UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTER ENDED SEPTEMBER 30, 2001

Commission File No.: 001-8833

HEALTHSTREAM, INC.
(Exact name of registrant as specified in its charter)

TENNESSEE	62-1443555
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
209 10TH AVENUE SOUTH, SUITE 450 NASHVILLE, TENNESSEE	37203
(Address of principal executive offices)	(Zip Code)

(615) 301-3100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

As of November 9, 2001, 20,374,757 shares of the Registrant's common stock were outstanding.

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HEALTHSTREAM, INC.

PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements

HEALTHSTREAM, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 2000 (NOTE 1)	SEPTEMBER 30, 2001 (UNAUDITED)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 19,830,572	$ 6,529,816
Short term investments	7,451,450	20,354,738
Restricted cash	794,342	532,841
Interest receivable	578,534	618,621
Accounts receivable, net of allowance for doubtful accounts of $198,000 in 2000 and $285,000 in 2001	3,957,149	3,777,675
Accounts receivable - unbilled	49,600	404,028
Prepaid development fees	695,427	1,532,788
Notes receivable, current portion	221,750	20,000
Other prepaid expenses and other current assets	1,075,776	1,033,521
Total current assets	34,654,600	34,804,028
Property and equipment:		
Furniture and fixtures	883,660	1,019,269
Construction in progress	117,000	--
Equipment	3,893,720	4,819,475
Leasehold improvements	885,630	1,021,995
	5,780,010	6,860,739
Less accumulated depreciation and amortization	(1,505,004)	(2,720,160)
	4,275,006	4,140,579
Intangible assets, net of accumulated amortization of $5,847,000 in 2000 and $11,470,000 in 2001	18,024,526	13,714,823
Investments	12,889,674	1,025,963
Note receivable, net of current portion	--	215,000
Other assets	607,770	351,229
Total assets	$ 70,451,576	$ 54,251,622
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,150,996	$ 1,015,771
Accrued liabilities	1,719,906	1,566,783
Accrued royalties	1,500,000	90,591
Registration liabilities	794,342	532,841
Deferred revenue	2,764,235	2,792,300
Current portion of capital lease obligations	288,831	172,024
Total current liabilities	8,218,310	6,170,310
Capital lease obligations, less current portion	216,072	150,649
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value, 75,000,000 shares authorized; 21,242,312 shares and 20,374,757 shares issued and outstanding at December 31, 2000 and September 30, 2001, respectively	91,221,775	91,275,282
Accumulated other comprehensive income	30,556	268,469
Accumulated deficit	(29,235,137)	(43,613,088)
Total shareholders' equity	62,017,194	47,930,663
Total liabilities and shareholders' equity	$ 70,451,576	$ 54,251,622

See accompanying notes.

HEALTHSTREAM, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30, 2000	2001
Revenues, net of warrant expense of $194,735 and $549,077 in 2000 and 2001	$ 2,729,214	$ 3,077,708
Operating costs and expenses:		
Cost of revenues	1,033,689	1,219,708
Product development	1,616,874	1,263,250
Selling, general and administrative expenses	6,408,644	5,777,963
Total operating costs and expenses	9,059,207	8,260,921
Loss from operations	(6,329,993)	(5,183,213)
Other income (expense):		
Interest and other income	1,077,550	403,664
Interest expense	(13,839)	(9,111)
	1,063,711	394,553
Net loss	$ (5,266,282)	$ (4,788,660)
Net loss per share:		
Basic	$ (0.27)	$ (0.24)
Diluted	$ (0.27)	$ (0.24)
Weighted average shares of common stock outstanding:		
Basic	19,639,809	19,846,341
Diluted	19,639,809	19,846,341

See accompanying notes.

HEALTHSTREAM, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30, 2000	2001
Revenues, net of warrant expense of $524,830 and $1,489,933 in 2000 and 2001	$ 6,374,915	$ 9,655,142
Operating costs and expenses:		
Cost of revenues	2,831,475	3,837,191
Product development	4,045,506	3,750,839
Office consolidation charge	--	400,678
Selling, general and administrative expenses	15,518,453	17,399,830
Total operating costs and expenses	22,395,434	25,388,538
Loss from operations	(16,020,519)	(15,733,396)
Other income (expense):		
Interest and other income	1,807,594	1,491,347
Write off of investment	--	(99,920)
Interest expense - related parties	(34,255)	--
Interest expense	(79,688)	(35,982)
	1,693,651	1,355,445
Net loss	$(14,326,868)	$(14,377,951)
Net loss per share:		
Basic	$ (1.00)	$ (0.73)
Diluted	$ (1.00)	$ (0.73)
Weighted average shares of common stock outstanding:		
Basic	14,326,112	19,822,894
Diluted	14,326,112	19,822,894

See accompanying notes.

HEALTHSTREAM, INC.
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

	COMMON STOCK		ACCUMULATED DEFICIT	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL SHAREHOLDERS EQUITY
	SHARES	AMOUNT			
Balance at December 31, 2000	21,242,312	$ 91,221,775	$(29,235,137)	$ 30,556	$ 62,017,194
Net loss	--	--	(14,377,951)	--	(14,377,951)
Unrealized gain on investment, net of reclassification adjustment and tax ..	--	--	--	237,913	237,913
Comprehensive loss	--	--	--	--	(14,140,038)
Exercise of stock options	8,700	10,557	--	--	10,557
Issuance of common stock in acquisitions ...	181,250	300,186	--	--	300,186
Issuance of common stock to Employee Stock Purchase Plan	53,606	56,956	--	--	56,956
Repurchase of shares in connection with WebMD renegotiation	(1,111,111)	(1,981,444)	--	--	(1,981,444)
Valuation of WebMD repurchase right	--	120,000	--	--	120,000
Issuance of stock options to advisory boards	--	57,319	--	--	57,319
Recognition of warrant expense	--	1,489,933	--	--	1,489,933
Balance at September 30, 2001	20,374,757	$ 91,275,282	$(43,613,088)	$268,469	$ 47,930,663

HEALTHSTREAM, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30, 2000	2001
OPERATING ACTIVITIES:		
Net loss	$(14,326,868)	$(14,377,951)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	549,803	1,269,995
Amortization	3,830,039	5,623,000
Gain on WebMD renegotiation	--	(1,500,000)
Noncash warrant expense	524,830	1,489,933
Amortization of content fees	--	336,333
Office consolidation charge	--	400,678
Amortization of fixed royalties	--	130,963
Noncash compensation expense	63,525	52,875
Issuance of stock options to advisory boards	--	57,319
Loss on write off of investment	--	99,920
Gain on sale of investment	(94,438)	--
Provision for allowance for doubtful accounts	25,800	87,000
Changes in operating assets and liabilities, excluding effects of acquisitions:		
Restricted cash	(23,821)	261,501
Interest receivable	--	(40,087)
Accounts receivable	(2,003,290)	(2,650)
Accounts receivable - unbilled	(155,553)	(354,428)
Prepaid development fees	--	(1,173,694)
Other prepaid expenses and other current assets	(1,488,888)	(530,110)
Other assets	(333,248)	256,541
Accounts payable	404,723	(135,225)
Accrued royalties and other liabilities	1,546,543	(473,870)
Registration liabilities	22,232	(261,501)
Deferred revenue	162,762	(139,713)
Net cash used in operating activities	(11,295,849)	(8,923,171)
INVESTING ACTIVITIES:		
Acquisition of companies, net of cash acquired	(6,716,369)	(328,988)
Proceeds from sale or maturities of investments	122,271	2,733,727
Issuance of note receivable	--	(215,000)
Repayments on note receivable	--	128,119
Purchase of investments	(20,145,192)	(3,518,553)
Purchase of property and equipment	(2,070,309)	(997,050)
Net cash used in investing activities	$(28,809,599)	$ (2,197,745)

HEALTHSTREAM, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED), CONTINUED

	NINE MONTHS ENDED SEPTEMBER 30, 2000	2001
FINANCING ACTIVITIES:		
Repurchase of common stock from WebMD	--	(1,981,444)
Proceeds from issuance of common stock, net of underwriting discount	54,151,750	--
Expenses of issuing common stock	(1,977,629)	--
Repayment of note payable	(1,180,000)	--
Issuance of common stock to Employee Stock Purchase Plan	--	56,956
Proceeds from exercise of stock options	600,786	10,557
Payments on notes payable - related party	(82,559)	--
Repurchase of common stock in connection with initial public offering	(14,213)	--
Payment on notes payable	(50,000)	--
Payments on capital lease obligations	(154,589)	(265,909)
Net cash provided by (used in) financing activities	51,293,546	(2,179,840)
Net increase (decrease) in cash and cash equivalents	11,188,098	(13,300,756)
Cash and cash equivalents at beginning of period	13,632,144	19,830,572
Cash and cash equivalents at end of period	$ 24,820,242	$ 6,529,816
Total cash, restricted cash, investments and accrued interest at end of period	$ 45,871,085	$ 29,061,979
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 95,576	$ 14,113
Capital lease obligations incurred	$ 325,050	$ 83,679
Preferred stock converted into common stock	$ 19,172,060	$ --
Notes payable - related parties converted into common stock	$ 1,293,000	$ --
Effects of acquisitions:		
Estimated fair value of assets acquired	$ 3,856,537	$ 5,000
Purchase price in excess of net assets acquired	22,229,304	1,036,491
Estimated fair value of liabilities assumed	(6,236,377)	(412,317)
Stock issued	(12,931,850)	(300,186)
Cash paid	6,917,614	328,988
Less cash acquired	(201,245)	--
Net cash paid for acquisitions	$ 6,716,369	$ 328,988

See accompanying notes.

HEALTHSTREAM, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. All significant inter-company transactions have been eliminated in consolidation. Operating results for the three and nine months ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

The balance sheet at December 31, 2000 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. For further information, refer to the financial statements and footnotes thereto for the year ended December 31, 2000 (included in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission).

During the second quarter of 2000, we began recognizing revenues under a services agreement with HCA Information Technology & Services, Inc. formerly known as Columbia Information Systems, an affiliate of HCA Inc. formerly known as HCA - The Healthcare Company (collectively referred to herein as "HCA"). We granted HCA a warrant to purchase HealthStream, Inc. common stock. The accompanying Condensed Consolidated Statements of Operations reflect revenues related to the services provided, net of the amortization of the fair value of the related warrant as a reduction of the revenues proportionately over the term of the four-year agreement. As discussed in note 8 below, this agreement was revised subsequent to September 30, 2001.

2. MERGERS AND ACQUISITIONS

m3 the Healthcare Learning Company. On January 28, 2000, we acquired substantially all of the assets and liabilities of Multimedia Marketing, Inc. d/b/a m3 the Healthcare Learning Company ("m3") for $0.6 million in cash and 818,037 shares of the Company's common stock. m3 provided interactive, multimedia education and training solutions to hospitals and other healthcare organizations. A portion of the shares was held in an escrow account for one year, subject to claims for indemnification pursuant to the agreement and plan of merger. In connection with the acquisition, we assumed $1.2 million of long-term debt, which was repaid with the proceeds of our initial public offering. The acquisition was accounted for as a purchase. Intangible assets acquired consisted of goodwill and customer lists of $8.4 million and $1.0 million, respectively, and are being amortized on a straight-line basis over three years.

EMINet, Inc. On January 28, 2000, we acquired substantially all of the assets of Emergency Medicine Internetwork, Inc. d/b/a EMINet ("EMINet") for $0.6 million in cash and 269,902 shares of the Company's common stock. A portion of the shares are held in escrow, subject to claims for indemnification pursuant to the asset purchase agreement. In addition, we issued 2,170 additional shares of common stock based on achievement of revenue goals subsequent to the acquisition. EMINet sold approved online medical education content to emergency medical services personnel. The acquisition was accounted for as a purchase. Intangible assets acquired consisted of goodwill and customer lists of $2.8 million and $0.5 million, respectively, and are being amortized on a straight-line basis over three years.

Education Design, Inc. On July 1, 2000, we acquired substantially all of the assets of Education Design, Inc. ("EDI") for $3.0 million in cash and 184,421 shares of the Company's common stock. Three-quarters of the shares were held in an escrow account for one year, subject to any claims for indemnification pursuant to the asset purchase agreement. In addition, approximately $300,000 of cash and 31,711 shares of the Company's common stock were provided to the employees of EDI, subject to certain restricted stock award agreements. EDI provided services for live educational events that are supported by the medical device industry. The acquisition was accounted for as a purchase. Intangible assets acquired consisted of goodwill, content, customer lists, and a non-competition agreement of $1.9 million, $1.5 million, $0.3 million, and $0.1 million, respectively, and are being amortized on a straight-line basis over five years, five years, three years and one year, respectively.

SynQuest Technologies, Inc. On September 18, 2000, we acquired substantially all of the assets of SynQuest Technologies, Inc. ("SynQuest") for 787,087 shares of the Company's common stock and assumption of certain debt and other liabilities, $2.3 million of which were repaid in connection with the purchase transaction. Approximately two-thirds of the shares will be held in an escrow account subject to any claims or are subject to certain stock vesting agreements. SynQuest provided online training and education to hospitals and healthcare organizations. The acquisition was accounted for as a purchase. Intangible assets acquired consisted of goodwill, content, and customer lists of $2.1 million, $2.0 million, $0.5 million, respectively, and are being amortized on a straight-line basis over five years, three years, and three years, respectively. The allocation of purchase price is preliminary and may be subject to change as a result of changes in estimates related to the acquired business.

de'MEDICI Systems. On January 26, 2001, we acquired substantially all of the assets of de'MEDICI Systems ("de'MEDICI"), a business unit of Lippincott Williams & Wilkins, Inc., for approximately $360,000 in cash and 181,250 shares of the Company's common stock. de'MEDICI provided computer based education and training to over 230 hospitals and healthcare organizations. The acquisition was accounted for as a purchase. Intangible assets acquired consisted of goodwill, customer lists and trade name of $0.6 million, $0.3 million and $0.1 million, respectively, and are being amortized on a straight-line basis over five years, three years, and three years, respectively. The allocation of purchase price is preliminary and may be subject to change as a result of changes in estimates related to the acquired business.

The following unaudited pro forma results of operations give effect to the operations of the acquired companies as if the respective acquisitions had occurred on the first day of 2000. The pro forma results of operations do not purport to represent what the Company's results of operations would have been had such transactions in fact occurred at the beginning of the period presented or to project the Company's results of operations in any future period.

	NINE MONTHS ENDED SEPTEMBER 30, 2000
Revenues	$ 10,220,000
Net loss	$(17,480,000)
Net loss per share:	
Basic	$ (0.89)
Diluted	$ (0.89)

Since the pro forma impact of the de'MEDICI acquisition is not material to the results presented for 2001, no pro forma disclosures are presented. In accordance with SFAS 128, escrowed shares and any shares subject to restrictions or vesting are excluded from the weighted average shares outstanding for purposes of calculating net loss per share since such shares are anti-dilutive.

3. NET LOSS PER SHARE

Basic net loss per share is computed by dividing the net loss available to common shareholders for the period by the weighted-average number of common shares outstanding during the period. Diluted loss per share is computed by dividing the net loss for the period by the weighted average number of common and dilutive potential common shares outstanding during the period. Potential common shares, composed of incremental common shares issuable upon the exercise of stock options and warrants, escrowed or restricted shares, and common shares issuable on assumed conversion of series A, B, and C convertible preferred stock (prior to the IPO), are included in diluted net loss per share only when these shares are dilutive. The total number of shares excluded from the calculations of dilutive loss per share was approximately 6,200,000 at September 30, 2000 and approximately 5,600,000 at September 30, 2001.

4. INITIAL PUBLIC OFFERING

On April 14, 2000, we completed our initial public offering ("IPO") of 5,275,000 shares of our common stock for net proceeds of $42.2 million. On April 14, 2000, we completed a private placement of 1,111,111 shares of its common stock to WebMD, formerly Healtheon/WebMD Corporation ("WebMD"), for net proceeds of $10.0 million. Upon consummation of the IPO, all series A, B, and C convertible preferred stock converted by its terms into 7,131,153 shares of our common stock. In addition, a $1,293,000 promissory note payable to Robert A. Frist, Jr., our chief executive officer and chairman, also converted into 553,711 shares of common stock. Prior to the IPO, we effected a 1.85 for one common stock split. All share and per share information has been restated to reflect the stock split.

During May 2000, we repaid the long-term note payable assumed in connection with the acquisition of m3 using a portion of the proceeds of the IPO.

5. RELATIONSHIP WITH WEBMD

In February 2000, we entered into an agreement with WebMD which provided for us to be the exclusive provider of education, continuing education and training services for healthcare organizations, healthcare professionals and healthcare workers on Web sites owned or operated by WebMD. The agreement provided for payments to WebMD of $6.0 million per year for five years on a quarterly basis as guaranteed minimum royalties. In the first year, $2.0 million of the $6.0 million payment was to be applied toward mutually agreed upon branding and promotion services. Under the agreement, we were to receive 100% of any revenues from the sale of our products and services until we recovered all payments to WebMD, after which we would receive 75% and WebMD would receive 25% of any revenues.

On January 5, 2001, we terminated its prior agreement with WebMD and entered into a new business arrangement. Under the new, non-exclusive three-year agreement, we are a preferred provider of continuing medical education, continuing education and board preparation courses for WebMD's professional portal. Under this new arrangement, financial consideration is based entirely on revenues generated from the sale of HealthStream's services to WebMD's professional portal customers.

The arrangement also terminated the lock-up agreement related to 1.1 million shares of HealthStream common stock that WebMD purchased in a private offering just prior to the Company's IPO. In connection with this termination, we gave WebMD the right to sell the shares back to us at any time through March 30, 2001. On February 8, 2001, WebMD exercised its right to sell the 1.1 million shares of HealthStream common stock back to the Company at $1.7833 per share. We reacquired the shares on February 16, 2001. In connection with the termination of the prior WebMD agreement, we recognized a gain of $1.5 million, representing the reversal of the scheduled $1.5 million fixed payment that was accrued during the quarter ended September 30, 2000.

6. OFFICE CONSOLIDATION CHARGE

During the quarter ended June 30, 2001, we recorded a non recurring office consolidation charge of $400,678 as a result of closure of our Dallas and Boston offices. The charge consisted of lease obligations of approximately $245,000 and impairment of certain fixed assets of approximately $155,000.

7. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

We will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. While we have not completed our assessment of the impact of these Statements, we have estimated the impact based on our current level of amortization expense for all intangibles and the current weighted average shares outstanding. Based on this estimate, application of the non amortization provisions of the Statement would result in a decrease in net loss of approximately $7.5 million, ($0.38 per share) per year. During late 2001 and early 2002, we will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002. We have not yet determined what the effect of these tests will be on the Company's earnings and financial position.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS 144"), which supersedes SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. SFAS 144 removes goodwill from its scope and clarifies other implementation issues related to SFAS 121. SFAS 144 also provides a single framework for evaluating long-lived assets to be disposed of by sale. We do not expect SFAS 144 to have a material effect on our results of operations or financial position.

8. CONTINGENCIES AND SUBSEQUENT EVENT

On November 17, 2000, a complaint was filed by Challenger Corporation in the Circuit Court of Tennessee for the Thirtieth Judicial District at Memphis against HealthStream, SynQuest Technologies, Inc. and two individual shareholders of SynQuest Technologies. The complaint asserts that HealthStream violated the terms of a licensing agreement entered into between HealthStream and the plaintiff and that HealthStream allegedly failed to pay royalties due to the plaintiff pursuant to the terms of that agreement. The plaintiff also alleges that HealthStream induced SynQuest Technologies to breach a marketing agreement allegedly entered into between SynQuest and the plaintiff. Alternatively, the plaintiff alleges that HealthStream, which purchased certain assets of SynQuest, is liable for SynQuest's alleged breach of the marketing agreement pursuant to the legal theory of successor liability. The aggregate damages alleged total approximately $9.0 million. We believe the allegations in the complaint are without merit, intend to defend the litigation vigorously and do not believe this litigation will have a material adverse effect on our financial condition or results of operations.

Effective October 1, 2001, we entered into a new four-year agreement with HCA, replacing the prior agreement, which had approximately two and one-half years remaining. Together with HCA, we mutually agreed to cancel the warrant held by HCA to purchase HealthStream common stock. As a result, we will no longer amortize the remaining cost of the warrant as a reduction of revenues. The terms of the new agreement provide for a minimum of $12 million of revenue related to delivery of ASP and other learning services. In addition, the agreement establishes HealthStream as the endorsed provider of e-learning solutions to HealthTrust Purchasing Group (HPG), a group purchasing organization of which HCA is a member.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report includes various forward-looking statements that are subject to risks and uncertainties. Forward-looking statements include without limitation, statements preceded by, followed by, or that otherwise include the words "believes," "expects," "anticipates," "intends," "estimates" or similar expressions. For those statements, HealthStream, Inc. claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

The following important factors, in addition to those discussed elsewhere in this Quarterly Report, could affect the future financial results of the Company and could cause actual results to differ materially from those expressed in forward-looking statements contained in this document:

- our limited operating history;
- variability and length of our sales cycle and our product mix;
- our history of losses and expectations of continued losses;
- our ability to manage growth;
- successful implementation of the Company's operating and growth strategy;
- our ability to identify, complete and integrate the operations or realize the anticipated results of acquisitions;
- fluctuations in quarterly operating results caused by a variety of factors including the timing of sales and development contracts as well as the adoption of the Internet as a tool for online training and continuing education in the healthcare industry;
- successful establishment and maintenance of new and existing relationships with content partners; and
- global and/or regional economic factors and potential changes in laws and regulations, including, without limitation, changes in federal, state and international laws regulating education, training and Internet transactions.

For additional information concerning risks and uncertainties that may affect the Company's results of operations, please see the risks outlined under the heading "Risk Factors" in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

OVERVIEW

HealthStream was originally incorporated in 1990 and initiated online operations in March 1999. The Company has evolved from a multimedia content development service provider to a facilitator of computer based training capabilities targeted at the healthcare industry. Revenues are derived from the following categories: provision of services through our application service provider ("ASP") products, content subscriptions, licenses of installed learning management systems, maintenance and technical support services, content and courseware development, sponsorship services, sales of CD-ROM products, Web cast events, event development and registration services, Web site development, online products and training services. Our products and services are targeted at healthcare organizations and pharmaceutical and medical device companies.

ASP-based products and services, including content subscriptions, are provided on a monthly subscription fee basis based on the number of people within a facility and the content offerings. Revenue derived from our ASP-based products are recognized ratably over the term of the service agreement. The Company also offers training services for ASP users to facilitate integration of this technology. Fees for training are based on the time and efforts of the personnel involved. Revenue for transaction-based online course sales is recognized when the course is delivered. Revenues provided under a service agreement that included the grant of a warrant to HCA are recognized as services are rendered, net of the amortization of the fair value of the related warrant as a reduction of the revenues proportionately over the term of the four-year agreement. Revenue recognition policies for ASP-based products and services vary significantly from our installed products.

Revenues from installed learning management system fees are recognized upon shipment or installation of the software. Revenues related to installed learning management systems may be subject to fluctuations because purchases of these licenses typically are included in customers' capital expenditure budgets. Charges for services such as training, maintenance and technical support are either based on a fixed fee, estimated usage or actual time incurred. Maintenance and technical support revenues are recognized over the term of the service period. Sponsorship revenue is recognized ratably over the term unless usage exceeds the ratable portion. Revenues derived from the sale of products requiring significant modification, conversion or customization are recorded based on the percentage of completion method using labor hours. Multimedia development revenues are recognized based on the percentage of a project that is completed, while revenues for live event development services are recognized based on the percentage of completion method using labor hours. Event registration services are recognized upon completion of the related event. All other service revenues are recognized as the related services are performed or products are delivered.

Historically, we have marketed our training and education delivery system directly or licensed it to resellers to re-brand and distribute under their private label. Our primary reseller relationship was with Lippincott Williams & Wilkins, Inc. ("LWW"), a leading medical sciences publisher. LWW's business unit, de'MEDICI Systems, combined its line of training content mandated by the Occupational Safety and Hazards Administration ("OSHA") and the Joint Commission on the Accreditation of Healthcare Organizations ("JCAHO") with our installed learning management systems and their sales force sold the resulting solution directly into healthcare organizations. In January 2001, we purchased de'MEDICI Systems from LWW and acquired the existing base of more than 230 customers.

We expect to continue to generate revenues by marketing our products and services to healthcare workers through healthcare organizations. We expect that the portion of our revenues related to our ASP-based products and services will increase. Specifically, we will seek to generate revenues from healthcare workers by marketing to their employers or sponsoring organizations.

An integral part of the Company's strategy is to acquire companies that complement our products and services. Because of the financial impact of the Company's recent acquisitions, the period-to-period comparisons of our financial results are not necessarily meaningful.

We have acquired the following companies since January 1, 2000:

- m3 the Healthcare Learning Company, which provided computer-based training to over 450 hospitals and healthcare facilities, primarily in the areas of OSHA and JCAHO regulatory training, for $600,000 in cash, the assumption of $1.2 million in long-term debt and 818,036 shares of our common stock;

- EMINet, which provided Web-based educational content for emergency medical services personnel, for $640,000 in cash and 272,072 shares of our common stock;

- Education Design Inc., which provided services for live educational events that are supported by the medical device industry, for $3.0 million in cash and 184,421 shares of the Company's common stock. In addition, approximately $300,000 of cash and 31,711 shares of the Company's common stock were provided to the employees of EDI, subject to certain restricted stock award agreements.

- SynQuest Technologies, Inc., which provided online training and education to hospitals and healthcare organizations, for 787,087 shares of the Company's common stock and the assumption of certain debt and other liabilities, $2.3 million of which were repaid in connection with the purchase transaction.

- de'MEDICI Systems, which provided computer based education and training to over 230 hospitals and healthcare organizations, for approximately $360,000 and 181,250 shares of the Company's common stock.

In February 2000, we entered into a four-year agreement with HCA pursuant to which we provide online training and education, courseware development and administrative management and consulting services to HCA and its affiliated and managed healthcare providers. Effective October 1, 2001, the Company entered into a new four year agreement with HCA, replacing the prior agreement which had approximately two and one-half years remaining. In addition, together with HCA, we mutually agreed to cancel the warrant held by HCA to purchase HealthStream common stock. As a result, we will no longer amortize the remaining cost of the warrant as a reduction of revenues. The terms of the new agreement provide for a minimum of $12 million of revenue related to delivery of ASP and other learning services. In addition, the agreement establishes HealthStream as the endorsed provider of e-learning solutions to HealthTrust Purchasing Group (HPG), a group purchasing organization of which HCA is a member.

In February 2000, we entered into an agreement with WebMD which provided for us to be the exclusive provider of education, continuing education and training services for healthcare organizations, healthcare professionals and healthcare workers on Web sites owned or operated by WebMD. The agreement provided for payments to WebMD of $6.0 million per year for five years on a quarterly basis as guaranteed minimum royalties. In the first year, $2.0 million of the $6.0 million payment was to be applied toward mutually agreed upon branding and promotion services. Under the agreement, we were to receive 100% of any revenues from the sale of our products and services until we recovered all payments to WebMD, after which we would receive 75% and WebMD would receive 25% of any revenues. WebMD purchased $10.0 million of our common stock at the initial public offering price in a private sale.

On January 5, 2001, we terminated our prior agreement with WebMD and entered into a new business arrangement. Under the new, non-exclusive three-year agreement, we are a preferred provider of continuing medical education, continuing education and board preparation courses for WebMD's professional portal. Under this new arrangement, financial consideration is based entirely on revenues generated from the sale of HealthStream's services to WebMD's professional portal customers. The arrangement also terminated the lock-up agreement related to 1.1 million shares of HealthStream common stock that WebMD purchased in a private offering just prior to the Company's IPO. In connection with this termination, we gave WebMD the right to sell the shares back to us at any time through March 30, 2001. On February 8, 2001, WebMD exercised its right to sell the 1.1 million shares of HealthStream common stock back to the Company at $1.7833 per share. We reacquired the shares on February 16, 2001. In connection with the termination of the prior WebMD agreement, we recognized a gain of $1.5 million representing the reversal of the scheduled $1.5 million fixed payment, which was accrued during the quarter ended September 30, 2000.

To date, we have incurred substantial costs to develop our technologies, create, license and acquire our content, build brand awareness, develop our infrastructure and expand our business, and have yet to achieve significant revenues. As a result, we have incurred operating losses in each fiscal quarter since 1994. We expect operating losses and negative cash flow to continue for the foreseeable future as we plan to increase our operating expenses to help expand our business. These costs could have a material adverse effect on our future financial condition or operating results. We believe that period-to-period comparisons of our financial results are not necessarily meaningful, and should not be relied upon as an indication of our future performance.

RESULTS OF OPERATIONS

REVENUES AND EXPENSE COMPONENTS

The following descriptions of the components of revenues and expenses apply to the comparison of results of operations.

Revenues. Revenues consist of the provision of services through our ASP-based products, the licensing of the Company's installed learning management systems, maintenance and support services, content subscriptions, content and courseware development, Web cast events, event development and registration services, sponsorship services, Web site development, professional and technical consulting services, online products, sale of CD-ROMs and training services.

Cost of Revenues. Cost of revenues consists primarily of salaries and employee benefits, materials, and depreciation associated with event development and registration services, ASP-based products, and development of interactive media projects as well as royalties paid to content providers and distribution partners based on a percentage of revenues.

Product Development. Product development expenses consist primarily of salaries and employee benefits, depreciation, third-party content acquisition costs, costs associated with the development of content and expenditures associated with maintaining and operating our Web sites and training delivery and administration platforms.

Office Consolidation Charge. The Company recorded a non recurring office consolidation charge as a result of closure of its Dallas and Boston offices. The charge consisted of lease obligations and impairment of certain fixed assets.

Selling, General and Administrative. General and administrative expenses consist primarily of salaries and employee benefits, facility and telecommunication costs, depreciation, amortization of intangibles, fees for professional services and royalties paid to content providers that are of a fixed nature. Sales and marketing expenses consist primarily of salaries and employee benefits, bonuses, advertising, promotions and related marketing costs.

Other Income/Expense. The primary component of other expense is interest expense related to debt, loans from related parties and capital leases. The primary component of other income is interest income related to interest earned on cash, cash equivalents and investments.

THREE MONTHS ENDED SEPTEMBER 30, 2000 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2001

Revenues. Revenues increased approximately $0.3 million, from $2.7 million in 2000 to $3.1 million in 2001, due to revenues attributable to organic growth and acquired businesses. The increase attributable to organic growth is associated with our ASP-based products, which was partially offset by a decline in installed product and live events. During the third quarter of 2000, approximately 40% of revenues related to services to healthcare organizations and 60% related to services to pharmaceutical and medical device companies, including revenues from the Web distribution network. During 2001, revenues were split almost evenly between services to healthcare organizations and services to pharmaceutical and medical device companies, including revenues from the Web distribution network.

Cost of Revenues. Cost of revenues increased $0.2 million, from $1.0 million in 2000 to $1.2 million in 2001. While cost of revenues did not significantly increase, the components changed from 2000 to 2001. During the third quarter of 2001, cost of revenues included costs associated with event development and registration services and related personnel, Web cast event personnel, ASP implementation and other personnel. During 2000, cost of revenues included more development, installation and training personnel, primarily associated with content development and installed product services. Cost of revenues, as a percentage of revenues, increased from approximately 38% in 2000 to approximately 40% in 2001, primarily as a result of increased fixed costs related to our live event services.

Product Development. Product development expenses decreased $0.3 million, from $1.6 million in 2000 to $1.3 million in 2001. The decrease in product development expenses related to lower personnel costs associated with the consolidation of support functions of the multiple platforms acquired during 2000. Product development as a percentage of revenues decreased from approximately 59% in 2000 to 41% in 2001 as a result of increased growth in revenues from ASP-based products and reduced development focus on our client server products.

Selling, General and Administrative. Selling, general and administrative expenses decreased $0.6 million, from $6.4 million in 2000 to $5.8 million in 2001. General and administrative expenses decreased from $3.4 million in 2000 to $1.8 million in 2001. Sales and marketing expenses, including personnel costs, increased $0.2 million, from $1.2 million in 2000 to $1.4 million in 2001. Depreciation and amortization expenses increased $0.8 million from approximately $1.8 million in 2000 to $2.6 million in 2001. As a percentage of revenues, selling, general and administrative expenses decreased from approximately 235% in 2000 to approximately 188% in 2001.

General and administrative expenses decreased by $1.6 million due to a decline in royalties to WebMD. As a result of the renegotiation of the WebMD agreement during the first quarter of 2001, $1.5 million of royalties accrued during the third quarter of 2000 were not repeated in 2001. In addition to the decrease in royalties, personnel expenses declined from 2000 to 2001 due to the consolidation of corporate functions.

Sales and marketing expenses increased $0.2 million from $1.2 million in 2000 to $1.4 million in 2001, and the components of this spending changed. The increase in sales and marketing expenses relates primarily to the addition of sales personnel in connection with the September 2000 acquisition of SynQuest. The increase in personnel expenses from 2000 to 2001 was offset by declines in advertising expenses from 2000 to 2001.

Depreciation and amortization increased by $0.8 million due to the amortization of intangibles including goodwill, non-competition agreements and customer lists related to the acquisitions noted above. In addition, depreciation increased as a result of acquired fixed assets and additions related to additional personnel.

Other Income/Expense. Other income and expense decreased $0.7 million, from approximately $1.1 million in 2000 to $0.4 million in 2001 due to decreased interest income, which resulted from lower cash and investment balances in 2001 when compared to 2000 as well as lower rates of return in 2001 when compared to 2000.

Net Loss. Net loss decreased $0.5 million from $5.3 million in 2000 to $4.8 million in 2001 due to the factors described above.

NINE MONTHS ENDED SEPTEMBER 30, 2000 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2001

Revenues. Revenues increased $3.3 million, from $6.4 million in 2000 to $9.7 million in 2001, due to revenues attributable to acquired businesses and organic growth. Of the increase, approximately $1.8 million related to the event development and registration business acquired in July 2000 from EDI, while the remaining net increase is primarily attributable to increased organic revenues from our ASP-based products. This increases were also offset by declines in sales of installed learning management systems from 2000 to 2001. For both 2000 and 2001, revenues were split almost evenly between those related to services to healthcare organizations and revenues related to services to pharmaceutical and medical device companies, including revenues from the Web distribution network.

Cost of Revenues. Cost of revenues increased $1.0 million, from $2.8 million in 2000 to $3.8 million in 2001. This increase is primarily attributable to personnel costs associated with event development and registration services, however this increase was offset by a decline in installation and training personnel associated the sales of our installed learning management systems. The remainder of the increase is associated with additional personnel associated with our ASP-based products and services. Cost of revenues, as a percentage of revenues, decreased from approximately 44% in 2000 to 40% in 2001, primarily as a result of increased revenues related to our ASP-based products and services.

Product Development. Product development expenses decreased $0.2 million, from $4.0 million in 2000 to $3.8 million in 2001. The decrease in product development expenses related to decreased personnel costs associated with consolidation of support functions of the multiple platforms acquired during 2000. Product development as a percentage of revenues decreased from approximately 63% in 2000 to 39% in 2001 as a result of increased growth in revenues from ASP-based products and reduced development focus on our client server products.

Office Consolidation Charge. During the nine months ended September 30, 2001, the Company recorded a non recurring office consolidation charge of $0.4 million as a result of closure of its Dallas and Boston offices. The charge consisted of lease obligations of approximately $0.2 million and impairment of certain fixed assets of approximately $0.2 million.

Selling, General and Administrative. Selling, general and administrative expenses increased $1.9 million, from $15.5 million in 2000 to $17.4 million in 2001. General and administrative expenses decreased $1.6 million from $7.3 million in 2000 to $5.7 million in 2001. Sales and marketing expenses, including personnel costs, increased from $3.8 million in 2000 to $4.4 million in 2001. Depreciation and amortization expenses increased from $4.4 million in 2000 to $7.3 million in 2001. As a percentage of revenues, selling, general and administrative expenses decreased from approximately 243% in 2000 to 180% in 2001.

General and administrative expenses, excluding the $1.5 million gain on renegotiation of the WebMD agreement, were comparable between years, however the components of this category changed. When compared to 2000, content and royalty expenses declined approximately $2.3 million as a result of the renegotiation of the WebMD agreement during the first quarter of 2001. This decrease was offset by increases in personnel and facility costs related to the EDI and SynQuest acquisitions and increases in severance expenses related to consolidation of duplicative functions.

Sales and marketing expenses increased $0.6 million to $4.4 million primarily as a result of sales personnel added in connection with the SynQuest acquisition. This increase was partially offset by a decline in spending on direct marketing and advertising campaigns.

Depreciation and amortization increased by $2.9 million due to increases in amortization and depreciation associated with the 2000 and 2001 acquisitions.

Other Income/Expense. Other income and expense decreased $0.3 million, from approximately $1.7 million in 2000 to $1.4 million in 2001 related to decreased interest income which resulted from lower balances invested during 2001 when compared to 2000. Lower investment balances are attributable to both cash burn and cash used for acquisitions. In addition, the rates of return realized in 2001 were lower than 2000.

Net Loss. Net loss increased $0.1 million from $14.3 million in 2000 to $14.4 million in 2001 due to the factors described above.

LIQUIDITY AND CAPITAL RESOURCES

Since our inception, we have financed our operations largely through the public and private placements of equity securities, loans from related parties and, to a lesser extent, from revenues generated from custom development fees and product sales. In April 2000 we completed an initial public offering of common stock resulting in net proceeds of $42.2 million and a concurrent private placement of common stock to WebMD resulting in net proceeds of $10.0 million.

Net cash used in operating activities was $11.3 million in the first nine months of 2000 and $9.7 million in the first nine months of 2001. Cash used in operating activities during the nine months ended September 30, 2000, which excludes the effects of acquisitions, was attributable to a $14.3 million net operating loss and increases in accounts and unbilled receivables, prepaid and other current assets, and other assets, and increases in deferred revenue which were partially offset by increases in depreciation, amortization and non cash warrant amortization, as well as increases in accounts payable and accrued liabilities. Cash used in operating activities during the nine months ended September 30, 2001 related to the $14.4 million net loss, the non cash gain on the WebMD renegotiation, increases in unbilled receivables, prepaid development, prepaid expenses and other current assets, decreases in accounts payable, accrued liabilities, and registration liabilities. These operating uses of cash were offset by non cash warrant expense, the office consolidation charge, increases in depreciation and amortization as well as a decline in restricted cash and other assets.

Net cash used in investing activities was $28.8 million in the first nine months of 2000 and $1.4 million in the first nine months of 2001. Cash used in investing activities during the first nine months of 2000 related to the purchase of $20.1 million in investments, $6.7 million related to the 2000 acquisitions and $2.1 million of cash paid for the purchase of property and equipment. In the first nine months of 2000, these outflows were partially offset by the receipt of $0.1 million from the sale of investments by the Company. During the first nine months of 2001, cash outflows related to $0.3 million for the purchase of de'MEDICI Systems, $0.2 million from the issuance of a note receivable and the $1.0 million for the purchase of property and equipment, which was offset by the receipt of $0.2 million for the repayment of a note.

Cash provided by financing activities was $51.3 million in the first nine months of 2000 while $2.2 million was used in financing activities in the first nine months of 2001. During the first nine months of 2000, cash provided by financing activities related to $54.2 million received from the sale of common stock and $0.6 million received in connection with the exercise of stock options, which was partially offset by $2.0 million of expenses related to the common stock offering and $1.4 million of repayments of debt and capital leases. Cash used in financing activities during the first nine months of 2001 related to $2.0 million related to the repurchase of common stock from WebMD and $0.3 million related to payments under capital lease arrangements.

In connection with our agreement with HCA, we will receive payments for services of at least $12.0 million over the four-year term of the agreement. As discussed above, effective October 1, 2001, the Company and HCA mutually agreed to cancel HCA's warrant to purchase HealthStream's common stock. No future amortization will be recognized as a reduction of revenues.

We also expect to incur additional product development costs, some of which will be capitalized, and sales and marketing costs to grow our business. As a result of the anticipated growth in personnel, development and online transactions, we expect that our capital expenditures will be approximately $0.5 million during the remainder of 2001.

Our arrangements with content, development and distribution partners have typically provided for payments based on revenues, and we expect to continue similar arrangements in the future. In addition to such percentage payments, we have fixed payment commitments of approximately $200,000 during the remainder of 2001. We also have fixed educational grant commitments of approximately $70,000 during the remainder of 2001. We have variable commitments of approximately $100,000 related to agreements under which other organizations have agreed to provide content development services for us. Payments under these development arrangements are contingent upon the delivery of services.

As of September 30, 2001, our primary source of liquidity was $29.1 million of cash and cash equivalents, restricted cash, investments and related interest receivable. As of October 31, 2001, the Company had cash, restricted cash, investments and related interest receivable of $28.0 million. We believe that our existing cash, restricted cash, investments and interest receivable will be sufficient to meet anticipated cash needs for working capital, capital expenditures and acquisitions for at least the next 12 months. Our growth strategy may include acquiring companies that complement our products and services. We anticipate that these acquisitions, if any, will be effected through a combination of issuance of our common stock and cash payments. Failure to generate sufficient cash flow from operations, failure to raise additional capital when required in sufficient amounts and on acceptable terms or our inability to use our common stock to finance acquisitions could harm our business, results of operations and financial condition.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. While the Company has not completed its assessment of the impact of these Statements, application of the non amortization provisions of the Statement would result in an decrease in net loss of approximately $7.5 million, ($0.38 per share) per year. This estimate is based on the Company's current level of amortization expense for all intangibles and the current weighted average shares outstanding. During 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002. The Company has not yet determined what the effect of these tests will be on the earnings and financial position of the Company.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS 144"), which supersedes SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. SFAS 144 removes goodwill from its scope and clarifies other implementation issues related to SFAS 121. SFAS 144 also provides a single framework for evaluating long-lived assets to be disposed of by sale. We do not expect SFAS 144 to have a material effect on our results of operations or financial position.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to market risk from changes in interest rates. We do not have any foreign currency exchange rate risk or commodity price risk.

As of September 30, 2001, we had no outstanding indebtedness other than capital lease arrangements. Accordingly, the Company is not exposed to significant market risk. The Company is exposed to market risk with respect to the cash and cash equivalents that it invests. At October 31, 2001, we had approximately $28.0 million of cash, restricted cash, investments and accrued interest that were invested in a combination of short and long-term investments. At this investment level, a hypothetical 10% decrease in the interest rate would decrease interest income and increase net loss on an annualized basis by approximately $280,000.

The Company manages its investment risk by investing in corporate debt securities, foreign corporate debt and secured corporate debt securities with minimum acceptable credit ratings. For certificates of deposit and corporate obligations, ratings must be A2/A or better; A1/P1 or better for commercial paper; A2/A or better for taxable or tax advantaged auction rate securities and AAA or better for tax free auction rate securities. The Company also requires that all securities must mature within 24 months from the original settlement date, the average portfolio shall not exceed 18 months, and the greater of 10% or $5.0 million shall mature within 90 days. Further, the Company's investment policy also limits concentration exposure and other potential risk areas.

The above market risk discussion and the estimated amounts presented are forward-looking statements of market risk assuming the occurrence of certain adverse market conditions. Actual results in the future may differ materially from those projected as a result of actual developments in the market.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

On November 17, 2000, a complaint was filed by Challenger Corporation in the Circuit Court of Tennessee for the Thirtieth Judicial District at Memphis against HealthStream, SynQuest Technologies, Inc. and two individual shareholders of SynQuest Technologies. The complaint asserts that HealthStream violated the terms of a licensing agreement entered into between HealthStream and the plaintiff and that HealthStream allegedly failed to pay royalties due to the plaintiff pursuant to the terms of that agreement. The plaintiff also alleges that HealthStream induced SynQuest Technologies to breach a marketing agreement allegedly entered into between SynQuest and the plaintiff. Alternatively, the plaintiff alleges that HealthStream, which purchased certain assets of SynQuest, is liable for SynQuest's alleged breach of the marketing agreement pursuant to the legal theory of successor liability. The aggregate damages alleged total approximately $9.0 million. We believe the allegations in the complaint are without merit, intend to defend the litigation vigorously and do not believe this litigation will have a material adverse effect on our financial condition or results of operations.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

10.1 Education Services Provider Agreement dated October 1, 2001 between HealthStream, Inc. and HCA Information Technology & Services, Inc.* (incorporated by reference to Current Report on Form 8-K filed on November 1, 2001)

* Confidential treatment has been requested with respect to certain portions of this exhibit. Such portions were omitted and included in the confidential treatment request filed separately with the Securities and Exchange Commission.

(b) Reports on Form 8-K

Report filed on November 1, 2001 regarding new agreement with HCA Information Technology & Services, Inc. and cancellation of warrant to purchase common stock of HealthStream held by CIS Holdings, Inc.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HEALTHSTREAM, INC.

By: /s/ ARTHUR E. NEWMAN

Arthur E. Newman
Chief Financial Officer
November 13, 2001