



HealthStream Announces Third Quarter 2002 Results

NASHVILLE, Tenn., Oct 29, 2002 (BUSINESS WIRE) -- HealthStream, Inc. (NASDAQ/NM: HSTM):

Now With Over Half-Million Activated Subscribers,

HealthStream Increases Sales Order Value to Hospitals

With Add-On Courseware Subscriptions

Third Quarter Highlights:

-- Revenues of \$4.1 million were comparable with second quarter, while recurring revenues from the Internet-based Healthcare Learning Center™ increased -- Activations of healthcare professional subscribers increased by 57,000 to a total of 507,000, up from 450,000 in the prior quarter, growth of 13% -- Over 41,000 Healthcare Learning Center™ subscribers contracted for add-on HIPAA courseware in third quarter -- Course completions increased 26% to a record 665,000, up from 527,000 in the prior quarter -- Operating cash burn decreased 37% to \$1.2 million from \$1.9 million in the prior quarter, resulting in cash and investments balance of \$21.1 million -- Cordis Corporation, a Johnson & Johnson company, contracted for clinical education packages to deliver to an estimated 10,000 hospital-based nurses and radiologic technologists

HealthStream, Inc. (NASDAQ/NM: HSTM), a leading provider of learning solutions for the healthcare industry, announced today results for the third quarter ended September 30, 2002.

Financial Results

Third Quarter 2002 compared to Second Quarter 2002

Revenues were \$4.1 million for the third quarter ended September 30, 2002, and were comparable with the second quarter. Recurring revenues related to the HCO business unit's Internet-based Healthcare Learning Center™ increased due to increased subscriber activations, while PMD revenues declined due to fewer live workshops and association activities which customarily taper off in the third quarter. Gross margins improved to 67 percent in the current quarter, up from 62 percent for the prior quarter, primarily as a result of growth in subscription revenues and lower direct costs resulting from the seasonality of the PMD live workshop and association activities.

At September 30, 2002, the Company had cash, investments, and related interest receivable of \$21.1 million, compared to \$22.4 million at June 30, 2002. The \$1.3 million decrease in cash, investments, and related interest receivable during the third quarter resulted from a net operating cash consumption of approximately \$1.2 million and capital expenditures of \$0.1 million. Our operating cash consumption rate improved from the \$1.9 million rate experienced during the second quarter 2002, a decrease of 37 percent, and the \$1.4 million rate experienced during the third quarter 2001, a decrease of 14 percent.

During 2002, we recorded a \$5.0 million, or (\$0.25) per share, non-cash charge as a cumulative effect of a change in an accounting principle related to the adoption of SFAS No. 142 "Goodwill and Other Intangible Assets." SFAS 142 requires that goodwill and intangible assets with indefinite lives be tested for impairment annually rather than amortized over time. The impaired goodwill is entirely related to the HCO business unit. This charge is reflected in our financial statements, as of January 1, 2002, as required by SFAS 142.

Third Quarter 2002 compared to Third Quarter 2001

Revenues increased 32 percent to \$4.1 million for the three months ended September 30, 2002, as compared to \$3.1 million for the three months ended September 30, 2001. The increase over the prior year period was comprised of increases of subscription revenues from our Internet-based HealthCare Learning Center™ of \$0.7 million (net of the warrant expense of \$0.5 million that was previously recorded as a reduction of revenues in the prior year), \$0.3 million from live event services to our pharmaceutical and medical device customers, and \$0.1 million from other content subscriptions. The increase in revenues was partially offset by revenue declines, versus the prior year period, in PMD's content development revenues of \$0.2 million and less predictable license fees from HCO's installed learning management products of \$0.4 million.

Gross margins increased to 67 percent for the third quarter of 2002 from 58 percent in the third quarter of 2001. The improvement in gross margin is a result of the increased revenues and favorable changes in revenue mix mentioned above. Net loss for the third quarter ended September 30, 2002 was \$2.4 million, or (\$0.12) per share, compared to a net loss of \$4.8 million, or (\$0.24) per share, for the third quarter ended September 30, 2001. Effective January 1, 2002, we adopted a new accounting standard that discontinued goodwill amortization. For comparative purposes, net loss for the third quarter 2001 would have been \$3.4 million, or (\$0.17) per share, if goodwill amortization had been excluded.

Healthcare Organization Business Unit (HCO) Update

The HCO business unit remains focused on growing HealthStream's base of Internet-based Healthcare Learning Center™ subscribers working in the nation's hospitals, which employ over four million healthcare professionals.

Approximately 507,000 healthcare professional subscribers are activated and now utilize HealthStream's Internet-based Healthcare Learning Center™ for training and education, up from 450,000 at the end of second quarter 2002 and up from 300,000 at the beginning of the year. Our subscriber base will continue to increase as healthcare professionals continue to join the learning network--like those at the Vanguard Health System, Siemens Health Services, and the Spine Hospital of South Texas chose to do in the third quarter.

HealthStream continues to aggressively transition its customers originally using one of its installed learning management systems to the Internet-based Healthcare Learning Center™. In the third quarter, approximately 29,000 subscribers (representing 33 hospital facilities) contracted to make this transition. Included in this group of customers are the VA Medical Center - Birmingham, Lawrence & Memorial Hospital, and Abington Memorial Hospital.

Concurrent with a larger number of subscribers is significantly greater usage of the Healthcare Learning Center™ during the third quarter. A record high of approximately 665,000 course completion certificates were awarded to healthcare professionals in the third quarter of 2002, up from a previous record high of 527,000 in the previous quarter. On August 27, 2002, the 2,000,000th online course was completed on the Healthcare Learning Center™. This milestone is indicative of the sustained momentum of HealthStream's customers to actively use the Healthcare Learning Center™ as their ongoing learning solution.

HealthStream is adding value to both new customers and current customers of the Internet-based Healthcare Learning Center™ by providing additional course content to meet new challenges they face--like that presented by the Health Insurance Portability and Accountability Act of 1996 (HIPAA). To that end, over 41,000 healthcare professionals, from a broad base of healthcare facilities, subscribed to HealthStream's online HIPAA curriculum in the third quarter. This federal legislation mandates that hospitals educate their employees to become compliant of its provisions.

Pharmaceutical and Medical Device Business Unit (PMD) Update

During the third 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.

Cordis Corporation, a Johnson & Johnson company, contracted with HealthStream to provide clinical education packages that will be delivered to an estimated 10,000 nurses and radiologic technologists working in Cath Labs in hospitals across the nation. These clinical education packages include training materials given directly to the healthcare professionals and materials that support sales representatives in their delivery of an educational event provided for the hospital-based healthcare professionals. Stryker Endoscopy contracted for a series of clinical education packages that will be delivered to OR nurses and technicians in hospitals. Also in the third quarter, IDEC Pharmaceuticals recruited HealthStream to develop a series of online courses for hematology oncologists.

In the third quarter, Boston Medical Center agreed to participate in a pilot program of HealthStream's new learning solution, HospitalDirect™, an innovative platform for the creation, delivery, and management of hospital-focused training interactions on pharmaceuticals and medical devices. Healthcare professionals at Boston Medical Center will receive hospital-based, online training on Baxter Healthcare's iPump Pain Management System in the program, set to begin in November. Collectively, 1,500 hospital-based healthcare professionals at Boston Medical Center will benefit from HealthStream's HospitalDirect pilot program. The launch of HospitalDirect is set for March 2003.

Fourth Quarter 2002 Financial Analysis

Revenue growth is expected for the fourth quarter 2002 as a result of sales and implementations of the HealthCare Learning Center™, increased subscription revenue from additional course content, and increases in PMD due to timing of live workshop activities. We expect continued growth in fourth quarter revenues and full-year revenues to approximate \$16.0 million.

The 60 percent gross margin experienced during the first nine months of the year is expected to improve during the fourth quarter of 2002 due to increased revenues, particularly those associated with our Internet-based Healthcare Learning Center™. Expenses for product development and sales and marketing are anticipated to increase slightly during the fourth quarter of 2002, but decrease as a percentage of revenues. Other general and administrative expenses are expected to approximate current quarter levels, but decrease as a percentage of revenues during the fourth quarter of 2002. We also expect net operating cash consumption to decline slightly over the rate experienced during the third quarter of 2002, as well as the rate experienced during the fourth quarter of 2001.

Commenting on third quarter results, Robert A. Frist, Jr., chief executive officer, said, "HealthStream's learning network continues to grow, with over a half-million healthcare professionals now subscribing to the Internet-based Healthcare Learning Center™. As evidenced by the 41,000 healthcare professionals who chose to contract for the HIPAA curriculum, our customers are turning to us for more of their learning needs. This, in turn, strengthens the value that our customers receive, while increasing the value of our learning network through additional sales orders."

About HealthStream

HealthStream (NASDAQ: HSTM) is the leading provider of learning solutions for the healthcare industry. Approximately 507,000 healthcare professionals currently subscribe to the Internet-based Healthcare Learning Center™, HealthStream's learning platform. The Company's learning products and services are used by healthcare organizations to meet the full range of their training needs, while, concurrently, supporting their business objectives. Once subscribed to the Healthcare Learning Center™, customers benefit from increased compliance, reduced risks, and improved learning effectiveness. In addition, HealthStream has pioneered a new collaboration with pharmaceutical and medical device companies to assist them in product launch and market education initiatives within the Company's nationwide network of hospital customers. Nine of the top ten medical device companies and eight of the top ten pharmaceutical companies are among the organizations in HealthStream's growing customer base. (www.healthstream.com)

HEALTHSTREAM, INC.
Summary Financial Data
(In thousands, except per share data)

	(Unaudited)		(Unaudited)	
	Three Months Ended September 30	2001(1)	Nine Months Ended September 30	2001(1)
	2002	2001(1)	2002	2001(1)
Income Statement Data:				
Revenues(2)	\$4,058	\$3,078	\$11,727	\$9,655
Operating expenses (gain):				
Cost of revenues	1,349	1,281	4,739	4,082
Product development	1,212	1,263	3,437	3,751
Sales and marketing	1,480	1,422	4,699	4,380
Depreciation and amortization(3)	1,080	2,528	3,373	7,412
Office consolidation charge	--	--	--	401
Gain on WebMD contract renegotiation	--	--	--	(1,500)
Other general and administration	1,489	1,767	5,117	6,862
Total operating expenses	6,610	8,261	21,365	25,388
Operating loss	(2,552)	(5,183)	(9,638)	(15,733)
Other income (expenses), net	171	395	588	1,355
Net loss, actual before cumulative effect of a change in accounting principle	(2,381)	(4,788)	(9,050)	(14,378)

Cumulative effect of a change in accounting principle	--	--	(5,000)	--
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Net loss, actual	\$(2,381)	\$(4,788)	\$(14,050)	\$(14,378)
	=====	=====	=====	=====
Net loss per share:				
Basic and diluted, before cumulative effect of a change in accounting principle	\$(0.12)	\$(0.24)	\$(0.45)	\$(0.73)
Cumulative effect of a change in accounting principle	--	--	(0.25)	--
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Net loss, basic and diluted, actual	\$(0.12)	\$(0.24)	\$(0.70)	\$(0.73)
	=====	=====	=====	=====
Pro forma net loss(4)	\$(2,381)	\$(3,440)	\$(9,050)	\$(11,850)
	=====	=====	=====	=====
Net loss per share, basic and diluted pro forma	\$(0.12)	\$(0.17)	\$(0.45)	\$(0.60)
	=====	=====	=====	=====
Weighted average shares:				
Basic and diluted, actual and pro forma	20,290	19,846	20,246	19,823
	=====	=====	=====	=====
Operating loss excluding gain and before amortization of goodwill and other intangibles and other nonrecurring items:				
Operating loss	\$(2,552)	\$(5,183)	\$(9,638)	\$(15,733)
Loss on office closures	--	--	--	401
Gain on WebMD contract renegotiation	--	--	--	(1,500)
Amortization of goodwill and other intangibles(3)	479	1,878	1,437	5,624
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Operating loss excluding gain and before amortization of goodwill and other intangibles and other nonrecurring items, actual	\$(2,073)	\$(3,305)	\$(8,201)	\$(11,208)
	=====	=====	=====	=====
Operating loss excluding gain and before amortization of goodwill and other intangibles and other nonrecurring items, per share, actual	\$(0.10)	\$(0.17)	\$(0.41)	\$(0.57)
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(1) Certain prior year amounts have been reclassified to conform to current year presentation.

(2) There was \$0 of non-cash warrant expense for the three and nine months ended September 30, 2002. Revenues for the three and nine months ended September 30, 2001, are net of non-cash warrant expense of \$549 and \$1,490, respectively.

(3) Amortization for 2002 excludes amortization of goodwill, which was discontinued upon implementation of new accounting standards. For the three and nine months ended September 30, 2001, goodwill amortization expense was \$1,348 and \$4,028, respectively.

(4) Pro forma numbers for the three and nine month periods ended September 30, 2001 reflect actual results adjusted to reflect the change in goodwill accounting and the elimination of the gain on WebMD contract renegotiation. Pro forma numbers for the nine months ended September 30, 2002 reflect actual results adjusted for the cumulative effect of a change in accounting principle.

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

	Sept. 30, 2002	Dec. 31, 2001(1)
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(Unaudited)

ASSETS

Current assets:

Cash, short term investments and related interest receivable	\$11,825	\$18,506
Accounts and unbilled receivables, net	4,557	4,343
Prepaid and other current assets	1,023	1,681
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Total current assets	17,405	24,530
Investments in marketable securities	9,307	8,709
Property and equipment, net	2,968	3,694
Goodwill, net	3,307	8,307
Intangible assets, net	2,129	3,566
Other assets	435	441
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Total assets	\$35,551	\$49,247
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable, accrued and other liabilities	\$3,309	\$3,184
Deferred revenue	3,663	3,274
Current portion of long-term liabilities	78	127
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Total current liabilities	7,050	6,585
Long-term liabilities, net of current portion	55	119
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Total liabilities	7,105	6,704

Shareholders' equity:		
Common stock	91,218	91,275
Accumulated deficit and other comprehensive income	(62,772)	(48,732)
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Total shareholders' equity	28,446	42,543
Total liabilities and shareholders' equity	\$35,551	\$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 fourth 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.

HealthStream, Inc.

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