounted for 14 percent of total revenue, down from 20 percent in the fourth quarter of 2001. Revenues for the first quarter of 2002 improved to \$3.5 million, up from \$3.1 million for the same quarter in 2001. This improvement is consistent with our focus on continued growth of recurring revenues, including an increase of \$0.5 million of revenues from the Internet-based Healthcare Learning Center™ and \$0.4 million related to the elimination of a warrant to purchase our common stock previously held by HCA, Inc., which was offset by a planned \$0.4 million decline in revenue related to fees associated with the installed learning management products, as well as a \$0.1 million reduction in content development services.

Gross margins declined, as expected, from 56 percent for the fourth quarter of 2001 to 48 percent for the first quarter of 2002 as a result of higher personnel expenses related to the closure of our Raleigh, North Carolina office during the first quarter of 2002. Net loss for the first quarter ended March 31, 2002 was \$3.4 million, or (\$0.17) per share, compared to the fourth quarter loss of \$5.2 million, or (\$0.26) per share. The improvement over the prior quarter was a result of the non-recurring impairment charge of \$0.7 million during the fourth quarter of 2001 and \$1.3 million from the elimination of goodwill amortization upon implementation of new accounting standards. Gross margins improved slightly to 48 percent for the first quarter of 2002 from 47 percent for the first quarter of 2001 as a result of increased revenues associated with the Internet-based Healthcare Learning Center™. On a comparable basis, the net loss for the first quarter of 2002 improved to \$3.4 million, or (\$0.17) per share, from \$4.5 million for the first quarter of 2001, or (\$0.23) per share (exclusive of the gain on a contract renegotiation with WebMD Corporation) as a result of reduced expenses associated with consolidation of facilities and administrative functions.

At March 31, 2002, the Company had cash, investments, and related interest receivable of \$24.6 million, compared to \$27.2 million at December 31, 2001. The \$2.6 million decrease in cash, investments, and related interest receivable during the first quarter resulted from a net operating cash consumption of approximately \$2.3 million, capital expenditures of \$0.2 million, and content development payments of \$0.1 million. This net operating cash consumption rate increased from the \$1.3 million experienced during the fourth quarter of 2001, but was significantly lower than the \$4.2 million rate experienced during the first quarter of 2001.

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

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

At March 31, 2002, HealthStream's national, Internet-based learning network of healthcare organizations increased to include a total of 537 hospital facilities, up from 481 at year-end 2001. In the first quarter, 56 hospital facilities selected HealthStream's Internet-based Healthcare Learning Center™. Twenty-seven of the 56 new contracts resulted from HealthStream customers who transitioned from one of our installed learning management systems (currently used by over 775 hospital facilities) to the Internet-based Healthcare

Learning Center™ including, Yale New Haven Hospital, Norton Healthcare, St. Mary's Medical Center, and the University of Maryland Medical Center. The remaining 29 new contracts represent a diverse range of healthcare organizations including, St. Peter's Hospital, Fisher-Titus Medical Center, Longmont United Hospital, and the Providence Health System.

HealthStream's relationship with the Ontario Hospital Association, the largest hospital association with Canada, is supporting greater penetration of this market, facilitating the delivery of our learning solutions to full range of healthcare organizations throughout the province of Ontario. In the first quarter, HealthStream's Internet-based learning network expanded to Canada with the addition of the Sunnybrook & Women's College Health Sciences Centre in Toronto, Ontario.

Approximately 380,000 healthcare professional subscribers now rely on HealthStream's Internet-based Healthcare Learning Center™ for training and education, up from 300,000 at year-end. Concurrent with the growth of healthcare facilities, the rate of course completions by both clinical and non-clinical employees is growing, having reached a monthly record high of over 128,000 for March. Cumulatively, HealthStream granted its 1,000,000th course completion certificate on March 20, 2002. These metrics are indicative of the increased utilization of the Internet-based Healthcare Learning Center™ among the healthcare professionals for whom it is intended.

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

During the first quarter 2002, PMD's team of sales professionals and program managers introduced new customers to HealthStream's learning solutions, as well as serviced a number of existing accounts with extended contracts for additional products.

As a new customer, Dey, L.P., an Associate of Merck KgaA, Darmstadt, Germany, signed an agreement for the production of 20 Internet-based WebEvents™ to be broadcast in a series of training sessions during 2002. The WebEvents™ will provide an online forum for pediatricians and allergists to exchange information on the uses and benefits of their EpiPen® and EpiPen Jr.® in the treatment of severe allergic reactions that result in anaphylaxis. At least one WebEvent will be hosted in each of Dey's 20 regions across the U.S.

Concurrently, existing customer relationships were strengthened in the first quarter with new agreements for additional services. Medtronic contracted with HealthStream to provide two separate custom online continuing medical education (CME) programs: one designed for an audience of cardiologists and one designed for gastroenterologists and surgeons. Two custom online sales training programs were also contracted by Medtronic during the first quarter, resulting in reduced travel costs and a consistent educational program for their sales representatives.

Similarly, during the first quarter of 2002, Steris Corporation also chose to further contract with HealthStream for the production of an online course and CD-ROM to provide product training on their System 1 Sterilizer. In order to reach their global audience, the CD-ROM will be made available in French, English, German, Italian, and Spanish. These new PMD contracts represent continued progress in greater penetration of existing customer relationships, as well as new sales of existing products.

## **Second Quarter 2002 Financial Analysis**

Second quarter revenues are targeted at approximately \$4.0 million. As a result of sales and implementations of the Healthcare Learning Center™, HCO revenues are expected to continue to grow during the second quarter of 2002 and the remainder of the year. Revenues are also expected to increase from the first quarter 2002 due to online development and the seasonal impact of PMD's live event activities, which are concentrated in the second and fourth quarters, as well as continued growth in our Internet-based learning network. Gross margins are expected to improve in the second quarter as a result of the increased revenues. We also expect average monthly net operating cash consumption to decline over both the rate experienced during the first quarter of 2002, as well as the rate experienced during the second quarter of 2001.

Commenting on first quarter results, Robert A. Frist, Jr., chief executive officer, said, "We're proud that over 380,000

healthcare professionals now subscribe to our Internet-based Healthcare Learning Center™. This is a clear testament to their pioneering leadership in embracing online training in their healthcare organizations. Our customers are leading the transformation to Internet-based education in healthcare and all of us at HealthStream are proud to be supporting them in this endeavor."

## 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 learning solutions to provide an instant, co-branded 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 March 31,	
	2002	2001(1)
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Revenues(2)	\$ 3,535	\$ 3,054
Operating expenses (gain):		
Cost of revenues	1,832	1,626
Product development	1,008	1,203
Sales and marketing	1,561	1,408
Depreciation and amortization(3)	1,161	2,410
Gain on WebMD contract renegotiation	--	(1,500)
Other general and administrative	1,650	2,873
	-----	-----
Total operating expenses	7,212	8,020
Operating loss	(3,677)	(4,966)
Other income, net	248	585
	-----	-----
Net loss, actual	\$ (3,429)	\$ (4,381)
	=====	=====
Net loss per share, basic and diluted, actual	\$ (0.17)	\$ (0.22)
	=====	=====
Pro forma net loss(4)	\$ (3,429)	\$ (4,549)
	=====	=====
Net loss per share, basic and diluted, pro forma(4)	\$ (0.17)	\$ (0.23)
	=====	=====
Weighted average shares:		
Basic and diluted, actual and pro forma	20,196	19,968
	=====	=====
Operating loss excluding gain and before amortization of goodwill and other intangibles.		
Operating loss	\$ (3,677)	\$ (4,966)
Gain on WebMD contract renegotiation	--	(1,500)
Amortization of goodwill and other intangibles(3)	479	1,866
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Operating loss excluding gain and before amortization of goodwill and other intangibles, actual	\$ (3,198)	\$ (4,600)
	=====	=====
Operating loss excluding gain and before		

amortization of goodwill and other intangibles per share, actual	\$ (0.16)	\$ (0.23)
	=====	=====

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

(2) Revenues for the three months ended March 31, 2002 and 2001 are net of non-cash warrant expense of \$0 and \$436, respectively.

(3) Amortization for 2002 excludes amortization of goodwill, which was eliminated upon implementation of new accounting standards.

In 2001, \$1,332 of amortization was attributable to amortization of goodwill.

(4) Pro forma numbers reflect actual results adjusted to reflect the change in goodwill accounting and the elimination of the gain on WebMD contract renegotiation.

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

	March 31, 2002	Dec. 31, 2001(1)
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ASSETS	(Unaudited)	
Current assets:		
Cash, short term investments and related interest receivable	\$ 15,268	\$ 18,506
Accounts and unbilled receivables, net	4,527	4,343
Prepaid and other current assets	1,440	1,681
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Total current assets	21,235	24,530
Investments	9,307	8,709
Property and equipment, net	3,434	3,694
Goodwill, net	8,307	8,307
Intangible assets, net	3,087	3,566
Other assets	473	441
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Total assets	\$ 45,843	\$ 49,247
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, accrued and other liabilities	\$ 3,134	\$ 3,184
Deferred revenue	3,620	3,274
Current portion of long-term liabilities	104	127
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Total current liabilities	6,858	6,585
Long-term liabilities, net of current portion	92	119
	-----	-----
Total liabilities	6,950	6,704
Shareholders' equity:		
Common stock	91,275	91,275
Accumulated deficit and other comprehensive income	(52,382)	(48,732)
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Total shareholders' equity	38,893	42,543
Total liabilities and shareholders' equity	\$ 45,843	\$ 49,247
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(1) Derived from audited financial statements contained in the Company's filing on Form 10-K for the year ended December 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 first quarter of 2002, 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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