



SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

As of March 31, 2002 and March 31, 2001 and for the year ended March 31, 2002  
and the period April 10, 2000 (date of inception) to March 31, 2001

Commission File No.: 001-8833

HealthStream, Inc.  
Employee Stock Purchase Plan  
(Full title of plan)

HealthStream, Inc.  
209 10th Avenue South, Suite 450  
Nashville, Tennessee 37203  
(Name of issuer of securities held pursuant to the plan  
and address of principal executive office)

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Report of Independent Auditors

Compensation Committee of the Board of Directors

HealthStream, Inc. Employee Stock Purchase Plan

We have audited the accompanying statements of financial condition of the HealthStream, Inc. Employee Stock Purchase Plan as of March 31, 2002 and 2001 and the related statements of changes in plan equity for the year ended March 31, 2002 and the period April 10, 2000 (date of inception) to March 31, 2001. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the HealthStream, Inc. Employee Stock Purchase Plan at March 31, 2002 and 2001 and the changes in plan equity for year ended March 31, 2002 and the period April 10, 2000 (date of inception) to March 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Nashville, Tennessee

May 17, 2002

## HealthStream, Inc. Employee Stock Purchase Plan

## Statements of Financial Condition

	2002	March 31,	2001
	<u>          </u>		<u>          </u>
<b>Assets</b>			
Receivable from HealthStream, Inc.	\$—		\$—
<b>Liabilities</b>			
Obligations to purchase HealthStream, Inc. common stock	—		—
Plan equity	—		—
Total liabilities and Plan equity	\$—		\$—

See accompanying notes.

## HealthStream, Inc. Employee Stock Purchase Plan

## Statements of Changes in Plan Equity

	Year ended March 31, 2002	Period from April 10, 2000 (date of inception) to March 31, 2001
Participant contributions	\$ 61,738	\$143,029
Purchases of HealthStream, Inc. common stock	(38,006)	(56,956)
Withdrawals	(17,000)	(43,840)
Amounts refunded to Plan participants	(6,732)	(42,233)
Net change in Plan equity	—	—
Plan equity at beginning of year	—	—
Plan equity at end of year	\$ —	\$ —

See accompanying notes.

**HealthStream, Inc. Employee Stock Purchase Plan**

**Notes to Financial Statements**

**March 31, 2002**

**1. Description of the Plan**

The following is a brief description of the HealthStream, Inc. Employee Stock Purchase Plan (the "Plan"). Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

***General***

In February 2000, the Board of Directors of HealthStream, Inc. (the "Company") adopted the Plan. The Plan was effective beginning with the initial public offering of HealthStream, Inc. common stock on April 10, 2000. In connection with the Plan, 1,000,000 shares have been reserved for issuance.

***Plan Year***

The Plan year begins on the first trading day of HealthStream, Inc. common stock or April 1 and ends on March 31.

***Eligibility***

Substantially all regular employees of the Company and its subsidiaries are eligible to participate in the Plan upon completion of 30 days of employment prior to the beginning of each Plan year.

An employee may choose to withdraw from the Plan at any time up to 15 days prior to the end of the Plan year. Participants that terminate employment with the Company prior to the end of the Plan year are not eligible to remain in the Plan. Upon termination or withdrawal any accumulated contributions are returned to the employee.

***Contributions***

The Plan permits eligible employees to contribute not less than \$50 per month and not more than 15% of wages and salary through regular payroll deductions on an after tax basis. Employees are also allowed to make one lump sum contribution during each Plan year. In addition to the above limits, the number of shares of the Company's common stock acquired by each individual participant is limited to 2,500 shares per Plan year and the fair market value of the stock acquired through the Plan cannot exceed \$25,000 in one calendar year as dictated by the Internal Revenue Code Section 423.

The Company holds participant contributions until the end of the Plan year, at which time common stock of the Company is purchased and distributed to the contributing participants. All funds held by the Company under the Plan are included in the general assets of the Company.

**HealthStream, Inc. Employee Stock Purchase Plan**

**Notes to Financial Statements**

**1. Description of the Plan (continued)**

Participants may change their contribution elections annually at the beginning of the Plan year. Change requests must be received 30 days prior to the beginning of the Plan year.

***Stock Purchase Provisions***

On the first day of each Plan year (the first trading day or April 1), participants in the Plan are granted the option to purchase shares of the Company's common stock from the Company. On the last day of each Plan year (March 31), the Company uses participant contributions, net of refunds for excess contributions, to purchase shares of the Company's common stock for the participant. Such stock is immediately transferred into a brokerage account in the participant's name. Contributions that exceed the Plan provisions or the Internal Revenue Code limits may either be refunded to participants or rolled over to the next Plan year. The purchase price per share to the participant is equal to 85% of the market value, as defined in the Plan, of the Company's common stock on the first or last day of the Plan year, whichever amount is lower. The fair market value of the stock acquired through the Plan by any one participant cannot exceed \$25,000 in one calendar year as dictated by the Internal Revenue Code Section 423.

At March 28, 2002, the last trading day prior to the Plan year end, the Company's closing stock price was \$1.30 as compared to a closing stock price at the beginning of the Plan year of \$1.25. Accordingly, the Plan, on behalf of the participants, purchased 35,770 shares of the Company's common stock at \$1.0625 (85% of \$1.25) on April 1, 2002 with an effective date of March 31, 2002, and 53,606 shares at \$1.0625 on April 2, 2001 with an effective date of March 31, 2001.

Shares purchased by the Plan on behalf of the participants are transferred into a brokerage account in the participant's name. There are 910,624 shares remaining available for issuance under the Plan.

***Plan Termination***

While there are no current intentions to do so, the Board of Directors may terminate the Plan at any time. In the event that a termination were to occur, any stock purchase transactions in process at the time of such termination could not be modified or canceled without the written consent of the participants.

**2. Summary of Significant Accounting Policies**

***Basis of Accounting***

The accompanying financial statements have been prepared on the accrual basis of accounting.

**HealthStream, Inc. Employee Stock Purchase Plan**

**Notes to Financial Statements**

**2. Summary of Significant Accounting Policies (continued)**

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires Plan management to make estimates and assumptions that affect the reported amounts of Plan assets and liabilities and disclosure of any contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in Plan equity during the reporting period. Actual results may differ from those estimates and the differences could be material.

*Plan Administration*

The Plan is administered by the Compensation Committee of the Company's Board of Directors, which consists of three non-employee directors.

*Plan Expenses*

Administrative expenses of the Plan are paid by the Company.

**3. Federal Income Taxes**

The Plan is intended to be an Employee Stock Purchase Plan under Section 423 of the Internal Revenue Code of 1986 (the "Code"). Issuance of shares under the Plan are not intended to result in taxable income to participants in the Plan based on provisions of the Code. Accordingly, the Plan is designed to be exempt from income taxes. Management believes that the Plan has been operated in accordance with the Code and therefore no provision for income taxes has been reflected in the accompanying financial statements.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the plan) of the HealthStream, Inc. Employee Stock Purchase Plan have duly caused this Annual Report to be signed on its behalf by the undersigned hereunto duly authorized.

HEALTHSTREAM, INC.  
EMPLOYEE STOCK PURCHASE PLAN

By: Arthur E. Newman

Date: May 24, 2002

By: /s/ Arthur E. Newman

Name: Arthur E. Newman

Title: CFO

Consent of Independent Auditors

We consent to incorporation by reference in the Registration Statement (Form S-8 No. 333-37440) pertaining to the Employee Stock Purchase Plan of HealthStream, Inc. of our report dated May 17, 2002, with respect to the financial statements of the HealthStream, Inc. Employee Stock Purchase Plan included in this Annual Report (Form 11-K) as of March 31, 2002 and 2001 and for the year ended March 31, 2002 and the period April 10, 2000 (date of inception) to March 31, 2001.

Ernst & Young LLP

Nashville, Tennessee  
May 22, 2002