

FINAL TRANSCRIPT

CCBNStreetEventsSM



Event Transcript

**HSTM - CCBN Virtual Healthcare Conference: Co-sponsored by
Lippert/Heilshorn & Associates and RedChip Partners**

Event Date/Time: Dec. 10. 2002 1:45PM ET

CCBNStreetEventsSM

streetevents@ccbn.com

617.603.7900

www.streetevents.com



FINAL TRANSCRIPT

HSTM - CCBN Virtual Healthcare Conference: Co-sponsored by Lippert/Heilshorn & Associates and RedChip Partners

CORPORATE PARTICIPANTS

Robert A. Frist
HealthStream - Chairman

CONFERENCE CALL PARTICIPANTS

Peter Hall
CCBN - SVP

Paul A. Frist

PRESENTATION

Peter Hall - CCBN - SVP

Welcome to the CCBN virtual healthcare conference co-sponsored by RedChip Partners and Lippert/Heilshorn and Associates. My name is Peter Hall and I'm a senior vice president here at CCBN and I'll be serving as the moderator for this virtual healthcare conference. I want to remind our live Webcast participants that you may submit a question at any time by simply typing your query into the question field in the lower left hand side of the Webcast player.

I'll present these questions during the Q&A at the end of the company's prepared remarks. Should I have more questions than the time allows, I will forward them all onto the company management who will respond directly to them. Our next presentation is by HealthStream, ticker symbol HSTM. HealthStream is a leading provider of e-learning solutions to the health care industry. Health care 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 health care employees throughout the enterprise.

Pharmaceutical and medical device companies use HealthStream's e-learning solutions to launch educational programs and reach health care professionals. Content providers use HealthStream's e-learning solutions to expand the reach of their programs worldwide. Health care portals for professionals use HealthStream's e-learning solutions to provide instant co-branded e-learning websites for their users. Representing HealthStream today is Robert A. Frist, Jr., the Chairman. Mr. Frist, you may begin your presentation now.

Robert A. Frist - HealthStream - Chairman

Thank you and I appreciate the opportunity to present this virtual conference by RedChip. HealthStream is uniquely

positioned in the education market -- one of the only -- or the only publicly traded company that focuses on delivering technology-based education solutions to health care professionals. HealthStream is focused on improving the quality of health care by improving the quality of health care education in the pursuit of our vision.

Our target market are the 4.9 million employees that are employed in the health care industry and work predominantly in the hospital market. The ASTD (ph) survey from 2001 showed that hospitals spend approximately \$340 annually on each of those 4.9 million employees. They're employed in over 5,000 U.S. hospitals. This audience comprises the target market for HealthStream's learning solutions.

HealthStream is working hard to service the training and education needs of those 4.9 million employees via Internet delivered education solutions. HealthStream's learning network is what we refer to as our course service offering. It allows access from the five million employees to various learning solutions and there -- through terminal access, they are able to pursue safety education, job requirements training, product information and product training.

Our business model is very simple. We focus on reaching more and more of the 4.9 health care employees in the 5,000 U.S. hospitals. We call that step one -- expand reach. Secondly, as more and more become subscribers to our learning services on the Internet, we focus on meeting their educational needs by selling additional content. And third, as this network of subscribers grows and they access our network more and more, we plan to provide access to pharmaceutical and medical device companies to launch product education initiatives to our health care learning subscribers.

Step one -- expand reach. The focus here is adding hospitals and all of the payrolled employees of the hospital to our learning network. And we feel we're doing very well with that. Today, over 570 hospital institutions subscribe to our learning services on the Internet. Our reach is geographic -- geographically expanded across all 50 states so we have a presence everywhere in the country.

Importantly, as we implement those 570 hospital, the subscriber growth or the employees of the hospitals, which we refer to as our subscribers, are growing at a rapid pace. We've gone from the fourth quarter of last year having 300,000 activated or paying subscribers to over 507,000 activated subscribers at the end of Q3. Our customer base is very diverse and also is very representative of all of the health systems and hospitals in the

FINAL TRANSCRIPT

HSTM - CCBN Virtual Healthcare Conference: Co-sponsored by Lippert/Heilshorn & Associates and RedChip Partners

country. We see organizations like Banner (ph) Health System, New York Health and Hospital, Trinity Health and HCA (ph) all subscribing to our learning solutions.

These customers turn to us to save money, save time and provide quality education and training to their employees, which also has the effect of reducing risk and having better informed employees. We also see in our network of 570 hospitals a good sampling of all types of hospitals whether they're for profit or not for profit, whether they're a chain or they're standalone or whether urban or rural. So we service all of the broad needs of all the hospitals, regardless of size, location or affiliation.

Step two in our business model is as the hospitals sign up for our services, we try to meet additional educational training needs by selling additional content into the learning network. Today, the 570 hospitals turn to us for OSHA compliance and safety training and increasingly they're turn to us -- turning to us for HIPAA education and training. We continue to strive to find content partners to meet their ongoing continuing education and state-level requirements. So our systems help the hospitals meet both institutional requirements, federal safety training requirements and individual professional requirements.

We do that through content partnerships. We use the -- these three here items as drivers. We look for content that meets a recurring need in the hospital. We look for content that meets a training need that is required or mandated. And we look for regulations that drive training needs. Obviously, these are excellent business drivers for recurring -- building a recurring business on the recurrent education needs that exist in hospitals.

We make our content available through our online content catalogue, which is updated regularly with content partnerships and through our print catalogue, which is sent quarterly to over 2,000 health care facilities. Both of these venues provide easy access so that our subscribers can peruse and find content that meets their professional education needs. Or heads of departments or administrators can find needs that help them find content that meets their federally required training in education mandates.

As you can see, our course completion rate on our learning network is soaring. We've gone from delivering a little over 20,000 courses during the quarter in Q1 of 2001 to over 220,000 courses in quarter -- in the third quarter of 2002. This is a testament to the growing utilization of our education and training solutions. It's a testament to the fact that the content we're delivering meets the specific education needs that exist in the hospitals. And it's a testament that, increasingly, the Internet

and Internet-delivered education is a viable alternative and/or supplement to classroom-based education that currently exists in all of America's hospitals.

Just this morning, in fact, we announced a new content partner. We have over 33 content partners that provide educational content into our learning subscribers. And this morning we announced an exclusive relationship with Pearson Prentice-Hall to deliver online training to nurse professionals. In this example, over 150 critical nursing skills will be co-developed with Pearson Prentice-Hall and made available exclusively to our half a million subscribers on our learning network. We feel that these skills-based programs will enhance their ability to do their job, enhance the hospitals' ability to cross train employees for other jobs that exist within the hospital and generally make operations more efficient in the hospital and nurses more informed.

Step three assumes step one in our business. We have assumed now that we have a growing subscriber base, which I am demonstrating. We have assumed that we're meeting the educational needs through content partnerships in step two. And so now we have over half a million subscribers turning to us on a regular basis. In fact, almost 10,000 course certificates are delivered each day.

And step three now allows pharmaceutical and medical device companies to target educational initiatives, whether it be for product launch training, supplementing sales force education of the market or just market absorption and adoption of product education and training on behalf of medical device and pharmaceutical companies. Step three focuses on the fact that HealthStream has seven of their top ten pharmaceutical companies as customers today and eight of the top ten medical device companies as customers.

We're focused on turning these customer relationships -- where we build content for them and they deliver through their own channels of distribution, for instance, their websites -- to tomorrow, introducing the ability to deliver that content through Hospital Direct (ph) -- a new piece of software being developed to be released at the end of the first quarter of '03. This software allows pharmaceutical medical device companies to deliver innovative product training to over half a million hospital-based professionals in a targeted fashion.

In fact, the pharmaceutical medical device companies will be able to select which hospitals within our network they want to target with their education initiatives. From the hospital side, which software will help automate the in service training process

FINAL TRANSCRIPT

HSTM - CCBN Virtual Healthcare Conference: Co-sponsored by Lippert/Heilshorn & Associates and RedChip Partners

and supplement the product education initiatives the hospital undertake for risk management means.

Again, Hospital Direct (ph) is in development. It complements our health care learning center, which is already deployed into 570 hospitals. But Hospital Direct (ph) is software that faces the pharmaceutical and medical device customers. Here is a screen shot of a sample targeting capability whereby an organization would be able to target the hospital facilities that wanted to deliver definitive product education through the network.

The nice thing about this offer is it derives its benefits to both hospitals and the device companies and the pharma companies. It also diversifies our base as hospitals current pay for our health care learning management system. And medical device and pharma companies, we anticipate, will pay for access to hospital direct.

HealthStream has a strong management team focused on this vertical industry of health care. Arthur Newman is our chief financial officer. He comes to HealthStream with a publishing background, working at Lippincott Williams & Wilkins for 10 years and brings a method to our content partnership relationships. Michael Pote comes to us from Columbia HCA (ph), where he was a hospital administrator. And Michael's in charge of expanding our reach into the hospital base and, as such, has a 25-person sales force focused on getting hospitals to sign up for our basic educational software.

Fred Perner comes to us from the medical device industry and the pharma industry and bring 12 years experience from Bristol-Myers to bear on the launch of Hospital Direct (ph) and our pharmaceutical and medical device company facing (ph) products. The result of our strong direction and our vertical market focus has been really strong growth for the company. As you can see, from '99 to 2000, we had tremendous growth as we went through the IPO process and were able to fund a few acquisitions.

From 2000 to 2001, we saw strong organic growth as we didn't complete many acquisitions during that period. And from 2001 to 2002 we see all organic growth -- no acquisitions during that period, which are being fueled by the growth in this one, two, three strategy. An important metric to watch in our company is our operating cash consumption as we are still utilizing more cash as we invest in all three steps of our business model that we are generating. However, you see a very controlled decline in our operation cash consumption, steady improvement with a new record low monthly cash consumption of \$390,000 a month in Q3 of '02.

This burn rate is supported by a very strong cash balance and we feel confident and, in fact, guided that we will turn cash flow positive by the end of next quarter of Q2. Sorry -- by the end of second quarter of '03. And important metric that we report on frequently are the revenues that are derived specifically from our Internet-based lung (ph) products. And you see that at the end of Q3 almost half of our revenues are derived from this recurring revenue source. It's important to note that our average contract with hospitals are 2.2 years. And therefore, the life of these contracts is over two years and increasingly, revenues are derived from those contracts.

Finally, we have a strong balance sheet, so as we look at the viability and sustainability in growth in our model, we're seeing strong organic growth. In Q3, for example, our subscriber base increased by 57,000 subscribers over the prior quarter. We were at 450,000 at the end of Q2. We added and activated, which means they are now paying subscribers, another 57,000 during Q3, bringing the total to over half a million. That's a 13 percent growth in subscribers from the end of one quarter to the end of the next.

Additionally, also, we're seeing strong growth in the selling of additional content. In the third quarter, we announced that over 41,000 of our half a million subscribers came back and bought additional content or add-on content for HIPAA compliance education, which is, obviously, a very high educational topic today for the hospital market.

In summary, the operating cash burn has decreased 37 percent from Q2 to Q3 of this year. Our cash balance remains strong with 21 million and our management team remains committed to focused vertical market health care, in providing content and technology that meets the training education needs of the 4.9 million professionals in the hospital and health care market. Thank you for listening in and I'm now available for questions.

QUESTIONS AND ANSWERS

Peter Hall - CCBN - SVP

Thank you very much, Mr. Frist. I'm reminded to our audience, you can again submit a question at any time by filling out the question field in the lower left-hand corner of your Webcast player. First question asks you to talk a little bit about the training requirements for health care professionals in hospitals -- what are expectations there, what do people have to go through?

FINAL TRANSCRIPT

HSTM - CCBN Virtual Healthcare Conference: Co-sponsored by Lippert/Heilshorn & Associates and RedChip Partners

Paul A. Frist

Well, there are many levels of requirements that hospitals and health care professionals are faced with on an annual basis. At the broadest level, there are the federal requirements that are required of every employee, every 12 months. Hospitals are required to document compliance with federal safety training initiatives. Our system provides the full content library to meet those federal safety requirements. For instance, a lot more pathogen screening, age and hepatitis education, fire safety, back safety and electrical safety. So there are the level of federal requirements.

Next, you have the institutional requirements so you'll find hospitals themselves that have particular initiatives that they want to require of all their employees. And so there's always the institutional drivers for education and training. And finally, there are the professionals themselves, which on a state by state, license by license basis, are faced with continuing education requirements and our system provides, increasingly, content to meet those state by state and license by license requirements. This Pearson Prentice-Hall library helps address some of the individual professional requirements that are -- that are faced by health care professionals.

Peter Hall - CCBN - SVP

And I guess a follow-on question to that would be what metrics do you use to -- that help you track -- that ensures that hospital employees or other employees are effectively using your learning systems? What systems do you have in place?

Paul A. Frist

Well, the nice thing about our services is that because they are Web-based and because they are Internet delivered and because all of our 570 customers are served off a centrally developed platform, we can monitor their utilization on a -- on a facility by facility basis. We can also report what we call course consumption rate and we have been reporting that as a core metric to show the increased utilization. Course consumption rate for us are the certificates of completion.

And about the time of our IPO we were delivering less than 100 certificates of course completion on a daily basis. And as recently as last week I checked in and we were delivering in excess of 10,000 certificates of completion in one day. So one core metric to watch is the course consumption and course

completion rates that we report. Also, with the expanded subscriber base, when we sign a hospital, we get the entire database of employees in the hospital and, typically, that engagement is for an education requirement for all employees, the OSHA Federal Safety Training Requirements. So we expect within 12 months that all of those new subscribers will become active users of our system.

Peter Hall - CCBN - SVP

OK. Next question asks you to comment a little bit further on the new product Hospital Direct, and how that might leverage either the existing network they've already established, or that you're building.

Robert A. Frist - HealthStream - Chairman

Hospital Direct is a core component, the third step in our strategy. The basic philosophy is that as this network of subscribers and health care professionals and hospitals grows, and they continue to turn to our network at an increasing rate to meet more and more of their education and training needs in an online format, that that audience begins to have inherent value to other segments of the health care industry. In this case, pharmaceutical and medical device.

So the leverage is very direct in that the software we're developing allows pharmaceutical and medical device the capability to target educational initiatives into our hospitals. So the capabilities of Hospital Direct are derived from the fact that over half a million subscribers are using our system on a daily basis. So we think there's incredible financial leverage in the development and delivery of this new software to the market. I will note, however, that the software is in a beta test mode today, Hospital Direct, and won't be launching to the market until the end of the first quarter. However, receiving a warm welcome to the potential for this software.

I will also note that these half a million subscribers, that software is fully deployed, fully actionable, and our 33 content partners are delivering in excess of 10,000 courses a day through that solution.

Peter Hall - CCBN - SVP

That's great. Perhaps one more concluding comment. With that being said about Hospital Direct, do you -- any more elaboration

FINAL TRANSCRIPT

HSTM - CCBN Virtual Healthcare Conference: Co-sponsored by Lippert/Heilshorn & Associates and RedChip Partners

on when you expect to report being cash flow positive? I think you mentioned Q2, is that correct? Do you want to ...

Robert A. Frist - *HealthStream - Chairman*

Yes. Our current target and our current expectation is to turn cash flow positive in the last month of the second quarter. We are working hard to achieve that goal and our senior team is committed to that as an outcome. We feel that our strong cash balance could obviously carry us for quite some time, but that's not satisfactory to us, we are -- we are committed to turning cash flow positive in the middle of next year, and having a strong cash balance at the time that we turn cash flow positive.

Peter Hall - *CCBN - SVP*

OK. That sounds certainly like an exciting story. I don't see any other additional questions at this time, and certainly if you would like to make a few concluding comments, we'd welcome them -- welcome them at this time.

Robert A. Frist - *HealthStream - Chairman*

Well I'd like to thank RedChip for the opportunity to present our company today on this virtual conference. I'd like to encourage any potential or all current investors to call in with additional questions as they see fit. And I'd like to share my general excitement for the progress of Health Stream in the last quarter too, and we look forward to delivering on a strong year in 2003. Thank you.

Peter Hall - *CCBN - SVP*

Thank you for your presentation. Thank you all for your time. A reminder to our listening audience to listen to the next Webcast, please close your current media player and return to the agenda page, that can be accessed at www.ccbn.com, www.redchip.com, or www.lhai.com, and click once again on the agenda page. Thank you.

DISCLAIMER

CCBN reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES CCBN OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2002, CCBN, Inc. All Rights Reserved.