AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON FEBRUARY 14, 2000

REGISTRATION NO. 333-8839

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-1
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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

TENNESSEE	8299	62-1443555
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

HEALTHSTREAM, INC. 209 10th Avenue South, Suite 450 Nashville, Tennessee 37203 (615) 301-3100 (Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)	ROBERT A. FRIST, JR. 209 10th Avenue South, Suite 450 Nashville, Tennessee 37203 (615) 301-3100 (Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

J. PAGE DAVIDSON, ESQ. Bass, Berry & Sims PLC 2700 First American Center Nashville, Tennessee 37238 (615) 742-6200	KRIS F. HEINZELMAN, ESQ. Cravath, Swaine & Moore Worldwide Plaza 825 Eighth Avenue New York, New York 10019 (212) 474-1000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [ ]

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

	AMOUNT TO	PROPOSED	PROPOSED

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	BE REGISTERED	MAXIMUM OFFERING PRICE PER UNIT	MAXIMUM AGGREGATE OFFERING PRICE	AMOUNT OF REGISTRATION FEE(1)(2)
Common Stock, no par value	5,750,000	$11.00	$63,250,000	$16,698

(1) Determined pursuant to Rule 457(a) promulgated under the Securities Act of 1933.

(2) $15,985 of this fee was paid with our previous filing on October 13, 1999.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL SECURITIES, AND WE ARE NOT SOLICITING OFFERS TO BUY THESE SECURITIES, IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED FEBRUARY 14, 2000

(HEALTHSTREAM LOGO)

HEALTHSTREAM, INC.

5,000,000 SHARES

COMMON STOCK

We are offering 5,000,000 shares of our common stock. This is our initial public offering and no public market currently exists for our shares. We have made application for approval for quotation of our common stock on the Nasdaq National Market under the symbol "HSTM." We anticipate that the initial public offering price will be between $9.00 and $11.00 per share.

INVESTING IN OUR COMMON STOCK INVOLVES RISKS.
SEE "RISK FACTORS" BEGINNING ON PAGE 5.

	PER SHARE	TOTAL
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds to HealthStream, Inc	$	$

THE SECURITIES AND EXCHANGE COMMISSION AND STATE SECURITIES REGULATORS HAVE NOT APPROVED OR DISAPPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

We have granted the underwriters a 30-day option to purchase up to an additional 750,000 shares of common stock to cover over-allotments.

ROBERTSON STEPHENS
CIBC WORLD MARKETS
J.C. BRADFORD & CO.
E*OFFERING

THE DATE OF THIS PROSPECTUS IS , 2000.

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION DIFFERENT FROM THAT CONTAINED IN THIS PROSPECTUS. WE ARE OFFERING TO SELL, AND SEEKING OFFERS TO BUY, SHARES OF COMMON STOCK ONLY IN JURISDICTIONS WHERE OFFERS AND SALES ARE PERMITTED. THE INFORMATION CONTAINED IN THIS PROSPECTUS IS ACCURATE ONLY AS OF THE DATE OF THIS PROSPECTUS, REGARDLESS OF THE TIME OF DELIVERY OF THIS PROSPECTUS OR OF ANY SALE OF OUR COMMON STOCK.

UNTIL , 2000, ALL DEALERS THAT BUY, SELL OR TRADE OUR COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS OFFERING, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS REQUIREMENT IS IN addition TO THE DEALERS' OBLIGATION TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENT OR SUBSCRIPTIONS.

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"HEALTHSTREAM," "TRAINING NAVIGATOR" AND "T.NAV" ARE OUR REGISTERED TRADEMARKS. ALL OTHER TRADEMARKS AND SERVICE MARKS USED IN THIS PROSPECTUS ARE THE PROPERTY OF THEIR RESPECTIVE OWNERS.

SUMMARY

You should read the following summary together with the more detailed information in this prospectus, including risk factors, regarding our company and the common stock being sold in this offering The terms "we," "us," "our" and "our company" refer to HealthStream, Inc. and its subsidiaries as a combined entity, except where the context requires otherwise.

OUR BUSINESS

We are pioneering a Web-based solution to meet the training and education needs of the healthcare industry utilizing our proprietary system. Through strategic relationships with medical institutions and commercial organizations, including Vanderbilt University Medical Center, Duke University Medical Center, The Cleveland Clinic Foundation, Scripps Clinic, Challenger Corporation and American Health Consultants, we have amassed over 3,000 hours of training and education courses. We currently distribute approximately 1,000 hours of these courses online to allied health professionals, nurses, doctors and other healthcare workers. We will expand distribution of our courses and services to include two methods. The first method provides Internet access to our courses and education management software that will enable healthcare administrators to configure, assess and manage training for employees in their organizations. This method of providing access to and usage of our courses and software on a transactional basis over the Internet is commonly referred to as providing services on an application service provider, or ASP, basis. We have entered into a four-year agreement with Columbia/HCA Healthcare Corporation, a provider network with over 200 hospitals, to provide our courses and education management software using this ASP method. Under the second method, we deliver our courses through strategic distribution partners, which we refer to as our Web distribution network. This network currently consists of 30 distribution partners including MedicaLogic, GE Medical Systems, Pointshare, Medsite.com, HealthGate and ChannelHealth (an IDX company). These distribution partners reach our target audience directly through a variety of Web-based offerings.

THE MARKET OPPORTUNITY

The healthcare industry spends approximately $6.0 billion annually on training and education for over an estimated 10 million healthcare workers and professionals. According to a recent study, a greater percentage of healthcare workers receive training than workers in any other industry. Approximately 88% of all healthcare workers receive some kind of formal work-related training, safety training or continuing education every year. Training includes safety training mandated by both the Occupational Safety and Health Administration, or OSHA, and the Joint Commission on Accreditation of Healthcare Organizations, or JCAHO, for all healthcare workers. Continuing education includes continuing education units, or CEU, for nurses and continuing medical education, or CME, for doctors.

The training and education market in the healthcare industry is highly fragmented, with over 1,000 providers offering a limited selection of programs on specific topics. Historically healthcare workers and professionals have received training and education through offline publications such as medical journals and CD-ROMs and by attending conferences and seminars. Although these existing approaches satisfy ongoing training and continuing education requirements, they may be limited in their breadth of offerings, inconvenient and costly to purchase or attend and result in lost productivity. In addition, healthcare organization administrators find it difficult to review and assess results, track employee compliance with certification requirements and respond to the effectiveness of education and training programs. We believe that these inefficiencies, combined with the time constraints and increased cost pressures in the healthcare industry, have prompted healthcare organizations and professionals to seek alternative training methodologies. The emergence of the Internet enables the delivery of a greater breadth and depth of training and continuing education programs to healthcare professionals and other healthcare workers more cost effectively and conveniently than by historical methods.

OUR SERVICES

We believe that the combination of our high quality training and education content, coupled with the reach through our ASP method and our distribution partners, positions us to be a leading provider of Web-based solutions to meet the needs of healthcare organizations and professionals. Healthcare organizations must provide both government mandated and internally required training to their employees. Most healthcare professionals are individually responsible for meeting their ongoing training and continuing education requirements. We believe our Web-based training and education solution allows us to meet these needs by offering:

- healthcare organizations the ability to administer, assess and track government and institution-mandated training and education for their potentially large and geographically dispersed employee populations on a cost-effective basis;

- healthcare professionals and other healthcare workers a cost-effective, convenient, efficient and easy to use one-stop shop for meeting their training and continuing education needs;

- our distribution partners one of the largest online libraries of training and education courses from premier healthcare organizations and a predictable source of online traffic due to the recurring nature of regulated training and continuing education requirements in the healthcare industry; and

- our content partners one of the largest online distribution channels targeted to the healthcare industry as well as our experience in producing interactive educational materials for the healthcare industry.

OUR GROWTH STRATEGY

Our objective is to be the leading provider of Web-based training and education solutions for the healthcare industry. The following are the key elements of our growth strategy:

- provide healthcare organizations with Web-based access to our courses and education management software on an ASP basis;

- expand and enhance our online training and education library;

- increase the number of partners in our Web distribution network;

- expand our sales and marketing efforts that target healthcare organizations, healthcare professionals and potential content and distribution partners; and

- generate additional revenue opportunities by aggregating the performance data collected by our system and offering sponsorship products based on the attractive demographics of our end users.

We intend to implement our strategy through internal growth, expansion of strategic relationships with content and distribution partners and the acquisition of businesses that have complementary content, technology and/or end users.

OUR HISTORY

We launched our online training and continuing education services in March 1999. We were incorporated in 1990 and in 1996 we began deploying our education management system as a network and stand-alone product. Our revenues in 1999 increased 49.6% to $2.6 million from $1.7 million in 1998. In 1999, we had a pro forma net loss of $10.0 million on pro forma revenues of $7.2 million and an

accumulated deficit on a pro forma basis through December 31, 1999 of $8.9 million. We expect to continue to incur net losses and negative cash flow for the foreseeable future as we continue to implement our Web-based solutions.

Our principal executive office is located at 209 10th Avenue South, Suite 450, Nashville, Tennessee 37203, our telephone number is (615) 301-3100, and our Web address is www.healthstream.com. The contents of our Web site are not part of this prospectus.

THE OFFERING

Common stock offered.....	5,000,000 shares
Common stock to be outstanding after the offering.....	18,017,004 shares, or 18,767,004 shares if the underwriters exercise their over-allotment option in full. These shares do not include 686,117 shares reserved for issuance pursuant to options we may issue under our stock option plans or 5,314,396 shares subject to warrants and outstanding options issued under our stock option plans.
Use of proceeds.....	The net proceeds from this offering (without exercise of the over-allotment option) are estimated to be approximately $46.3 million and will be used for general corporate purposes, including working capital, sales and marketing expenses and possible acquisitions. See "Use of Proceeds."
Risk Factors.....	See "Risk Factors" and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our common stock.
Proposed Nasdaq National Market symbol.....	HSTM

The number of shares of common stock to be outstanding after the offering is estimated based on the number of shares outstanding as of January 31, 2000.

Except as otherwise indicated, all information in this prospectus:

- reflects the conversion of a $1,293,000 promissory note payable to Robert A. Frist, Jr., our chief executive officer and chairman, into 553,712 shares of our common stock upon completion of this offering;

- reflects the conversion of our outstanding shares of series A, B and C preferred stock into 7,131,153 shares of our common stock upon completion of this offering;

- assumes no exercise of the underwriters' over-allotment option; and

- reflects a 1.85 for 1 common stock split to be effected immediately prior to the effective date of the registration statement of which this prospectus is a part.

SUMMARY FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE DATA)

The following table is a summary of the financial data for our company. We derived the historical statement of operations data for the three years ended December 31, 1999 and the historical balance sheet data as of December 31, 1999 from our audited financial statements and related notes, which are included elsewhere in this prospectus. You should read this information together with the financial statements and the related notes appearing at the end of this prospectus, the information under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the other financial information contained elsewhere in this prospectus.

The pro forma as adjusted condensed statement of operations data assumes:

- the acquisition of SilverPlatter Education, Inc., Multimedia Marketing, Inc. d/b/a m3 the Healthcare Learning Company, Emergency Medicine Internetwork, Inc., or EMInet, Quick Study, Inc. and KnowledgeReview, LLC;

- the conversion of our series A, B and C preferred stock into our common stock;

- the conversion of notes payable-related party into our common stock; and

- the issuance of our common stock in this offering as described in "Use of Proceeds"

as if each of such transactions had occurred as of January 1, 1999.

The pro forma as adjusted balance sheet data assumes:

- the acquisition of m3 the Healthcare Learning Company, EMInet, Quick Study and KnowledgeReview;

- the conversion of our series A, B and C preferred stock into our common stock; and

- the issuance of our common stock in this offering as described in "Use of Proceeds"

as if each of such transactions had occurred as of December 31, 1999.

	YEAR ENDED DECEMBER 31,			
	1997	1998	1999	PRO FORMA AS ADJUSTED 1999
STATEMENT OF OPERATIONS DATA:				
Revenues	$1,268	$ 1,716	$ 2,568	$ 7,235
Loss from operations	(771)	(1,261)	(4,560)	(9,839)
Net loss	(960)	(1,590)	(4,456)	(9,781)
Basic and diluted loss per share	(0.29)	(0.49)	(1.19)	(0.55)
Weighted average shares used in the calculation of basic and diluted net loss per share	3,256	3,256	3,757	17,633

	AS OF DECEMBER 31, 1999	
	ACTUAL	PRO FORMA AS ADJUSTED

BALANCE SHEET DATA:		
Cash and cash equivalents	$13,632	$57,435
Working capital	11,465	55,439
Total assets	17,455	75,599
Long-term debt and capital leases, net of current portion	186	186
Shareholders' equity	14,190	71,528

RISK FACTORS

This offering involves a high degree of risk. You should carefully consider the risks described below and the other information in this prospectus before you decide to invest in shares of our common stock. The risks described below are intended to highlight risks that are specific to us, but are not the only ones we face. Additional risks and uncertainties, including those generally affecting the industry in which we operate, risks that we currently deem immaterial or risks to companies that have recently undertaken initial public offerings, may also impair our business or the value of your investment.

RISKS RELATED TO OUR BUSINESS MODEL

OUR LIMITED OPERATING HISTORY MAKES EVALUATING OUR BUSINESS DIFFICULT.

Although we were incorporated in 1990, we did not initiate our online operations until March 1999. As a result, we have only a limited operating history on which you can base an evaluation of our business and prospects. Our prospects must be considered in light of the risks, uncertainties, expenses and difficulties frequently encountered by companies in their early stages of development, particularly companies in new and rapidly evolving markets like ours. Our failure to successfully address these risks and uncertainties could have a material adverse effect on our financial condition. Some of these risks and uncertainties relate to our ability to:

- attract and maintain a large base of end users;
- develop and introduce desirable services and compelling content;
- establish and maintain strategic relationships with content and distribution partners;
- establish and maintain relationships with sponsors and advertisers;
- respond effectively to competitive and technological developments; and
- further develop our infrastructure, including additional hardware and software, customer support, personnel and facilities, to support our business.

WE ARE COMPETING IN A NEW MARKET WHICH MAY NOT DEVELOP OR IN WHICH WE MAY FAIL TO GAIN MARKET ACCEPTANCE.

The market for online training and continuing education in the healthcare industry is new and rapidly evolving. As a result, uncertainty as to the level of demand and market acceptance exposes us to a high degree of risk. We cannot assure you that the healthcare community will accept online training and continuing education as a replacement for, or alternative to, traditional sources of training and continuing education. Market acceptance of online training and continuing education depends upon continued growth in the use of the Internet generally and, in particular, as a source of continuing education services. If the market for online training and continuing education fails to develop, develops more slowly than expected or becomes saturated with competitors, or if our services do not achieve or sustain market acceptance, our business will suffer.

FAILURE TO EFFECTIVELY MANAGE GROWTH OF OUR OPERATIONS AND INFRASTRUCTURE COULD DISRUPT OUR OPERATIONS AND PREVENT US FROM GENERATING THE REVENUES WE EXPECT.

We currently are experiencing a period of expansion in our end user traffic, personnel, facilities and infrastructure. Our number of employees more than doubled between December 31, 1998 and December 31, 1999. In addition, we anticipate a rapid expansion in end user traffic on our Web site and the co-branded Web sites we operate with our distribution partners. To manage our growth, we must successfully implement, constantly improve and effectively utilize our operational and financial systems while aggressively expanding our workforce. We must also maintain and strengthen the breadth and depth of our current strategic relationships while rapidly developing new relationships. Our existing or planned operational and financial systems may not be sufficient to support our growth, and our management may not be able to effectively identify, manage and exploit existing and emerging market opportunities. If we do not adequately manage our potential growth, our business will suffer.

WE MAY BE UNABLE TO MAINTAIN OUR EXISTING RELATIONSHIPS WITH OUR CONTENT PROVIDERS OR TO BUILD NEW RELATIONSHIPS WITH OTHER CONTENT PROVIDERS.

Our success depends significantly on our ability to maintain our existing relationships with the publishers and authors who provide training and continuing education content for our library and our ability to build new relationships with other content partners. Most of our agreements with publishers and authors are non-exclusive, and our competitors offer, or could offer, training and continuing education content that is similar to or the same as ours. If publishers and authors, including our current content partners, offer information to users or our competitors on more favorable terms than those offered to us, our competitive position and our profit margins and prospects could be harmed. In addition, the failure by our content partners to deliver high-quality content and to continuously upgrade their content in response to user demand and evolving healthcare advances and trends could result in user dissatisfaction and inhibit our ability to attract users.

WE MAY BE UNABLE TO MAINTAIN OUR EXISTING RELATIONSHIPS WITH OUR DISTRIBUTION PARTNERS OR TO BUILD NEW RELATIONSHIPS WITH OTHER DISTRIBUTION PARTNERS.

If we are not successful in developing and enhancing our relationships with distribution partners, we could become less competitive and our revenues could decline. We formed our existing relationships recently, and our distribution partners may not view their relationships with us as significant to the success of their business. As a result, they may reassess their commitment to us or decide to compete directly with us in the future. We generally do not have agreements that prohibit our distribution partners from competing against us directly or from contracting with our competitors. Arrangements with our distribution partners generally do not establish minimum performance requirements, but instead rely on the voluntary efforts of our distribution partners. As a result, these relationships may not be successful.

WE MAY BE UNABLE TO IMPLEMENT OUR ACQUISITION GROWTH STRATEGY, WHICH COULD HAVE AN ADVERSE EFFECT ON OUR BUSINESS AND COMPETITIVE POSITION IN THE INDUSTRY.

Our business strategy includes increasing our market share and presence through strategic acquisitions that complement or enhance our business and we have recently consummated a number of acquisitions. We do not have substantial experience in completing and integrating large acquisitions or multiple simultaneous acquisitions. In addition, we do not have experience operating multiple remote offices. We may have difficulty integrating the operations and realizing the results of our recently completed acquisitions. We may not be able to identify, complete, integrate the operations or realize the anticipated results of future acquisitions. Some of the risks that we may encounter in implementing our acquisition growth strategy include:

- expenses associated with and difficulties in identifying potential targets and the costs associated with acquisitions that are not completed;

- expenses, delays and difficulties of integrating the acquired company into our existing organization;

- diversion of management's attention from other business matters;

- expenses of amortizing the acquired company's intangible assets;

- adverse impact on our financial condition due to the timing of the acquisition; and

- expenses of any undisclosed or potential liabilities of the acquired company.

If any of these risks are realized, our business could suffer.

OUR FUTURE SUCCESS DEPENDS, IN PART, ON REVENUES FROM SPONSORSHIPS AND, TO A LESSER EXTENT, ADVERTISING, AND THE ACCEPTANCE AND EFFECTIVENESS OF INTERNET SPONSORSHIP AND ADVERTISING IS UNCERTAIN.

We plan to derive significant revenues from sponsorships and, to a lesser extent, the sale of advertisements, in conjunction with our online training and continuing education services. The market for corporate sponsorship and

advertising on the Internet is new and rapidly evolving. Many sponsors and advertisers have limited experience with Internet sponsorship and advertising, and may ultimately conclude that Internet sponsorship and advertising are not effective relative to traditional sponsorship and advertising

opportunities. As a result, the market for sponsorship or advertising on the Internet may not continue to emerge or become sustainable. This makes it difficult to project our future sponsorship and advertising revenues and rates. If the market for Internet sponsorship or advertising fails to develop or develops more slowly than we expect, our business will suffer.

WITHOUT THE CONTINUED DEVELOPMENT AND MAINTENANCE OF THE INTERNET AND THE AVAILABILITY OF INCREASED BANDWIDTH TO CONSUMERS, OUR BUSINESS MAY NOT SUCCEED.

Given the online nature of our business, without the continued development and maintenance of the Internet infrastructure, we could fail to meet our overall strategic objectives and ultimately fail to generate the user traffic and revenues we expect. This continued development of the Internet includes maintenance of a reliable network with the necessary speed, data capacity and security, as well as timely development of complementary products for providing reliable Internet access and services. Because commerce on the Internet and the online exchange of information is new and evolving, we cannot predict whether the Internet will prove to be a viable commercial marketplace in the long term.

The success of our business will rely on the continued improvement of the Internet as a convenient and efficient means of information and content distribution. Our business will depend on the ability of our end users to access and use our courseware, as well as to conduct commercial transactions with us, without significant delays or aggravation that may be associated with decreased availability of Internet bandwidth and access to our Web sites. Our penetration of a broader consumer market will depend, in part, on continued proliferation of high speed Internet access.

The Internet has experienced, and is likely to continue to experience, significant growth in the numbers of users and amount of traffic. As the Internet continues to experience increased numbers of users, increased frequency of use and increased bandwidth requirements, the Internet infrastructure may be unable to support the demands placed on it. In addition, increased users or bandwidth requirements may impair the performance of the Internet. The Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure, and it could face outages and delays in the future. These outages and delays could reduce the level of Internet usage as well as the level of traffic, and could result in the Internet becoming an inconvenient or uneconomical source of continuing education and training. The infrastructure and complementary products or services necessary to make the Internet a viable educational media and commercial marketplace for the long term may not be developed successfully or in a timely manner. Even if these products or services are developed, the Internet may not become a viable educational medium and commercial marketplace for the services that we offer.

FINANCIAL RISKS

WE MAY NOT BE ABLE TO FORECAST OUR REVENUES ACCURATELY BECAUSE WE HAVE A LIMITED OPERATING HISTORY.

As a result of our limited operating history, we do not have historical financial data for a significant number of periods upon which to forecast quarterly revenues and results of operations. We believe that period-to-period comparisons of our operating results are not meaningful and should not be relied upon as indicators of future performance. In addition, our operating results may vary substantially. The actual effect of these factors on the price of our stock, however, will be difficult to assess due to our limited operating history. In one or more future quarters, our results of operations may fall below the expectations of securities analysts and investors, and the trading price of our common stock may decline.

WE EXPECT NET LOSSES IN THE FUTURE AND MAY NEVER ACHIEVE PROFITABILITY, WHICH MAY CAUSE OUR STOCK PRICE TO FALL.

In 1999, we had a pro forma net loss of approximately $10.0 million. At December 31, 1999, our accumulated deficit was $8.9 million. We expect substantial net losses and negative cash flow for the foreseeable future and significant increases in our operating expenses over the next several years. With increased expenses, we will need to generate significant additional revenues in order to achieve profitability.

As a result, we may never achieve or sustain profitability and, if we do achieve profitability in any period, we may not be able to sustain or increase profitability on a quarterly or annual basis.

WE MAY NOT BE ABLE TO MEET OUR STRATEGIC BUSINESS OBJECTIVES UNLESS WE OBTAIN ADDITIONAL FINANCING, WHICH MAY NOT BE AVAILABLE TO US ON FAVORABLE TERMS OR AT ALL.

The proceeds of this offering, together with our current cash reserves, are expected to be sufficient to meet our cash requirements for at least 12 months. However, we may need to raise additional funds in order to:

- acquire complementary businesses, technologies, content or products;
- finance working capital requirements;
- develop or enhance existing services or products;
- respond to competitive pressures;
- sustain content, distribution and development partner relationships; or
- maintain required infrastructure to support our business.

At December 31, 1999, we had approximately $13.6 million in cash and cash equivalents, or $12.5 million on a pro forma basis. In addition, we have fixed commitments of $475,000 in 2000 and $187,500 in 2001 and other variable payments will be due based on revenues and certain milestones related to agreements with content, distribution and development partners. These commitments may increase over time as a result of competitive pressures. We expect operating losses and negative cash flows to continue for the foreseeable future as we plan to significantly increase our operating expenses to help expand our business.

We cannot assure you that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, our ability to fund our expansion, take advantage of available opportunities, develop or enhance services or products or otherwise respond to competitive pressures would be significantly limited. If we raise additional funds by issuing equity or convertible debt securities, the percentage ownership of our shareholders will be reduced, and these securities may have rights, preferences or privileges senior to those of our shareholders.

RISKS RELATED TO SALES, MARKETING AND COMPETITION

WE EXPECT COMPETITION TO INCREASE SIGNIFICANTLY IN THE FUTURE WHICH COULD REDUCE OUR REVENUES, POTENTIAL PROFITS AND OVERALL MARKET SHARE.

The market for traditional and online training and continuing education services is competitive. Barriers to entry on the Internet are relatively low, and we expect competition to increase significantly in the future. We face competitive pressures from numerous actual and potential competitors, both online and offline, many of which have longer operating histories, greater brand name recognition, larger consumer bases and significantly greater financial, technical and marketing resources than we do. We cannot assure you that online training and continuing education services maintained by our existing and potential competitors will not be perceived by the healthcare community as being superior to ours.

IF WE FAIL TO COLLECT ACCURATE AND USEFUL DATA ABOUT OUR END USERS, POTENTIAL SPONSORS AND ADVERTISERS MAY NOT SUPPORT OUR SERVICES, WHICH MAY RESULT IN REDUCED SPONSORSHIP AND ADVERTISING REVENUES.

We plan to use data about our end users to expand, refine and target our marketing and sales efforts. We collect most of our data from end users who report information to us as they register for courses on our Web site, or our distribution partners' Web sites. If a large proportion of users impedes our ability to collect data or if they falsify data, our marketing and sales efforts would be less effective since sponsors and advertisers generally require detailed demographic data on their target audiences. In addition, laws relating to privacy and the use of the Internet to collect personal information could limit our ability to collect data and utilize our database. Failure to collect accurate and useful data could result in a substantial reduction in sponsorship and advertising revenues.

RISKS RELATED TO OPERATIONS

OUR BUSINESS OPERATIONS COULD BE SIGNIFICANTLY DISRUPTED IF WE LOSE MEMBERS OF, OR FAIL TO INTEGRATE, OUR MANAGEMENT TEAM.

Our future performance will be substantially dependent on the continued services of our management team and our ability to retain and motivate them. The loss of the services of any of our officers or senior managers could harm our business, as we may not be able to find suitable replacements. We do not have long-term employment agreements with any of our key personnel, other than our chief executive officer, and we do not maintain any "key person" life insurance policies, except on our chief executive officer.

WE MAY NOT BE ABLE TO HIRE AND RETAIN A SUFFICIENT NUMBER OF QUALIFIED EMPLOYEES AND, AS A RESULT, WE MAY NOT BE ABLE TO GROW AS WE EXPECT OR MAINTAIN THE QUALITY OF OUR SERVICES.

Our future success will depend on our ability to attract, train, retain and motivate other highly skilled technical, managerial, marketing and customer support personnel. Competition for these personnel is intense, especially for engineers, Web designers and advertising sales personnel, and we may be unable to successfully attract sufficiently qualified personnel. We have experienced difficulty in the past hiring qualified personnel in a timely manner for these positions. The pool of qualified technical personnel, in particular, is limited in Nashville, Tennessee, which is where our headquarters are located. We will need to increase the size of our staff to support our anticipated growth, without compromising the quality of our offerings or customer service. Our inability to locate, hire, integrate and retain qualified personnel in sufficient numbers may reduce the quality of our services.

WE MUST CONTINUE TO UPGRADE OUR TECHNOLOGY INFRASTRUCTURE, OR WE WILL BE UNABLE TO EFFECTIVELY MEET DEMAND FOR OUR SERVICES.

We must continue to add hardware and enhance software to accommodate the increased content in our library and increased use of our and our distribution partners' Web sites. In order to make timely decisions about hardware and software enhancements, we must be able to accurately forecast the growth in demand for our services. This growth in demand for our services could be difficult to forecast and the potential audience for our services is large. If we are unable to increase the data storage and processing capacity of our systems at least as fast as the growth in demand, our systems may become unstable and may fail to operate for unknown periods of time. Unscheduled downtime could harm our business and also could discourage current and potential end users and reduce future revenues.

OUR DATA AND WEB SERVER SYSTEMS MAY STOP WORKING OR WORK IMPROPERLY DUE TO NATURAL DISASTERS, FAILURE OF THIRD-PARTY SERVICES AND OTHER UNEXPECTED PROBLEMS.

An unexpected event like a power or telecommunications failure, fire, flood or earthquake at our on-site data facility or at our Internet service providers' facilities could cause the loss of critical data and prevent us from offering our services. Our business interruption insurance may not adequately compensate us for losses that may occur. In addition, we rely on third parties to securely store our archived data, house our Web server and network systems and connect us to the Internet. The failure by any of these third parties to provide these services satisfactorily and our inability to find suitable replacements would impair our ability to access archives and operate our systems.

WE MAY LOSE USERS AND LOSE REVENUES IF OUR ONLINE SECURITY MEASURES FAIL.

If the security measures that we use to protect personal information are ineffective, we may lose users of our services, which could reduce our revenues. We rely on security and authentication technology licensed from third parties. With this technology, we perform real-time credit card authorization and verification. We cannot predict whether these security measures could be circumvented by new technological developments. In addition, our software, databases and servers may be vulnerable to computer viruses, physical or electronic break-ins and similar disruptions. We may need to spend significant resources to protect against security breaches or to alleviate problems caused by any breaches. We cannot assure you that we can prevent all security breaches.

THE YEAR 2000 PROBLEM MAY ADVERSELY AFFECT OUR BUSINESS.

The risks posed by the Year 2000 problem could adversely affect our business in a number of significant ways. We rely on third parties to provide much of our software, hardware and Internet access. We have limited or no control over the actions of these third-party suppliers. While we did not experience significant disruptions to our business on or following the changeover to the Year 2000 and while we obtained assurances from our suppliers that the products and services they supply to us and their internal systems are Year 2000 compliant, we cannot assure you that our third-party suppliers will resolve all Year 2000 problems with their products, services and systems before the occurrence of a material disruption to our business. As a result of our Year 2000 review, we discovered that the customer data acquired in the acquisition of SilverPlatter Education and used by our Boston office to manage subscriptions, billing and order fulfillment is not Year 2000 compliant. While we have put our contingency plan into effect with respect to this data and have implemented a short-term solution, we cannot guarantee that we will successfully implement a long-term solution or that this implementation will not divert resources and management attention.

In addition, many of our distribution partners maintain their operations on systems that could be impacted by Year 2000 problems, which could harm our business particularly if demand for our products and services declines while our distribution partners redirect their resources to upgrade their computer systems. Disruptions in the Internet infrastructure arising from Year 2000 problems could also harm our business, financial condition and results of operations. We cannot guarantee that we will not experience disruptions in our service or other disruptions due to Year 2000 problems. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Year 2000" for a further discussion of the potential effects of the Year 2000 problem on our business.

RISKS RELATED TO GOVERNMENT REGULATION, CONTENT AND INTELLECTUAL PROPERTY

GOVERNMENT REGULATION MAY REQUIRE US TO CHANGE THE WAY WE DO BUSINESS.

The laws and regulations that govern our business change rapidly. The United States government and the governments of states and foreign countries have attempted to regulate activities on the Internet. Evolving areas of law that are relevant to our business include privacy law, proposed encryption laws, content regulation and sales and use tax laws and regulations. Because of this rapidly evolving and uncertain regulatory environment, we cannot predict how these laws and regulations might affect our business. In addition, these uncertainties make it difficult to ensure compliance with the laws and regulations governing the Internet. These laws and regulations could harm us by subjecting us to liability or forcing us to change how we do business. See "Business -- Government Regulation of the Internet and the Healthcare Industry" for a more complete discussion of these laws and regulations.

WE MAY BE LIABLE TO THIRD PARTIES FOR CONTENT THAT IS AVAILABLE FROM OUR ONLINE LIBRARY.

We may be liable to third parties for the content in our online library if the text, graphics, software or other content in our library violates copyright, trademark, or other intellectual property rights, our content partners violate their contractual obligations to others by providing content to our library or the content does not conform to accepted standards of care in the healthcare profession. We may also be liable for anything that is accessible from our Web site or our distribution partners' Web sites through links to other Web sites. We attempt to minimize these types of liabilities by requiring representations and warranties relating to our content partners' ownership of, the rights to distribute as well as the accuracy of their content. We also take necessary measures to review this content ourselves. Although our agreements with our content partners contain provisions providing for indemnification by the content providers in the event of inaccurate content, we cannot assure you that our content partners will have the financial resources to meet this obligation. Alleged liability could harm our business by damaging our reputation, requiring us to incur legal costs in defense, exposing us to awards of damages and costs and diverting management's attention away from our business. See "Business -- Intellectual Property and Other Proprietary Rights" for a more complete discussion of the potential effects of this liability on our business.

WE MAY BE UNABLE TO PROTECT OUR INTELLECTUAL PROPERTY, AND WE MAY BE LIABLE FOR INFRINGING THE INTELLECTUAL PROPERTY RIGHTS OF OTHERS.

Our business could be harmed if unauthorized parties infringe upon or misappropriate our proprietary systems, content, services or other information. Our efforts to protect our intellectual property through copyright, trademarks and other controls may not be adequate. In the future, litigation may be necessary to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others, which could be time consuming and costly. Intellectual property infringement claims could be made against us as the number of our competitors grows. These claims, even if not meritorious, could be expensive and divert our attention from operating our company. In addition, if we become liable to third parties for infringing their intellectual property rights, we could be required to pay a substantial damage award and develop comparable non-infringing intellectual property, to obtain a license or to cease providing the content or services that contain the infringing intellectual property. We may be unable to develop non-infringing intellectual property or obtain a license on commercially reasonable terms, or at all.

ANY REDUCTION IN THE REGULATION OF CONTINUING EDUCATION AND TRAINING IN THE HEALTHCARE INDUSTRY MAY ADVERSELY AFFECT OUR BUSINESS.

Our business model is dependent in part on required training and continuing education for healthcare professionals and other healthcare workers resulting from regulations of state and Federal agencies, state licensing boards and professional organizations. Any change in these regulations which reduce the requirements for continuing education and training for the healthcare industry could harm our business.

RISKS RELATED TO THIS OFFERING

OUR STOCK PRICE MAY BE PARTICULARLY VOLATILE BECAUSE OF OUR INDUSTRY.

Prior to this offering, our common stock has not been sold in a public market. After this offering, an active trading market in our common stock may not develop. If an active trading market develops, it may not continue. Moreover, if an active market develops, the trading price of our common stock may fluctuate widely as a result of a number of factors, many of which are outside our control. In addition, the stock market has recently experienced extreme price and volume fluctuations that have affected the market prices of securities of technology companies, particularly Internet-related companies, and which have often been unrelated to or disproportionate to the operating performance of these companies. Regardless of our performance, this volatility could adversely affect the market price of our common stock.

WE HAVE BROAD DISCRETION TO USE THE OFFERING PROCEEDS, AND HOW WE INVEST THESE PROCEEDS MAY NOT YIELD A FAVORABLE RETURN.

We have not allocated most of the net proceeds of this offering for specific uses. Our management has broad discretion to spend the proceeds from this offering in ways with which our shareholders may not agree. The failure of our management to apply these funds effectively could result in unfavorable returns, which could significantly harm our financial condition and could cause the price of our common stock to decline.

OUR EXECUTIVE OFFICERS, DIRECTORS AND MAJOR SHAREHOLDERS WILL CONTROL 54.1% OF OUR COMMON STOCK AFTER THIS OFFERING.

After this offering, executive officers, directors and holders of 5% or more of our outstanding common stock will, in the aggregate, beneficially own 54.1% of our outstanding common stock. These shareholders will be able to significantly influence all matters requiring approval by our shareholders, including the election of directors and the approval of significant corporate transactions. This concentration of ownership may also have the effect of delaying, deterring or preventing a change in control of our company and may make some transactions more difficult or impossible to complete without the support of these shareholders.

IT MAY BE DIFFICULT FOR A THIRD PARTY TO ACQUIRE OUR COMPANY, AND THIS COULD DEPRESS OUR STOCK PRICE.

Tennessee corporate law and our charter and bylaws contain provisions that could delay, defer or prevent a change in control of our company or our management. These provisions could also discourage proxy contests and make it more difficult for you and other shareholders to elect directors and take other corporate actions. As a result, these provisions could limit the price that investors are willing to pay in the future for shares of our common stock. These provisions:

- authorize us to issue "blank check" preferred stock, which is preferred stock that can be created and issued by the board of directors, without prior shareholder approval, with rights senior to those of common stock;

- provide for a staggered board of directors, so that no more than three directors could be replaced each year and it would take three successive annual meetings to replace all directors;

- prohibit shareholder action by written consent; and

- establish advance notice requirements for submitting nominations for election to the board of directors and for proposing matters that can be acted upon by shareholders at a meeting.

THE PRICE OF OUR COMMON STOCK AFTER THIS OFFERING MAY BE LOWER THAN THE PRICE YOU PAY.

If you purchase shares of our common stock in this offering, you will pay a price that was not established in a competitive market. Rather, you will pay a price that we negotiated with the representatives of the underwriters. See "Underwriting" for a discussion of the factors to be considered in determining the initial public offering price. The price of our common stock that will prevail in the market after this offering may be higher or lower than the price you pay.

THE BOOK VALUE OF THE SHARES YOU PURCHASE WILL BE SUBSTANTIALLY LESS THAN THE PRICE YOU PAY FOR THE SHARES.

The assumed initial public offering price is substantially higher than the net tangible book value of each outstanding share of common stock. As a result, purchasers of common stock in this offering will suffer immediate and substantial dilution. This dilution will reduce the net tangible book value of their shares, since these investments will be at a substantially higher per share price than they were for our existing shareholders. The dilution will be $6.84 per share in the pro forma net tangible book value of the common stock from the assumed initial public offering price. If additional shares are sold by the underwriters following exercise of their over-allotment option, or if outstanding options or warrants to purchase shares of common stock are exercised, there will be further dilution. As a result of this dilution, common shareholders purchasing stock in this offering may receive significantly less than the full purchase price that they paid for the shares purchased in this offering in the event of a liquidation.

APPROXIMATELY 13,017,004, OR 72.2%, OF OUR TOTAL OUTSTANDING SHARES ARE RESTRICTED FROM IMMEDIATE RESALE BUT MAY BE SOLD INTO THE MARKET IN THE NEAR FUTURE, WHICH COULD CAUSE THE MARKET PRICE OF OUR COMMON STOCK TO DROP SIGNIFICANTLY.

Sales of a substantial number of shares of our common stock in the public market following this offering could cause the market price of our common stock to decline. After this offering, we will have outstanding 18,017,004 shares of common stock. The 5,000,000 shares offered for sale through the underwriters will be freely tradable unless purchased by our affiliates or covered by a separate lock-up agreement with the underwriters. Of the remaining 13,017,004 shares of common stock outstanding after this offering, 10,731,204 shares will be eligible for sale in the public market beginning 181 days after the date of this prospectus. The remaining 2,285,800 shares will become available at various times after the 181 days upon the expiration of one-year holding periods. For a more complete discussion regarding when shares of our common stock will become eligible for sale, see "Shares Eligible for Future Sale." We also plan to register up to additional shares of our common stock after this offering for issuance under our equity plans.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements in "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks outlined under "Risk Factors," that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of these statements. We are under no duty to update any of the forward-looking statements after the date of this prospectus to conform these statements to actual results.

USE OF PROCEEDS

We estimate that the net proceeds from the sale of the 5,000,000 shares of common stock in this offering will be approximately $46.3 million, assuming an initial public offering price of $10.00 per share (the midpoint of the range set forth on the cover of this prospectus) and after deducting the underwriting discounts and commissions and estimated offering costs. If the underwriters' over-allotment option is exercised in full, we estimate that the net proceeds will be approximately $53.2 million.

We plan to use the net proceeds of this offering for general corporate purposes, including for working capital and sales and marketing initiatives. We will also repay approximately $1.3 million worth of debt assumed in connection with recent acquisitions. Approximately $1.2 million of this debt bears interest at 13.0% and is payable in full on April 30, 2002. Of the remaining $62,000 and $50,000, interest is payable at 7.0% and a variable rate, which was 8.75% at December 31, 1999, and are due on July 1, 2000 and on demand, respectively. We may use a portion of the net proceeds to acquire or invest in complementary businesses, technologies, services, content relationships or products. We currently have no agreement or understanding with respect to any such acquisition and we cannot assure you that future acquisitions will be consummated. As of the date of this prospectus, we cannot specify with certainty the particular uses for the net proceeds to be received upon the completion of the offering. Accordingly, our management will have broad discretion in applying the net proceeds.

Pending such uses of the net proceeds as discussed above, we plan to invest the net proceeds of this offering in short-term, interest-bearing, investment grade securities, certificates of deposit or direct or guaranteed obligations of the United States.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our capital stock. We currently plan to retain future earnings, if any, to finance the growth and development of our business and do not anticipate paying any cash dividends in the foreseeable future. We may incur indebtedness in the future which may prohibit or effectively restrict the payment of dividends, although we have no current plans to do so. Any future determination to pay cash dividends will be at the discretion of our board of directors.

CAPITALIZATION

The following table sets forth our capitalization as of December 31, 1999:

- on an actual basis;

- on a pro forma basis to give effect to (1) the issuance of 818,036 shares of common stock, the payment of $600,000 in cash and the assumption of $1.2 million of long-term debt in connection with the acquisition of m3 the Healthcare Learning Company; (2) the issuance of 269,902 shares of common stock and the payment of $640,000 in cash in connection with the acquisition of EMInet; (3) the issuance of 61,397 shares of common stock, the payment of $59,000 in cash and the assumption of $112,000 of long-term debt in connection with the acquisition of Quick Study; and (4) the issuance of 17,343 shares of common stock and the payment of $310,000 in cash in connection with the acquisition of KnowledgeReview; and

- on a pro forma as adjusted basis to give further effect to (1) the conversion of $1,293,000 of notes payable-related party into 129,300 shares of series B preferred stock and subsequent conversion into 553,712 shares of common stock upon completion of this offering; (2) the conversion of outstanding shares of preferred stock into 7,131,153 shares of common stock upon completion of this offering; (3) the sale of 5,000,000 shares of common stock in this offering at an assumed initial public offering price of $10.00 per share (the midpoint of the range set forth on the cover of this prospectus) and the application of the net proceeds after deducting underwriting discounts and commissions and estimated offering costs; and (4) the repayment of $1.3 million in debt assumed in connection with the acquisitions of m3 the Healthcare Learning Company and Quick Study.

	AS OF DECEMBER 31, 1999		
	ACTUAL	PRO FORMA	PRO FORMA AS ADJUSTED
	(IN THOUSANDS, EXCEPT SHARE DATA)		
Cash and cash equivalents	$13,632	$12,461	$ 57,435
Notes payable, note payable-related party, long-term debt-related party and capital lease obligations	$ 1,582	$ 2,874	$ 304
Shareholders' equity:			
Common stock, no par value; 20,000,000 shares authorized; issued and outstanding: 4,165,461 shares, actual, 5,332,142 shares pro forma and 18,017,004 shares pro forma as adjusted	4,009	14,099	80,519
Preferred stock, no par value; 5,000,000 shares authorized	--	--	--
Series A convertible preferred stock, issued and outstanding: 76,000 shares actual, 76,000 shares pro forma and no shares pro forma as adjusted	760	760	--
Series B convertible preferred stock, issued and outstanding: 1,228,801 shares actual, 1,228,801 shares pro forma and no shares pro forma as adjusted	12,138	12,138	--
Series C convertible preferred stock, issued and outstanding: 627,406 shares actual, 627,406 shares pro forma and no shares pro forma as adjusted	6,274	6,274	--
Accumulated other comprehensive loss	(42)	(42)	(42)
Accumulated deficit	(8,949)	(8,949)	(8,949)
Total shareholders' equity	14,190	24,280	71,528
Total capitalization	$15,772	$27,154	$ 71,832

This table excludes the following shares, as of February 11, 2000:

- 2,886,795 shares of common stock issuable upon the exercise of outstanding stock options with a weighted average exercise price of $3.62 per share;

- 686,117 additional shares reserved for issuance under our stock option plans;

- 245,032 shares of common stock issuable upon the exercise of a warrant issued to GE Medical Systems; and

- 2,182,568 shares of common stock issuable upon the exercise of a warrant issued to Columbia Information Systems.

DILUTION

Purchasers of the common stock offered by this prospectus will suffer an immediate and substantial dilution in the net tangible book value per share. Dilution is the amount by which the initial public offering price paid by the purchasers of the shares of common stock will exceed the net tangible book value per share of common stock after the offering. As of December 31, 1999, our pro forma net tangible book value after giving effect to the acquisitions of m3 the Healthcare Learning Company, EMInet, Quick Study and KnowledgeReview was approximately $9.7 million, or $1.81 per share. Pro forma net tangible book value per share represents the amount of our pro forma total tangible assets less pro forma total liabilities, divided by the pro forma shares of common stock outstanding as of December 31, 1999. After giving effect to the conversion of notes payable-related party into series B preferred stock, the conversion of all shares of our preferred stock into our common stock, the sale of the 5,000,000 shares of common stock offered in this offering, the repayment of debt as described under "Use of Proceeds" and after deducting the underwriting discounts and commissions and estimated offering expenses payable, our pro forma net tangible book value as of December 31, 1999 would have been $56.9 million, or $3.16 per share. This represents an immediate increase in pro forma net tangible book value to existing shareholders of $1.35 per share and an immediate dilution of $6.84 per share to new investors. The following table illustrates this per share dilution:

Assumed initial public offering price per share.....		$10.00
Pro forma net tangible book value per share as of December 31, 1999.....	$1.81	
Increase per share attributable to new investors.....	1.35	
Pro forma net tangible book value per share after this offering.....		3.16
Dilution per share to new investors.....		$ 6.84

The following table summarizes, on a pro forma basis as adjusted as of December 31, 1999:

- the number of shares of common stock purchased from us;
- the estimated value of the total consideration paid for or attributed to such common stock; and
- the average price per share paid by or attributable to:
  - -- existing shareholders,
  - -- acquisitions funded through issuances of our common stock,
  - -- shareholders converting the series A, B and C preferred stock into common stock, and
  - -- new investors purchasing shares in this offering at an assumed initial offering price of $10.00 per share (the midpoint of the range set forth on the cover of this prospectus), and before deducting underwriting discounts and commissions and estimated offering expenses payable by us.

	SHARES OF COMMON STOCK PURCHASED OR CONVERTED		TOTAL CONSIDERATION		AVERAGE PRICE
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE
Existing shareholders.....	4,165,461	23.12%	$ 4,008,991	4.74%	$ 0.96
Converting preferred shareholders.....	7,684,865	42.65	20,465,060	24.20	2.66
Shares issued in connection with acquisitions.....	1,166,678	6.48	10,090,200	11.93	8.65

New investors	5,000,000	27.75	50,000,000	59.13	10.00
Total	18,017,004	100%	$84,564,251	100%	

The foregoing table assumes no exercise of the underwriters' over-allotment option or shares underlying outstanding options or warrants. As of February 11, 2000, there were options and warrants outstanding to purchase 5,314,396 shares of common stock at a weighted average exercise price of $5.10 per share. If any of these options or warrants are exercised, there may be further dilution to new investors.

SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the related notes included elsewhere in this prospectus. The selected statement of operations data presented below for the three-year period ended December 31, 1999 and the balance sheet data at December 31, 1998 and 1999 are derived from our audited financial statements that are included elsewhere in this prospectus. The selected statement of operations data presented below for the two-year period ended December 31, 1996 and the balance sheet data at December 31, 1995 and 1996 are derived from unaudited financial statements that are not included in this prospectus. The balance sheet data at December 31, 1997 is derived from our audited balance sheet not included in this prospectus. In July 1999, we acquired SilverPlatter Education. In January 2000, we acquired m3 the Healthcare Learning Company, EMInet, Quick Study and KnowledgeReview. Please refer to the pro forma financial statements and the audited financial statements of SilverPlatter Education, m3 the Healthcare Learning Company and Quick Study included elsewhere in this prospectus.

	YEAR ENDED DECEMBER 31,				
	1995	1996	1997	1998	1999
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
STATEMENT OF OPERATIONS DATA:					
Revenues	$ 91	$ 556	$1,268	$ 1,716	$ 2,568
Operating costs and expenses:					
Cost of revenues	204	475	870	1,057	2,119
Product development	144	142	294	443	2,037
Selling, general and administrative expenses	510	675	875	1,477	2,972
Total operating costs and expenses	858	1,292	2,039	2,977	7,128
Loss from operations	(767)	(736)	(771)	(1,261)	(4,560)
Other income (expense)	(44)	(43)	(189)	(329)	104
Net loss	$ (811)	$ (779)	$ (960)	$(1,590)	$(4,456)
Net loss per share -- basic and diluted	$(0.53)	$(0.25)	$(0.29)	$ (0.49)	$ (1.19)
Weighted average shares of common stock outstanding -- basic and diluted	1,519	3,069	3,256	3,256	3,757

	AS OF DECEMBER 31,				
	1995	1996	1997	1998	1999
	(IN THOUSANDS)				
BALANCE SHEET DATA:					
Cash and cash equivalents	$ 17	$ 29	$ 84	$ 51	$13,632
Working capital (deficit)	(165)	(604)	(1,708)	(2,854)	11,465
Total assets	418	540	948	1,153	17,455
Long-term debt and capital leases, net of current portion	76	57	36	32	186
Shareholders' equity (deficit)	103	(276)	(1,236)	(2,285)	14,190

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to, those described under "Risk Factors" and elsewhere in this prospectus.

OVERVIEW

Historically, we have generated our revenues primarily from licensing our client server training and administrative software, Training Navigator, which we refer to as T.NAV, to healthcare organizations and from the performance of custom multimedia development services. We have established relationships with major healthcare institutions that license our software or contract with us to develop custom multimedia products in a CD-ROM or Web-based format. Clients who license our software pay a one-time license fee for the software and may purchase training content modules for an additional fee. We also provide upgrades, maintenance and technical support for an annual fee. The one-time license fee typically ranges from $20,000 to $100,000 based on number of users. Services such as upgrades, training, maintenance and technical support are provided either based on a fixed fee, estimated usage or actual time incurred. Online services are provided based on a fee ranging from $5 to $25 per underlying credit hour. Most courses provide one to three credit hours. Late in 1999, we entered into sponsorship agreements which provide for sponsorship of online courseware. For the year ended December 31, 1999, our online revenues approximated $216,000. We expect our future online revenues to significantly exceed 1999 levels.

Revenues from T.NAV software license fees are recognized when the software is delivered. Upgrade, maintenance and technical support revenues are accrued over the term of the service period. We recognize multimedia development revenues based on the percentage of a project that is completed. Revenues from the delivery of our content over the Internet are recognized when goods or services are purchased, typically on a transaction fee basis. Sponsorship revenue is recognized ratably over the term unless usage exceeds the ratable portion.

Historically, we have marketed T.NAV directly or licensed it to resellers to re-brand and distribute under their private label. Our primary reseller relationship is with Lippincott Williams & Wilkins, a leading medical sciences publisher. They combine their de'MEDICI line of OSHA and JCAHO training content with T.NAV and their sales force sells the resulting solution directly into healthcare organizations. There are currently over 150 healthcare organizations utilizing this system. We receive 17 percent of the net revenues recognized from the sales of these systems.

We plan to generate revenues by marketing our Web-based services to healthcare workers through healthcare organizations. The services will be provided via our application service provider, or ASP, agreements. Specifically, we will seek to generate revenues from healthcare workers by marketing to their employers or sponsoring organizations. The transaction fees for courseware resulting from this marketing may either be paid by the employer or sponsoring organization or, in the case of healthcare professionals, may be billed directly to the individual. Our ASP model will allow us to host our system in a central data center, therefore eliminating the need for costly onsite installations of our software. Under the ASP model, revenues will be generated by charging for use of our courseware on a per transaction basis, based on usage by the end user. In addition, the ASP model will allow us to generate revenues from healthcare organizations by entering into agreements for administration and hosting services. We will recognize administration and hosting fees ratably over the terms of these agreements.

Currently, revenues from the delivery of our content through our Web-based distribution network are generated on a transaction fee basis. Healthcare professionals pay us with a credit card when they elect to receive credit for viewing our content, or content licensed from a third party, through our web site or the web site of one of our distribution partners. Healthcare professionals pay for receiving this credit with a credit card. The costs of these sales are in the form of royalties we pay to third-party content owners and

distributors and costs we incur to develop content or convert content from traditional media to a Web format.

In July 1999, we acquired selected assets, assumed certain liabilities and hired all of the employees of SilverPlatter Education, which owned a series of multimedia continuing medical education, or CME, titles and operated Web sites which marketed these products and provided other information to physicians. The SilverPlatter Education business generates one time sales, subscription revenues and training service revenues. Revenues from sales and services are recognized when goods are shipped or services are delivered. Revenues from subscriptions are deferred and recognized ratably over the term of the subscription.

We acquired the following companies in January 2000:

- KnowledgeReview, which operates a search engine, cmesearch.com, allowing physicians to locate seminars and purchase educational CD-ROMs and online courseware;

- Quick Study, which owns over 60 web-based hours of nursing and OSHA content, primarily dialysis-related;

- m3 the Healthcare Learning Company, which provides computer-based training to over 450 hospitals and healthcare facilities, primarily in the areas of OSHA and regulatory training; and

- EMInet, which provides Web-based educational content for emergency medical services personnel.

As we transition m3 the Healthcare Learning Company customers from existing platforms to the ASP model, we expect that revenues will remain comparable for the annual maintenance fees with increases related to sales of online courseware.

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 significantly 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 you should not rely upon them 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 currently consist primarily of sales of multimedia development services for training modules and promotional materials for the healthcare industry. Revenues also include licensing fees and royalties from product sales of proprietary training software to healthcare companies as well as transaction fees from sales of continuing education credit from content delivered over the Internet. We expect that revenues in future periods will be increasingly derived from online services to healthcare organizations and healthcare professionals. During 1999, the Company revised its focus from development services to online products and services. While this transition has only translated into approximately $216,000 of online revenues, we expect these revenues to grow significantly in the future. This change in focus has contributed to not only a change in revenue components, but also a change in expense components as we expect to increase our production capacity to support planned growth.

Cost of Revenues. Cost of revenues consists primarily of salaries and employee benefits, materials, and depreciation associated with the development of interactive media projects as well as royalties paid to content providers.

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 enhancing our Web site and training delivery and administration platform.

Selling, General and Administrative. General and administrative expenses consist primarily of salaries and employee benefits, facility costs, depreciation, amortization of intangibles, and fees for professional services. 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 loans from related parties and capital leases. The primary component of other income is interest income related to interest earned on cash and cash equivalents.

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1999

Revenues. Revenues increased $852,000 or 49.6% from approximately $1.7 million for the year ended December 31, 1998 to approximately $2.6 million for the year ended December 31, 1999. The increase in revenues was due to increased sales and marketing of our T.NAV product and multimedia development services as well as increased development and content production services. During 1999, 48.9% of revenues related to development services, 24.8% related to T.NAV licensing fees and related services, 26.3% related to other transactions and product sales. In 1998, 76.1% of revenues related to development services and 23.9% related to T.NAV licensing fees and related services.

Cost of Revenues. Cost of revenues increased approximately $1.0 million or 100.4% from approximately $1.0 million for the year ended December 31, 1998 to approximately $2.1 million for the year ended December 31, 1999. The increase was primarily attributable to increased volume of business, including approximately $800,000 of increases in salaries, labor and related benefits. As a percentage of revenues, cost of revenues increased from 61.6% for the year ended December 31, 1998 to 82.5% for the year ended December 31, 1999.

Product Development. Product development expenses increased approximately $1.6 million, or 359.5%, from $443,000 for the year ended December 31, 1998 to approximately $2.0 million for the year ended December 31, 1999. This increase in product development expenses was due to approximately $748,000 in distribution expenses related to a warrant granted to GE Medical Systems in connection with a continuing education and training content distribution agreement, an increase of approximately $530,000 related to salaries, labor and related benefits for an increase in our production staff and approximately $195,000 of royalty expense under contracts with content and distribution partners. As a percentage of revenues, product development expenses increased from 25.8% for the year ended December 31, 1998 to 79.3% for the year ended December 31, 1999. The increase as a percentage of revenues was due to significant upfront product development expenses incurred to implement our online services, including salaries and employee benefits associated with increased content conversion and development and royalties due to content and distribution partners. We anticipate significant additional product development expenses in future periods due to salaries and employee benefits associated with increased content conversion.

Selling, General and Administrative. Selling, general and administrative expenses increased approximately $1.5 million, or 101.2%, from approximately $1.5 million for the year ended December 31, 1998 to approximately $3.0 million for the year ended December 31, 1999. As a percentage of revenues, selling, general and administrative expenses increased from 86.0% for the year ended December 31, 1998 to 115.7% for the year ended December 31, 1999. The increase was primarily due to increased personnel and related benefits costs of approximately $500,000 associated with new employees, an increase of approximately $228,000 in advertising, promotional and marketing expenditures, an increase of approximately $131,000 in professional service fees, an increase of $213,000 related to amortization of intangible assets, an increase of approximately $168,000 in travel expenses, and facility and depreciation expenses of approximately $96,000. We expect to incur significant selling, general and administrative expenses as we hire additional personnel and increase our advertising and marketing expenses to support our planned growth.

Other Income/Expense. Other expense decreased $122,000 or 36.9% from $331,000 for the year ended December 31, 1998 to $209,000 for the year ended December 31, 1999. The decrease was primarily due to a conversion by a related party of approximately $1.6 million of indebtedness into shares of common stock and series B preferred stock, which was partially offset by an increase in interest expense on capital leases. In addition, interest and other income increased from $3,000 for the year ended December 31, 1998 to $312,000 for the year ended December 31, 1999, due to a higher average net cash and cash equivalents balance as a result of our issuance of preferred stock.

Net Loss. Net loss increased approximately $2.9 million, or 180.4%, from approximately $1.6 million for the year ended December 31, 1998 to approximately $4.5 million for the year ended December 31, 1999 due to the factors described above.

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1998

Revenues. Revenues increased $448,000, or 35.3%, from approximately $1.3 million in 1997 to approximately $1.7 million in 1998. The increase in revenues was related to increases in both development services and revenues realized from the distribution of our T.NAV software. During 1998, 76.1% of revenues related to development services and 23.9% related to T.NAV licensing fees, related services and other transactions. During 1997, 87.1% of revenues related to development services and 12.9% related to T.NAV licensing fees, related services and other transactions.

Cost of Revenues. Cost of revenues increased $187,000, or 21.5%, from $870,000 in 1997 to approximately $1.0 million in 1998. The increase was primarily attributable to increased volume of business, including approximately $258,000 of salaries, labor and related benefits, which was offset by an $80,000 decrease in materials cost since more development work was performed in-house. As a percentage of revenues, cost of revenues decreased from 68.6% in 1997 to 61.6% in 1998. The decrease as a percentage of revenues was primarily attributable to an increase in the proportion of development work performed in-house and an increase in efficiencies in our development process.

Product Development. Product development expenses increased $149,000, or 50.9%, from $294,000 in 1997 to $443,000 in 1998. As a percentage of revenues, product development increased from 23.2% in 1997 to 25.8% in 1998. The increase was primarily due to increased product development costs associated with the addition of production and technology personnel, which resulted in an increase of $135,000 in salaries, labor and related benefits.

Selling, General and Administrative. Selling, general and administrative expenses increased $602,000, or 68.7%, from $875,000 in 1997 to approximately $1.5 million in 1998. As a percentage of revenues, selling, general and administrative expenses increased from 69.0% in 1997 to 86.0% in 1998. The increase was primarily due to an expansion of our sales force, client services staff and senior management, which resulted in an increase of approximately $440,000 in salaries, labor and related benefits. The remainder of the increase is primarily related to a $33,000 increase in promotional materials and advertising expense related to increased marketing and a branding campaign.

Other Income/Expense. Other expense increased 74.1% from $189,000 in 1997 to $329,000 in 1998. The increase was primarily attributable to an increase of $146,000 in interest expense due to additional related party loans incurred to fund operations.

Net Loss. Net loss increased $630,000, or 65.6%, from $960,000 in 1997 to approximately $1.6 million in 1998 due to the factors described above.

LIQUIDITY AND CAPITAL RESOURCES

Since our inception, we have financed our operations largely through the private placement of equity securities, loans from a related party and, to a lesser extent, from revenues generated from custom development fees and product sales.

Net cash used in operating activities was $872,000, $1.2 million and $3.3 million for the years ended December 31, 1997, 1998 and 1999, respectively. Cash used in operating activities from January 1, 1997 through December 31, 1999 was attributable to funding net operating losses and increases in accounts receivable, prepaid expenses and other assets, which were partially offset by increases in deferred revenues, accrued liabilities, accounts payable and depreciation, amortization and other non-cash expenses.

Net cash used in investing activities was $240,000, $209,000 and $1.5 million for the years ended December 31, 1997, 1998 and 1999, respectively. Cash used in investing activities was primarily for the purchase of property and equipment and the acquisition of SilverPlatter Education.

Cash provided by financing activities was $1.2 million, $1.4 million and $18.4 million for the years ended December 31, 1997, 1998 and 1999, respectively. Cash provided by financing activities during 1999 was primarily attributable to the issuance of $18.2 million of preferred stock. As of December 31, 1999, our primary source of liquidity was $13.6 million of cash and cash equivalents. We have no bank credit facility.

As of December 31, 1999, we had approximately $13.6 million in cash. As of January 31, 2000, we had cash of approximately $11.2 million, which reflected the closing of the acquisitions of m3 the Healthcare Learning Company, EMInet, Quick Study and KnowledgeReview.

Our indebtedness consists of a promissory note in the principal amount of $1,293,000 payable to Robert A. Frist, Jr., our chief executive officer and chairman of the board of directors. Interest is charged at the lesser of a designated brokerage account rate or 10.5%. This note is payable in full and will be converted into 553,712 shares of our common stock upon completion of this offering.

We expect to incur significantly higher costs, particularly content creation costs 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 expenses will more than double during 2000.

Our strategic alliances have typically provided for payments to distribution, content and development partners based on revenues, and we expect to continue similar arrangements in the future. As a result, no significant fixed payments other than approximately $475,000 in 2000 and $187,500 in 2001, of which approximately 79% and 100% are nonrefundable, in 2000 and 2001, respectively. We also have variable commitments of approximately $400,000 related to an agreement under which another company has agreed to provide content development services for us.

We believe that the net proceeds from this offering, together with current cash and cash equivalents, will be sufficient to meet anticipated cash needs for working capital, capital expenditures and acquisitions for at least the 12 months following this offering. Our growth strategy also includes acquiring companies that complement our products and services. We anticipate that these acquisitions, if any, will be effected through a combination of stock and cash consideration. Failure to generate sufficient cash flow from operations or raise additional capital when required during or following that period in sufficient amounts and on terms acceptable to us could harm our business, results of operations and financial condition.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS, No. 130, Reporting Comprehensive Income, which is effective for fiscal years beginning after December 15, 1997. This statement establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. The new rule requires that we classify items of other comprehensive income by their nature in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in-capital in the equity section of the balance sheet. The adoption of SFAS No. 130 resulted in recognition of other comprehensive loss of $41,690 in our December 31, 1999 financial statements contained in this prospectus.

In 1998, we adopted SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information. SFAS No. 131 requires companies to report selected segment information when certain tests are met. We have determined that we operate in only one reportable segment meeting the applicable tests.

As of January 1, 1998, we adopted Statement of Position, or SOP, 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. SOP 98-1 establishes standards for reporting and presenting in a full set of general purpose financial statements the costs incurred in the development of internal-use computer software. Internal-use software is acquired, internally developed, or modified solely to meet a company's internal needs without the intent to market externally. The adoption of SOP 98-1 had no effect on our financial statements contained in this prospectus.

As of January 1, 1998, we adopted SOP 98-5, Reporting on the Costs of Start-Up Activities. SOP 98-5 establishes standards for reporting and presenting start-up costs in a full set of general purpose financial statements. Start-up costs, including organizational costs, are expensed as incurred under this SOP. The adoption of SOP 98-5 had no effect on our financial statements contained in this prospectus.

In February 1998, the FASB issued SFAS No. 132, Employers' Disclosures About Pensions and Other Postretirement Benefits -- an amendment of FASB Statement Nos. 87, 88 and 106, which is effective for fiscal years beginning after December 15, 1997. This statement revises employers' disclosures about pension and other postretirement benefit plans. It does not change the measurement or recognition of those plans. The adoption of SFAS No. 132 had no effect on our financial statements contained in this prospectus.

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which is effective as amended for fiscal quarters of fiscal years beginning after June 15, 2000. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. We do not expect the adoption of SFAS No. 133 to have a material effect on our financial statements.

In December 1998, the American Institute of Certified Public Accountants, or AICPA, issued SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions. SOP 98-9 requires recognition of revenue using the "residual method" in a multiple-element software arrangement when fair value does not exist for one or more of the delivered elements in the arrangement. Under the "residual method," the total fair value of the undelivered elements is deferred and recognized in accordance with SOP 97-2. We are required to implement SOP 98-9 for the year ending December 31, 2000. We do not expect adoption of SOP 98-9 to have a material effect on our financial statements.

YEAR 2000

We have conducted a comprehensive review of both information technology and non-information systems to ensure that they are Year 2000 compliant. Significant information technology systems include our production system, composed of the servers, networks and software that comprise the underlying technical infrastructure that runs our business, and various internal office systems. Our significant non-information technology systems include our telephone systems, air conditioning and security system. Our Year 2000 review project included the following phases:

- conducting a comprehensive inventory of our internal systems and the systems acquired or to be acquired by us;
- assessing and prioritizing any required remediation;
- remediating any problems by repairing or, if appropriate, replacing the non-compliant systems; and
- testing all remediated systems for Year 2000 compliance.

Based upon the results of our review and experience to date, it appears that there are no significant Year 2000 issues within our systems that would have a negative effect on our ability to conduct business. In addition to assessing the readiness of our systems, we have gathered information from, and have directly communicated through written correspondence, telephone calls and in face-to-face meetings with, our third-party systems and software vendors, as well as other suppliers, to identify and, to the extent possible, resolve issues involving the Year 2000 problem. Based on representations made to us by applicable suppliers, we believe that the third-party software and systems that are material to our business are Year 2000 compliant. However, we have limited or no control over the actions of our third-party suppliers. Thus, while we expect that we will be able to resolve any significant Year 2000 problems with our systems, we cannot assure you that our third-party suppliers will resolve all Year 2000 problems with their systems that may subsequently occur before the occurrence of a material disruption to our business. Any failure of material third-party suppliers to resolve Year 2000 problems with their systems in a timely manner would have a negative effect on our ability to conduct business.

As of December 31, 1999, we have spent approximately $126,800 on Year 2000 compliance issues and expect to incur approximately an additional $86,000 in connection with evaluating and addressing these issues. We expect to pay for these expenses from our working capital. Most of our expenses have related to operating costs associated with the time spent by employees and consultants in the evaluation process and Year 2000 compliance matters generally. These expenses, if higher than anticipated, could have a negative effect on our financial condition.

We completed an acquisition during 1999 and are finalizing the integration of the systems of the acquired business into our operations. Those systems were included in our Year 2000 review. The customer data acquired in the acquisition of SilverPlatter Education and used by our Boston office to manage subscriptions, billing and order fulfillment is not Year 2000 compliant. Furthermore, it is not possible to update the database in its existing format to be Year 2000 compliant because the database structure is not standard and has no documentation. The database contains approximately 2,500 subscriber records, active and non-active, and represents less than 5% of our pro forma revenues for 1999. We determined that it was necessary to transfer the tables, relationships and data from the non-compliant database to a similar customer/order management database program that relies on a compliant database. Since the full migration was not accomplished by November 15, our contingency plan was put into effect. The non-compliant database was last used on December 15, 1999. On December 15th, we moved the entire non-compliant database into a compliant database product. This provides a short-term solution that allows us to continue customer service, billing and order fulfillment functions into the first quarter of 2000 while removing the Year 2000 risk presented through continued use of the current customer database system. We intend to implement a broader and more permanent solution by the end of the second quarter of 2000. We are currently evaluating various vendor applications to identify the best package to meet our existing and future customer service, management and accounting needs. Once a solution has been identified, the customer data in the temporary database format will then be migrated to a new full service system, which will be consolidated as one solution based in our headquarters.

We believe we have identified all Year 2000 problems that could harm our business, financial condition or operating results. We have not experienced any significant problems with regard to Year 2000 issues other than as described above.

MARKET RISK

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

As of December 31, 1999, we had both fixed and variable rate debt. Debt instruments with both fixed and variable interest rates carry a degree of interest rate risk. Fixed rate debt may have its fair value affected if interest rates change, and variable rate debt may incur a higher cost if interest rates rise.

At December 31, 1999, the fair value of our total fixed rate debt was estimated to be $13,000 based on our current incremental borrowing rate for similar types of borrowing arrangements. At this borrowing

level, a hypothetical 10% decrease in interest rates on the fixed rate debt would increase the fair value of the debt by approximately $156. The amount was determined by considering the effect of the hypothetical interest rate decrease on our borrowing cost at December 31, 1999 borrowing levels.

The Company's weighted average debt outstanding for the years ended December 31, 1998 and 1999 was $2,423,499 and $2,000,261, respectively. The effective weighted average interest rate on such debt was 12.5% and 10.1%, respectively.

At December 31, 1999, we had $13.6 million of cash and cash equivalents, which we have invested on a short-term basis. At this investment level a hypothetical 10% decrease in the interest rate would decrease interest income and increase net loss by approximately $82,000.

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.

BUSINESS

OVERVIEW

We are pioneering a Web-based solution to meet the training and education needs of the healthcare industry utilizing our proprietary system. Through strategic relationships with medical institutions and commercial organizations, including Vanderbilt University Medical Center, Duke University Medical Center, The Cleveland Clinic Foundation, Scripps Clinic, Challenger Corporation and American Health Consultants, we have amassed over 3,000 hours of training and education courses. We currently distribute approximately 1,000 hours of these courses to allied health professionals, nurses, doctors and other healthcare workers. We will expand distribution of our courses and services to include two methods. The first method provides Internet access to our courses and education management software that will enable healthcare organization administrators to configure, assess and manage training for employees in their organizations. Under the second method, we deliver our courses through strategic distribution partners, which we refer to as our Web distribution network. This network currently consists of 30 distribution partners including MedicaLogic, GE Medical Systems, Pointshare, Medsite.com, HealthGate and ChannelHealth (an IDX company). These distribution partners reach our target audience directly through a variety of Web-based offerings.

We launched our online training and continuing education service in March 1999. We were incorporated in 1990 as NewOrder Media, Inc. and began developing multimedia presentations and interactive presentation systems for a variety of businesses, with the majority of our customer base in the healthcare industry. In 1993, we began development of our client server training and administrative software that serves as the application for our online training and continuing education service, and in 1996 we began deploying this application as a network and stand-alone product. We are currently focusing on providing transaction-based services delivered over the Internet rather than providing installed software.

We believe that our combination of high quality online training and continuing education content and the reach of our distribution partnerships positions us to be a leading provider of Web-based solutions to the online training and continuing education needs of the healthcare community.

INDUSTRY BACKGROUND

Continuing Education in the Healthcare Industry

The increase in the number of healthcare professionals, new therapeutic treatments and procedures, and innovations in medical technology have all led to greater demand for information exchange. Government regulations and accrediting bodies require employers to provide healthcare professionals and other healthcare workers with training on an increasing number and variety of topics. In addition, to keep abreast of the latest developments and to meet licensing and certification requirements, healthcare professionals must obtain continuing education. This training includes safety training mandated by both the Occupational Safety and Health Administration, or OSHA, and the Joint Commission on Accreditation of Healthcare Organizations, or JCAHO, for all healthcare workers. Continuing education includes continuing education units, or CEU, for nurses and continuing medical education, or CME, for doctors. Simultaneously, the healthcare industry has come under intense pressure to reduce costs as a result of reductions in government reimbursement and increased participation of patients in managed care programs. We believe these pressures in the industry have led to an increased demand for high quality, low cost continuing education and training solutions.

Healthcare services in the U.S. are delivered by over an estimated 5.0 million allied healthcare professionals, 2.6 million registered nurses, 2.4 million non-clinical healthcare workers and 600,000 active physicians. The healthcare industry spends approximately $6.0 billion annually on ongoing training and continuing education, including over $3.0 billion on CEU for nurses and CME for physicians. According to a recent study, a greater percentage of healthcare workers receive training than workers in any other industry, with approximately 88% of all healthcare workers receiving some kind of continuing education or formal work-related or safety training every year.

Regulations administered by various state and Federal agencies require ongoing training and continuing education for healthcare professionals and other healthcare workers. Ongoing training and continuing education typically consists of educational programs that bring healthcare workers up to date in a particular area of knowledge or skills. State licensing boards, professional organizations and employers require selected healthcare professionals and physicians to fulfill ongoing training and continuing education requirements and to certify annually that they have accumulated a minimum number of continuing education hours to maintain their licenses. For example physician and nursing licensing boards require up to 20 hours of continuing education per year. In addition, many specialty boards, including the American Board of Family Practice and the American Board of Surgery, require doctors to obtain CME hours that are accredited by these organizations to maintain their specialty certification. Other agencies, including OSHA, the Healthcare Financing Administration, or HCFA, and JCAHO require hospitals and other healthcare providers to provide employees with various types of workplace safety training.

The ongoing training and continuing education market in the healthcare industry is highly fragmented, with over 1,000 providers offering a limited selection of programs on specific topics. For example, there are over 600 providers of CME accredited by the Accreditation Council for Continuing Medical Education, or ACCME. The sheer volume of healthcare information available to satisfy continuing education needs, rapid advances in medical developments and the time constraints that healthcare professionals face make it difficult to stay current and to quickly and efficiently access the continuing education content most relevant to their practice or profession. Historically, healthcare professionals have received continuing education and training through offline publications, such as medical journals and CD-ROMs, and by attending conferences and seminars. In addition, other healthcare workers and pharmaceutical and medical equipment manufacturers' sales and internal regulatory personnel usually fulfill their education and training needs through instructor-led programs from external vendors or internal training departments. Although these existing approaches satisfy ongoing training and continuing education requirements, they are limited in the following ways:

- seminars and instructor-led training may be inconvenient and costly to attend and may result in lost productivity;

- ongoing training and continuing education courses offered locally may be limited in terms of breadth of offering and timeliness and may be costly to produce on a per user basis; and

- administrators find it difficult to review and assess results, track employee compliance with certification requirements and respond to the effectiveness of education and training programs.

The inefficiencies inherent in traditional methods of providing ongoing training and continuing education, combined with the time constraints and the increased cost pressures in the healthcare industry, have prompted healthcare professionals and organizations to improve information exchange and consider alternative training methodologies.

Growth of the Internet

The Internet has emerged as a mass communications and commerce medium that enables millions of people worldwide to share information, communicate and conduct business. International Data Corporation, or IDC, estimates that the number of worldwide Internet users will increase from approximately 256.4 million in 2000 to approximately 502.4 million by the end of 2003. In addition, the Internet is being used increasingly for electronic commerce between businesses. IDC estimates that the volume of electronic commerce among businesses over the Web throughout the World will increase from $217.8 billion in 2000 to more than $1.3 trillion in 2003.

The Internet allows content delivery in a manner not possible through traditional broadcast and print media. Although these traditional media can reach large audiences, they generally are limited to a specific geographic area, can deliver only limited content and are not effective for quickly distributing customized content. The Internet, on the other hand, offers immediate access to a greater breadth of content as well as dynamic and interactive content, enables the content to be customized toward a specific audience of users and provides instantaneous and targeted feedback. As a result, the Internet has become an important

alternative to traditional broadcast and print media, enabling content providers to aggregate vast amounts of information and to organize and deliver that information in a personalized, easy-to-use and cost-effective manner. As bandwidth availability continues to increase, the delivery of full-motion video will become more widespread, allowing for richer content. These characteristics, combined with the rapid growth of the Internet, have created a new channel to distribute and access timely and dynamic content.

The Internet is also enabling businesses to eliminate the burden of buying and running expensive and high maintenance computer systems and software packages by outsourcing these services to a centralized provider. An increasing number of businesses are accessing applications over the Internet rather than through dedicated private networks. New classes of software companies, including ASPs, are providing a growing array of traditionally packaged software applications over the Internet on a per transaction or subscription basis. ASPs are attractive as they allow companies to focus on their core business by eliminating the need to maintain and update large-scale software applications and reducing the capital expenditures required to keep up with leading technologies. We believe that as more companies have integrated the Internet into their daily work flow, the demand for outsourced packaged software has significantly increased.

Convergence of the Internet and Online Healthcare Education Services

Participants in the healthcare industry are increasingly relying on the Internet for communication and the delivery of information. There are currently over 10,000 Web sites providing healthcare and healthcare-related information. Many of these Web sites cater to the needs of healthcare professionals and are seeking to become an integral part of the delivery of healthcare services. Recently, an increasing number of traditional offline services in the healthcare industry have begun to migrate online, including insurance enrollment verification, prescription writing, supply purchases, storage and accessing of medical records and claims filing and processing. In addition, physicians are using the Internet as a valuable tool to access the latest medical information. According to a June 1998 PERQ/HCI report, over 45% of physicians accessed medical information online. In addition, we believe healthcare professionals and other healthcare workers are increasingly able to access the Internet from work.

We believe the healthcare ongoing training and continuing education market is particularly well-suited for business-to-business e-commerce and online services because of the high degree of fragmentation among the healthcare community, the industry's dependence on a high volume of information exchange and the inefficiencies inherent in the existing methods of information exchange. The emergence of the Internet enables the delivery of a greater breadth and depth of training and continuing education for healthcare professionals and other healthcare workers more cost effectively and conveniently than traditional methods. The Internet allows for the aggregation and delivery of large amounts of varied and highly specific content. Web-based delivery allows healthcare professionals and other healthcare workers a significant degree of scheduling and geographic flexibility in meeting their continuing education and training requirements, saving them and their employers travel expenses and limiting productivity losses.

THE HEALTHSTREAM SOLUTION

We are pioneering a Web solution to meet the ongoing training and continuing education needs of the healthcare community utilizing our proprietary technology. We bring authors and publishers of training and continuing education content, including both commercial publishers and educational institutions, together with end users, which include healthcare professionals, other healthcare workers and healthcare organizations, through our Web-based distribution network, including health Web sites, healthcare equipment vendors and healthcare providers. We are also developing online administrative and management tools, based on our existing installed software products, which we will host on an ASP basis. These tools will enable healthcare administrators to configure training to meet the precise needs of different groups of employees, modify training materials and monitor the results of training. We believe our services will provide an online training and continuing education solution for healthcare organizations, end users, distribution partners and content partners.

Value to Healthcare Organizations

We offer healthcare organizations the ability to provide access to high quality content on a cost-effective basis for the ongoing training and continuing education needs of their employees. Currently, these organizations often pay for the cost of meeting ongoing training and continuing education requirements. Our services allow these organizations to contribute to and enhance the content provided through our services and to configure training to meet the specific needs of different groups of employees. In addition, we provide administrators of these organizations the ability to track compliance with certification requirements and measure the effectiveness and results of training.

Value to End Users

Comprehensive Training and Continuing Education Offerings. We offer healthcare professionals and other healthcare workers a centralized location to satisfy their ongoing training and continuing education needs. We believe we provide one of the largest online libraries of ongoing training and continuing education content covering a range of medical specialties. We organize and list our course offerings according to profession and specialty. In addition, our course listings can be targeted to specific audiences and interests. Our content comes from a broad range of leading medical education institutions, commercial providers and professional groups such as Vanderbilt University Medical Center, Duke University Medical Center, The Cleveland Clinic Foundation, Scripps Clinic, KnowledgeLinc, Challenger Corporation and American Health Consultants.

Cost-Effective Training and Continuing Education. We believe our online solution will reduce the cost of meeting ongoing training and continuing education requirements to the healthcare community. By eliminating the need for travel and expensive in-house programs, we estimate that we can significantly reduce the cost of ongoing training and continuing education. Our end users pay for our services on a per transaction and/or subscription basis.

Convenient Access and Compelling User Experience. We offer healthcare professionals and other healthcare workers a convenient, efficient and easy to use system. Our online services allow our end users the freedom to utilize our services when it is convenient for them. Users of our services have immediate access to a broad selection of ongoing training and continuing education programs and instantaneous and targeted feedback from anywhere there is an Internet connection. We provide course selection and registration interfaces that make it simple for healthcare professionals to find, enroll in and purchase the educational programs they are seeking. Our online search engine at cmesearch.com enables physicians to locate and register for traditional educational seminars as well as purchase training CD-ROMs and online courseware. In addition, upon completion of each of our online courses we enable users to print certificates of completion to submit to regulatory authorities. In the event a user has a question, they can either call one of our customer service representatives or communicate with a representative through an online live chat technical support service.

Value to Network Distribution Partners

Comprehensive Training and Continuing Education Solution. We offer our network distribution partners an online training and continuing education solution that includes one of the largest libraries of courseware. Most of our network distribution partners provide online access to continuing education as an ancillary service to their core businesses. To drive traffic to their Web sites, our network distribution partners want to provide their online users with a compelling ongoing training and continuing education experience. Our solution delivers these services to our network distribution partners without the need to purchase or create content, maintain customer service for ongoing training and continuing education, or purchase, install or develop specialized delivery software. We also create customized programs to meet our partners' specific needs.

Premier Continuing Education Healthcare Content. We offer our network distribution partners access to content from premier healthcare organizations through our established relationships with medical education and professional institutions and commercial publishers such as Vanderbilt University Medical

Center, Duke University Medical Center, The Cleveland Clinic Foundation, Scripps Clinic, KnowledgeLinc, Challenger Corporation and American Health Consultants. Our relationships with these organizations will allow our distribution partners to distinguish themselves from their competitors by providing high quality continuing education and training content.

Recurring Traffic Opportunity. We believe we will offer our network distribution partners a predictable source of online traffic due to the recurring nature of regulated training and continuing education requirements. Allied healthcare professionals and other healthcare workers may also be required by their employers or regulatory agencies to complete relevant training and continuing education annually. Nurses and physicians are required to complete a certain amount of continuing medical education every year. We believe these users will visit Web sites that provide a convenient and compelling experience to meet their ongoing training and continuing education requirements. Our system enables healthcare professionals to store, track and generate reports about this completed coursework. This capability creates a compelling relationship between our Web distribution partners and the healthcare professional. In addition, we believe visits by online users accessing our service through one of our distribution partners' Web sites should be substantially longer than a typical online experience due to the nature of our product offering. This recurring and "sticky" base of traffic will complement the other services provided by our distribution partners.

Value to Content Partners

Compelling Web Distribution Network. We believe we currently offer our content partners one of the largest Web networks for the distribution of training and education for the healthcare community. Through our Web distribution network, our content partners can realize new product sales by targeting a broader audience than they could on their own.

Comprehensive Outsourcing Solution. By providing comprehensive conversion and distribution services, we enable our content partners to focus on their core competency of producing and authoring content and to reallocate resources they may have used to develop their own delivery systems and distribution partnerships. In addition, our online solution will provide content partners access to valuable comparative data about customer use, demographic characteristics and response to their content offerings. The data will also allow our content partners to assess how users perform on their content offerings, which will allow them to refine their materials.

Significant Expertise in Content Conversion. We offer publishers and authors of training and continuing education content our experience in producing online materials for the healthcare industry. We provide customers with a complete set of proprietary tools which enables them to quickly and inexpensively develop online courseware. Our template-driven development process allows courseware to be produced at a lower cost. For example, we have developed several successful new electronic products, including hybrid CD-online textbooks developed for leading traditional medical publishers.

GROWTH STRATEGY

Our objective is to be the leading provider of Web training and continuing education solutions for the healthcare community. We plan to achieve this objective by pursuing the following strategies.

Provide Healthcare Organizations with Web Access to our Administrative Services and Content Library. Our solution will enable organizations to provide access to our training and continuing education services over the Internet. Under this ASP model, our training software is hosted in a central data center that allows end users Web access to our continuing education and training services, eliminating the need for onsite installations of software. Our ASP model also includes a set of administrative and management tools which enable administrators to configure and modify training materials, track performance and monitor training expenses. We plan to leverage the existing capabilities of our training software that is installed at more than 700 hospitals and clinic locations, including facilities owned and operated by Gambro Healthcare, Columbia/HCA Healthcare Corporation and The Cleveland Clinic Foundation. In addition, we have existing preferred vendor arrangements with several hospital group purchasing

organizations, or GPOs, including Premier, Inc. and Voluntary Hospital Association, or VHA. We believe these arrangements offer us the opportunity to provide our services to the member hospitals represented by these GPOs with our ASP model. We plan to transition those organizations to our ASP model, under which they will begin to pay for these services on a per transaction or subscription basis, eliminating the need for upfront capital expenditures. By reducing capital outlays, we believe that selling our training and continuing education solution as a service will accelerate customer purchase decisions and increase adoption among new customers.

Expand and Enhance Our Training and Continuing Education Library. We plan to expand our training and continuing education library through proprietary development and licensing arrangements. We also plan to grow our library through acquisitions, such as our recently completed acquisition of SilverPlatter Education, a provider of CD-ROM and online continuing medical education for physicians, Quick Study, a provider of OSHA and nursing training to hospitals and clinics, m3 the Healthcare Learning Company, a provider of OSHA and JCAHO training to hospitals, and EMInet, a provider of continuing education training to emergency medical services personnel. We plan to use our existing relationships with premier healthcare institutions and quality content providers to strengthen our position as a leading aggregator of continuing education and training content for the healthcare industry. Our strategy is to acquire a large collection of courses across multiple clinical education and training topics and then to supplement those acquired courses with courses licensed from other content providers. We believe this strategy is the most cost-effective and efficient way to create a substantial barrier to entry for other prospective providers of online training and continuing education content.

Increase the Number of Partners in Our Web Distribution Network. We currently have strategic relationships with a network of 30 distribution partners. We plan to increase our distribution reach and market share by developing additional strategic distribution relationships. We believe that potential distribution partners will be attracted to the recurring nature of training and continuing education requirements and the time a typical user of our service spends on our Web site or one of our distribution partners' Web sites. We are primarily pursuing distribution relationships with Web sites that target healthcare providers, healthcare professionals, and pharmaceutical and equipment manufacturers.

Expand our Sales and Marketing Efforts. We plan to develop HealthStream as the leading brand for online training and continuing education solutions in the healthcare community. To achieve this objective, we will market our HealthStream brand to end users, leading authors and publishers of continuing healthcare education content and leading health Web sites, healthcare equipment vendors and healthcare providers. We will not attempt to achieve widespread consumer recognition outside of the healthcare community. Instead, we will seek to establish our brand among our targeted group of end users and potential content and distribution partners in the healthcare community to drive not only sales to these end users, but increased adoption by content and distribution partners. In marketing directly to these potential partners, we will focus on our ability to provide our content partners with compelling distribution channels and to provide our distribution partners with premier content from a broad range of sources. In addition, we will continue to focus on generating additional brand equity by operating sites in partnerships that carry both our brand and our distribution partners' brands.

Generate Additional Revenue Opportunities. We plan to leverage the recurring nature of our end user visits by providing additional products and services. We believe the demographics of our audience and our high-quality content offerings provide significant opportunities to develop multiple sources of revenue. In addition to our transaction-based courseware sales, we plan to generate e-commerce revenues from direct and indirect sales of related ongoing training and continuing education products. Through our recent acquisition of KnowledgeReview, we acquired a search engine, cmesearch.com, which allows us to sell education and training CD-ROMs as well as charge registration fees for the enrollment for traditional CME seminars. We are also developing products that capitalize on our ability to gather data regarding users of our service, and we plan to expand our ability to capture advertising and sponsorship revenue from pharmaceutical and medical equipment companies as well as healthcare providers.

HEALTHSTREAM SERVICES

We provide our Web-based ongoing training and continuing education services to healthcare organizations through our ASP model and individual healthcare professionals through our Web distribution network.

SERVICES DISTRIBUTED THROUGH ASP MODEL

Healthcare organizations are responsible for providing both government mandated and internally required training to their employees. We are developing our ASP model to enable these healthcare organizations to provide, assess and manage this training process. Under our ASP model, our online systems are hosted in a central data center that provides administrative access to our customers through Web-based reporting and management tools, rather than through software that is installed and maintained at the customer's site. We will bill our customers on a per transaction and/or subscription fee basis, enabling them to treat their investment in online continuing education and training as an operating expense rather than a capital expense. We anticipate that eliminating the need for a capital outlay may shorten the sales cycle to these customers. In addition, our hosted ASP service is scalable to enable healthcare organizations to monitor and administer the continuing education and training needs of large and geographically dispersed employee bases. Our services for healthcare organizations include:

Administrative and Management Tools. Our administrative and management tools will be used by human resources, training and management personnel to manage curricula and training performance data for the employee population. The administrator software will be used to configure ongoing training and continuing education requirements, enter or modify training materials (lessons, quizzes, exams, etc.), define groups of users and the criteria that users must meet to be included in groups and print reports about the resulting ongoing training and continuing education. Our administrative and management tools will allow administrators to organize and customize our library of courseware to suit the precise needs of different groups of employees within the organization. In a hospital, for example, doctors, nurses, technicians and housekeeping staff would each automatically be assigned appropriate curricula based on their job profiles. In addition, our system will provide tools for administrative personnel using our system to manage their employees' training performance data.

Online Courseware. The courseware we provide under our ASP model will primarily focus on mandated training content. In addition, employers may make some continuing education content from our library available to their professional employees. Most end users accessing the ASP courseware will be employees seeking to fulfill training requirements established by outside agencies or their employers. We are developing and converting this training content in partnership with authors and publishers. Employees will select courses from among a list determined by their employer.

Content Conversion and Development. Many healthcare organizations provide their employees with organization-specific training. We have full-service capabilities to convert existing course materials to a Web-enabled format or develop custom courseware for these healthcare organizations. Our development group includes instructional designers, scriptwriters, multimedia designers, graphic artists, audio and video engineers, programmers and project managers. Our ability to market courseware developed for one healthcare organization to our broad base of end users provides these healthcare organizations the opportunity to offset their development costs through courseware sales royalties.

SERVICES PROVIDED THROUGH WEB DISTRIBUTION NETWORK

Most healthcare professionals are responsible for meeting their own continuing education requirements. We enable these healthcare professionals to meet their continuing education requirements by obtaining credit through use of our online courseware. We deliver our online courseware to healthcare professionals through multiple, co-marketed Web sites offered in partnership with health Web sites, academic and medical institutions, pharmaceutical and equipment manufacturers and healthcare providers. Healthcare professionals and other healthcare workers can sign up to become registered users of our service after accessing our log-in screen at our or any one of our distribution partners' Web sites. Each of

these Web sites is based upon our standard template but is customized to match the look and feel of the Web site of the referring distribution partner. Our services for healthcare professionals include:

Online Courseware. The online courseware available through our network of co-branded Web sites and our Web site is targeted to healthcare professionals and includes primarily accredited continuing education content. We organize our offerings on these Web sites by profession and specialty. The content available from our library can be targeted to the specific interests of a distribution partner's audience. Users access our catalog of courseware and may select those offerings they wish to view. Users are guided through the courses, usually in the form of a series of lessons and quizzes. Upon successful completion of a course, the user is given the option of receiving continuing education credit. If the user elects to receive credit, a printable certificate will be issued. We acquire, license and develop our course content from and in partnership with a broad range of commercial publishers and educational institutions. To augment our library of courseware, we work with healthcare organizations, publishers and authors of healthcare content to convert their continuing education courses and materials from traditional media to a Web-enabled format. In some cases, we retain partial ownership and resellers' rights to this courseware.

Webcast Events. We offer both live and pre-recorded Webcasts of medical procedures, the viewing of which may be credited toward continuing education requirements. These Webcast events generally consist of the presentation of an edited streaming video of a medical procedure followed by a live discussion that includes the physician who performed the procedure and other leading physicians in the field. In addition, our Webcast events may be followed by a related program in the form of interactive courseware which may be completed for continuing education credit. The Webcast event may be co-branded with the sponsors' name and the sponsor can underwrite the fee for a certain number of users to participate online.

Search Engine. Through our acquisition of KnowledgeReview, we acquired a search engine and several associated domain names through which we offer a method for physicians and other healthcare professionals to search for both online and traditional continuing education products. This Web site is currently located at cmesearch.com. Physicians access the Web site to locate seminars by specialty and location as well as purchase educational CD-ROMs and online courseware. In addition, we plan to offer products and services that complement our online continuing education and training courses and link sales of our courseware to related books, videotapes, audio tapes and other educational and reference products produced by our content partners.

STRATEGIC RELATIONSHIPS AND ACQUISITIONS

RELATIONSHIPS AND ACQUISITIONS RELATING TO SERVICES DISTRIBUTED THROUGH OUR ASP MODEL

m3 the Healthcare Learning Company. In January 2000, we acquired m3 the Healthcare Learning Company which provides computer-based training to hospitals and healthcare facilities primarily in the areas of OSHA and regulatory training. m3 the Healthcare Learning Company provides us with an established client base of over 450 hospitals and the opportunity to convert these hospitals to our ASP model. This acquisition also adds experienced management personnel that will oversee the hospital market for our ASP model as well as eight additional sales people to serve this market in regional offices across the country.

EMInet. In January 2000, we acquired EMInet, a provider of online continuing education to emergency medical services personnel. EMInet has sold over 350,000 courses online since 1996. This acquisition expands the content offering of our online library and the customer base for our services as well as adds management knowledgable about the emergency medicine market.

Quick Study. In January 2000, we acquired Quick Study, a provider of over 60 hours of nursing and OSHA content which we have added to our online library and will deliver to healthcare organizations through our ASP model. This courseware is currently distributed through 35 systems installed by QuickStudy.

Columbia/HCA Healthcare Corporation. In February 2000, we entered into a four-year Online Education Services Provider Agreement with Columbia Information Systems, Inc., an affiliate of Columbia/HCA Healthcare Corporation with a network of over 200 hospitals. Pursuant to the terms of the agreement, we will provide Columbia/HCA with online training and education services and courseware for its doctors, nurses and staff on an ASP basis as well as consulting and support services.

RELATIONSHIPS AND ACQUISITIONS RELATING TO SERVICES PROVIDED THROUGH OUR WEB DISTRIBUTION NETWORK

We have entered into strategic relationships with several content partners and 30 distribution partners and continue to aggressively pursue additional strategic relationships. We believe that these strategic relationships and the acquisition of complementary businesses will enable us to increase our course offerings, expand our product distribution and increase our brand awareness. In addition, our recent acquisitions have expanded our course offerings and provided us with experienced sales personnel. Selected content and distribution partners include:

Content

SilverPlatter Education. In July 1999, we acquired SilverPlatter Education, a provider of over 100 hours of continuing medical education programs to physicians on CD-ROM and via the Internet under the names "SilverPlatter Education," "Physicians' Home Page" and "Core Curriculum," for total consideration of $800,000 in cash and 49,203 shares of our common stock. SilverPlatter Education is certified to provide accreditation for CME courses which allows us to internally develop and certify our own courseware.

Scripps Clinic. In November 1999, we entered into a three-year agreement with Scripps Clinic, a large multi-specialty medical clinic, to deliver its CME content for physicians online.

Duke University Medical Center. In October 1999, we entered into a three-year agreement with Duke University Medical Center to design, create and distribute interactive, Web-enabled CME courses for physicians in several specialties. We are in the process of developing these courses and we will distribute them through our online continuing education and training service.

American Health Consultants. In September 1999 we entered into a two-year agreement, and in January 2000 we entered into a one-year agreement with American Health Consultants, a leading publisher for healthcare professionals, to deliver over 400 hours of continuing education for nurses and over 800 hours of continuing medical education for physicians online.

Vanderbilt University Medical Center. In July 1999, we entered into an agreement with Vanderbilt University Medical Center to design, create and distribute online continuing education courses authored by Vanderbilt's physicians and nurses. Under the terms of the agreement, we will serve as an Internet distributor and marketer for courses developed with Vanderbilt's Schools of Medicine and Nursing for a term of four years. Vanderbilt may also provide us accreditation certification for additional courses we develop with their assistance.

The Cleveland Clinic Foundation. In June 1999, we entered into a three-year agreement with The Cleveland Clinic Foundation, a leading research and medical institution, to license its Intensive Review of Internal Medicine Course for online publication. This course includes CME content and provides physicians a complete board preparation review through lectures from some of the country's leading internists.

Challenger Corporation. In December 1998, we signed a two-year agreement to convert Challenger's library of accredited CME materials from a CD-ROM to a Web-enabled format. This agreement also gives us the exclusive right during the term of the agreement to resell their content on the Internet.

e-Vitro. In January 2000, we entered into a one-year agreement with e-Vitro, a developer of custom interactive content for healthcare providers. Under the terms of the agreement, e-Vitro will provide content development services to us. This relationship will create additional capacity for us to augment our internal

content development resources. In connection with this development agreement, we acquired a warrant to purchase 223,834 shares of e-Vitro Class B non-voting common stock at $4.47 per share.

Distribution

cmesearch.com. In January 2000, we acquired KnowledgeReview which operates cmesearch.com, a healthcare education search engine which allows physicians and other healthcare professionals to search for online and traditional continuing education, such as locating seminars and purchasing educational CD-ROMs and online courseware. cmesearch.com currently provides listings and information on over 2,000 courses and seminars. We plan to provide linking between this search engine and our 30 Web distribution partners.

MedicaLogic. In February 2000, we entered into a one-year agreement with MedicaLogic, a leading provider of electronic medical records and related technology, to distribute our online courseware to their customers.

State Medical Associations. In November 1999, we entered into an agreement with the Mississippi State Medical Association to distribute CME to its member physicians. In December 1999, we entered into a similar agreement with the Medical Association of Georgia to distribute CME to its 6,000 member physicians.

HealthGate. In September 1999, we entered into two two-year agreements with HealthGate Data Corp. through which we will provide our online continuing education and training services to hospital and health system Web sites and intranets that use HealthGate's suite of healthcare content products.

ChannelHealth (an IDX Company). In September 1999, we entered into an agreement with IDX to be the provider of continuing education on ChannelHealth's Physician Homebase for a term of three years. ChannelHealth will deliver comprehensive Internet-based knowledge management services for physicians, healthcare workers and patients. ChannelHealth's parent company, IDX Systems Corporation, is a provider of healthcare information solutions at more than 1,650 customer sites, serving 118,000 physicians nationwide.

Pointshare. In July 1999, we entered into a one-year agreement with Pointshare, a provider of online services and medical intranets for physicians, hospitals, managed care groups, insurers and laboratories, to offer our online courseware to Pointshare's customers and sell course sponsorships.

GE Medical Systems. In June 1999, we entered into a two-year agreement with GE Medical Systems, one of the world's leading manufacturers of diagnostic imaging equipment, under which we will provide our online continuing education and training service for GE Medical Systems Web sites. In addition to our content development and online application development services, we will assist GE Medical Systems in content conversion and will act as a reseller of their content through our Web distribution partners. GE Medical Systems, through its broadcast Training-in-Partnership, or TiP-TV, service, provides satellite broadcast training services into over 1,600 hospitals.

Medsite.com. In May 1999, we entered into a three-year agreement with Medsite.com, a leading provider of medical books on the Internet, to be the provider of continuing education for Medsite.com's MedUniversity.com. Our courseware will be strategically linked to Medsite.com's catalog of medical books. In addition, we will have access to Medsite.com's database of over 300,000 physicians and other health professionals.

SALES AND MARKETING

We have a sales force of 16 individuals with an average of over 12 years of healthcare sales experience. Our sales team continues to focus on selling our training and continuing education service to hospitals and healthcare networks, and we are in the process of transitioning these customers to our online service. Our sales team also targets pharmaceutical and medical equipment vendors for sponsorship

opportunities and courseware development. We plan to increase our sales and marketing team to focus on marketing our ASP model to new and existing customers.

Although our historical marketing efforts have been limited by our financial resources, we plan to launch a branding and advertising campaign focused on building awareness of our products and services to all of our market segments. We have hired Cohn & Wolfe, an Atlanta-based public relations firm, to assist our three person marketing team in building brand awareness, especially via concept advertisements aimed at larger healthcare organizations. The campaign will consist of advertising in trade journals and industry publications, Web advertising, direct mail, trade show attendance and new marketing materials. In keeping with our existing strategy, we will focus on leveraging our marketing efforts through co-branding arrangements with our distribution partners.

CUSTOMER SERVICE, TRAINING AND SUPPORT

We believe our ability to establish and maintain long-term customer relationships and high adoption and recurrence rates in part depends upon the strength of our customer service and operations team. Our customer service team consists of two customer service managers located in our headquarters. We provide customer support to end users through our toll-free phone line. In addition, we provide live chat support to end users through a third-party online technical support and sales service. A representative of this outsourced service is available 24 hours a day to provide technical support to end users who are registering for or taking online continuing education courses. By providing live chat support we reach those customers who, while connected to the Internet, cannot place a support call on their one phone line. These representatives are trained to understand our philosophy and corporate culture and our specific sales, marketing and support issues.

TECHNOLOGY INFRASTRUCTURE

Our technology infrastructure is based on an open architecture designed to be secure, reliable and expandable. Our software is a combination of proprietary applications, third party database software and operating systems that supports acquisition and conversion of content, management of that content, publication of our Web sites, downloads of courseware, registration and tracking of users and reporting of information for both internal and external use. We have designed this infrastructure to allow each component to be independently scaled, usually by purchasing additional readily-available hardware and software components.

Educational Management System

Our client-server training and administrative software, T.NAV, has become the application and foundation for our online training and continuing education solution. This learning system is a scalable computer managed instruction system that delivers interactive courses. Users and administrators may obtain detailed reports on information ranging from user training history to content effectiveness. By automating knowledge delivery and tracking training for every user, the system both improves knowledge distribution and reduces training overhead.

Data Center and Hosting Facilities

Our network infrastructure, Web site and servers delivering our service are hosted by PSINet. PSINet maintains suitable environmental conditions and multiple back up power sources and network connections. PSINet provides its hosting and connectivity services on high-quality Hewlett-Packard servers and Cisco routers. PSINet's hosting center is connected to the Internet through high-speed fiber optic circuits. Monitoring of all servers, networks and systems is performed on a continuous basis. Through PSINet, we employ numerous levels of firewall systems to protect our databases, customer information and content library. Backups of all databases, data and content files are performed on a daily basis. Data back-up tapes are archived at a remote location on a weekly basis.

COMPETITION

The market for the provision of online training and continuing education to the healthcare industry is new and rapidly evolving. We face competitive pressures from numerous actual and potential competitors, including:

- other online training and continuing education providers;
- Web sites targeting medical professionals that currently offer or may develop their own continuing education content in the future;
- traditional medical publishers and continuing education providers;
- academic medical centers;
- software developers that bundle their training systems with industry training content;
- professional membership organizations;
- companies that market general-purpose computer-managed instruction systems into the healthcare industry; and
- interactive media development companies focused on the healthcare industry.

Many of these companies have greater financial, technical, product development, marketing and other resources than we have. These companies may be better known and have longer operating histories than we have. We believe that our ability to compete depends on many factors both within and beyond our control, including the following:

- the timing and market acceptance of new solutions and enhancements to existing solutions developed by us or our competitors;
- customer service and support efforts;
- sales and marketing efforts; and
- the ease of use, performance, price and reliability of solutions developed either by us or our competitors.

GOVERNMENT REGULATION OF THE INTERNET AND THE HEALTHCARE INDUSTRY

The Internet

The laws and regulations that govern our business change rapidly. The United States government and the governments of some states and foreign countries have attempted to regulate activities on the Internet. The following are some of the evolving areas of law that are relevant to our business:

- Privacy Law. Current and proposed federal, state and foreign privacy regulations and other laws restricting the collection, use and disclosure of personal information could limit our ability to use the information in our databases to generate revenues.
- Encryption Laws. Many copyright owner associations have lobbied the federal government for laws requiring copyrighted materials transmitted over the Internet to be digitally encrypted in order to track rights and prevent unauthorized use of copyrighted materials. If these laws are adopted, we may need to incur substantial costs to comply with these requirements or change the way we do business.
- Content Regulation. Both foreign and domestic governments have adopted and proposed laws governing the content of material transmitted over the Internet. These include laws relating to obscenity, indecency, libel and defamation. We could be liable if content delivered by us violates these regulations.

- Sales and Use Tax. Through December 31, 1999, we did not collect sales, use or other taxes on the sale of continuing education courses on our Web sites other than on sales in Tennessee and Massachusetts. However, states or foreign jurisdictions may seek to impose tax collection obligations on companies like us that engage in online commerce. If they do, these obligations could limit the growth of electronic commerce in general and limit our ability to profit from the sale of our services over the Internet.

The enactment of any additional laws or regulations may impede the growth of the Internet, which could decrease our potential revenues or otherwise harm our business, financial condition and operating results.

Laws and regulations directly applicable to e-commerce and Internet communications are becoming more prevalent. The most recent session of Congress enacted Internet laws regarding online copyright infringement. Although not yet enacted, Congress is considering laws regarding Internet taxation. These are recent enactments, and there is uncertainty regarding their marketplace impact.

Any new legislation or regulation regarding the Internet, or the application of existing laws and regulations to the Internet, could negatively affect us. If we were alleged to violate federal, state or foreign, civil or criminal law, even if we could successfully defend such claims, it could negatively affect us.

Regulation of Continuing Education for Healthcare Professionals

Allied Disciplines. Various allied health professionals are required to obtain continuing education to maintain their licenses. For example, emergency medical services personnel must acquire up to 20 continuing education hours per year. These requirements vary by state and depend on the classification of the employee.

Occupational Safety and Health Administration. OSHA regulations require employers to provide training to employees to minimize the risk of injury from various potential workplace hazards. Employers in the healthcare industry are required to provide such training with respect to various topics including bloodborne pathogens exposure control, laboratory safety and tuberculosis infection control. OSHA regulations require employers to keep records of their employees' completion of training with respect to these workplace hazards.

Joint Commission on Accreditation of Healthcare Organizations. The JCAHO imposes continuing education requirements on physicians that relate to each physician's specific staff appointments. In addition, the JCAHO mandates that employers in the healthcare industry provide certain workplace safety and patient interaction training to employees. JCAHO required training may include programs on infection control, patient bill of rights, radiation safety and incident reporting. Healthcare organizations are required to provide and document training on these topics to receive JCAHO accreditation.

CEU. The states' nurse practice laws are usually the source of authority for establishing the state board of nursing, which then establishes the state's CEU requirements for professional nurses. The continuing education units programs are accredited by the American Nurses Credentialing Center Commission on Accreditation and/or the state board of nursing. CEU requirements vary widely from state to state. Twenty nine states require some form of CEU in order to renew a nurse's license. In some states, the CEU requirement only applies to re-licensure of advance practice nurses or additional CEU's required of this category of nurses. On average, twelve to fifteen CEU's are required annually, with reporting generally on a bi-annual basis.

CME. State licensing boards, professional organizations and employers require physicians to certify that they have accumulated a minimum number of continuing medical education hours to maintain their licenses. Generally, each state's medical practice laws authorize the state's board of medicine to establish and track CME requirements. Thirty four state medical licensing boards currently have CME requirements. The number of CME hours required by each state ranges up to fifty hours per year. Other sources of CME requirements are state medical societies and practice speciality boards. The failure to

obtain the requisite amount and type of CME will result in non-renewal of the physician's license to practice medicine and/or membership in a medical or practice specialty society.

The American Medical Association's, or AMA's, Physician Recognition Award, or PRA, is the most widely recognized certificate for recognizing physician completion of a CME course. The AMA classifies continuing education activities as either category 1, which includes formal CME programs, or category 2, which includes most informal activities. Sponsors want to designate CME activities for AMA PRA category 1 because this has become the benchmark for quality in formally organized educational programs. Almost all agencies nationwide that require CME participation specify AMA PRA category 1 credit. Only institutions and organizations accredited to provide CME can designate an activity for AMA PRA category 1 credit or AMA PRA category 2 credit.

The ACCME is responsible for the accreditation of medical schools, state medical societies, and other institutions and organizations that provide CME activities for a national or regional audience of physicians. Only institutions and organizations are accredited. The ACCME and state medical societies do not accredit or approve individual activities. State medical societies, operating under the aegis of ACCME, accredit institutions and organizations that provide CME activities primarily for physicians within the state or bordering states.

The U.S. Food and Drug Administration and the Federal Trade Commission

Current FDA and FTC rules and enforcement actions and regulatory policies or those that the FDA or the FTC may develop in the future could have a material adverse effect on our ability to provide existing or future applications or services to our end users or obtain the necessary corporate sponsorship to do so. The FDA and the FTC regulate the form, content and dissemination of labeling, advertising and promotional materials, including direct-to-consumer prescription drug and medical device advertising, prepared by, or for, pharmaceutical, biotechnology or medical device companies. The FTC regulates over-the-counter drug advertising and, in some cases, medical device advertising. Generally, regulated companies must limit their advertising and promotional materials to discussions of the FDA-approved claims and, in limited circumstances, to a limited number of claims not approved by the FDA. Therefore, any information that promotes the use of pharmaceutical or medical device products that is presented with our service is subject to the full array of the FDA and FTC requirements and enforcement actions. We believe that banner advertisements, sponsorship links, and any educational programs that lack independent editorial control that we may present with our service could be subject to FDA or FTC regulation. While the FDA and the FTC place the principal burden of compliance with advertising and promotional regulations on the advertiser, if the FDA or FTC finds that any regulated information presented with our service violates FDA or FTC regulations, they may take regulatory action against us or the advertiser or sponsor of that information.

In 1996, the FDA announced it would develop a guidance document expressing a broad set of policies dealing with the promotion of pharmaceutical, biotechnology, and medical device products on the Internet. Although the FDA has yet to issue that guidance document, agency officials continue to predict its eventual release. The FDA guidance document may reflect new regulatory policies that more tightly regulate the format and content of promotional information on the Internet.

INTELLECTUAL PROPERTY AND OTHER PROPRIETARY RIGHTS

We obtain the majority of our content under license agreements with publishers or authors, through assignments or work for hire arrangements with third parties and from internal staff development. Generally, our license agreements are for a period of one to three years and we consider the materials obtained through these agreements to be important to the continued enhancement of the content in our library. We may be liable to third parties for the content in our library and distributed through our distribution partners if the text, graphics, software or other content in our library violates their copyright, trademark or other intellectual property rights or if our content partners violate their contractual obligations to others by providing content in our library.

We may also be liable for anything that is accessible from our Web site through links to other Web sites. We attempt to minimize these types of liability by requiring representations and warranties relating to our content partners' ownership of and rights to distribute and submit their content and by taking related measures to review content in our library. For example, we require our content partners to represent and warrant that their content does not infringe on any third-party copyrights and that they have the right to provide their content and have obtained all third-party consents necessary to do so. Our content partners also agree to indemnify us against liability we might sustain due to the content they provide.

Proprietary rights are important to our success and our competitive position. To protect our proprietary rights, we rely generally on copyright, trademark and trade secret laws, confidentiality agreements with employees and third parties and license agreements with consultants, vendors and customers. We own the federal trademark registrations for the marks "HEALTHSTREAM," "TRAINING NAVIGATOR" and "T.NAV." Despite such protections, a third party could, without authorization, copy or otherwise appropriate our content or other information from our database. Our agreements with employees, consultants and others who participate in development activities could be breached. We may not have adequate remedies for any breach, and our trade secrets may otherwise become known or independently developed by competitors. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States, and effective copyright, trademark and trade secret protection may not be available in those jurisdictions.

We currently hold several domain names. The legal status of intellectual property on the Internet is currently subject to various uncertainties. The current system for registering, allocating and managing domain names has been the subject of litigation and proposed regulatory reform. Additionally, legislative proposals have been made by the federal government that would afford broad protection to owners of databases of information, such as stock quotes. This protection of databases already exists in the European Union.

There have been substantial amounts of litigation in the computer and online industries regarding intellectual property assets. Third parties may claim infringement by us with respect to current and future products, trademarks or other proprietary rights, and we may counterclaim against such parties in such actions. Any such claims or counterclaims could be time-consuming, result in costly litigation, divert management's attention, cause product release delays, require us to redesign our products or require us to enter into royalty or licensing agreements, any of which could have a material adverse effect upon our business, financial condition and operating results. Such royalty and licensing agreements, if required, may not be available on terms acceptable to us, if at all.

EMPLOYEES

As of February 14, 2000, we employed approximately 140 persons. We are not subject to any collective bargaining agreements, and we believe that our relationship with our employees is satisfactory.

FACILITIES

Our principal executive offices are located in Nashville, Tennessee. Our lease for approximately 13,400 square feet at this location expires in 2005. The lease provides for two five-year renewal options. Rent at this location is $12,296 per month until April 30, 2000; $11,569 per month from May 1, 2000 to February 28, 2001; $11,737 per month from March 1, 2001 to February 28, 2004; and $10,340 per month from March 1, 2004 to April 30, 2005. We are currently negotiating terms for additional contiguous space at our Nashville headquarters that will increase our total square footage to approximately 20,000.

As a result of our acquisition of SilverPlatter Education, we are leasing approximately 2,600 square feet of office space in Boston, Massachusetts until December 31, 2000. Rent for this space is $6,067 per month. Storage space is leased on a month-to-month basis at the rate of $687 per month. As a result of our acquisition of KnowledgeReview, we are leasing approximately 2,000 square feet of office space in Cherry Hill, New Jersey until March 31, 2000, or at our option, until March 31, 2001. Rent for this space

is $5,000 per month. As a result of our acquisition of EMInet, we are leasing approximately 2,180 square feet of office space in Houston, Texas until September 30, 2000, or at our option, until September 30, 2002. Rent for this space is $2,180 per month. As a result of our acquisition of m3 the Healthcare Learning Company, we are leasing three suites of office space in Austin, Texas and approximately 2,300 square feet of office space in Dallas, Texas. The Austin lease expires on September 1, 2000 and has a monthly rent of $1,386. The Dallas lease expires on September 1, 2002 and has a monthly rent of $2,324.

LEGAL PROCEEDINGS

We are not a party to any material legal proceedings.

MANAGEMENT

EXECUTIVE OFFICERS AND DIRECTORS

The following table presents information about our executive officers and directors.

NAME	AGE	POSITION
Robert A. Frist, Jr.	32	Chief Executive Officer and Chairman of the Board of Directors
Jeffrey L. McLaren	33	President, Chief Product Officer and Director
Arthur E. Newman	51	Chief Financial Officer and Senior Vice President
Michael Pote	38	Senior Vice President
Scott Portis	33	Vice President of Technology
Stephen Clemens	35	Vice President of Online Content
Robert H. Laird, Jr.	32	Vice President, General Counsel and Secretary
Susan A. Brownie	35	Vice President of Finance and Corporate Controller
Charles N. Martin, Jr.	58	Director
Thompson S. Dent	48	Director
M. Fazle Husain	35	Director
John H. Dayani, Sr., Ph.D.	53	Director
James F. Daniell, M.D.	57	Director
William W. Stead, M.D.	51	Director

Robert A. Frist, Jr., one of our co-founders, has served as our chief executive officer and chairman of the board of directors since 1990. Mr. Frist serves on the board of directors of Passport Health Communications, an online health insurance verification provider and Harkey & Associates, a healthcare publisher. He graduated with a Bachelor of Science in business with concentrations in finance, economics and marketing from Trinity University. Mr. Frist is the brother-in-law of Scott Portis, our vice president of technology.

Jeffrey L. McLaren, one of our co-founders, has served as our president and as one of our directors since 1990 and as our chief product officer since 1999. Mr. McLaren is a founding director of the Nashville Technology Council. He graduated from Trinity University with a Bachelor of Arts in both business and philosophy.

Arthur E. Newman has served as our chief financial officer and senior vice president since January 2000. From April 1990 to August 1999, Mr. Newman served as executive vice president overseeing finance, human resources, information systems and customer service and fulfillment for Lippincott, Williams and Wilkins, formerly Waverly, Inc., a publicly traded medical sciences publisher. In May 1998, Waverly was acquired by Wolters Kluwer and merged with Wolters Kluwer's existing U.S. based medical publisher, Lippincott-Raven Publishers. From August 1999 to January 2000, Mr. Newman served as the chief technology officer for Wolters Kluwer's scientific, technical and medical companies consisting of five separate units. Mr. Newman holds a Bachelor of Science in chemistry from the University of Miami and a Masters of Business Administration from Rutgers University.

Michael Pote has served as our senior vice president since August 1997. From January 1996 to August 1997, Mr. Pote served as vice president of Columbia Health Care Network, a managed care contractor. From August 1994 to June 1996, Mr. Pote served as vice president and administrator for Centennial Medical Center. Mr. Pote received a Bachelor of Science and a Masters of Science from Syracuse University.

Scott Portis has served as our vice president of technology since 1994. Mr. Portis worked for Electronic Data Systems, a provider of systems integration services, as an engineering systems engineer in

the expert systems and artificial intelligence divisions, from 1990 to 1994. He has a Bachelor of Science in computer engineering from Auburn University. Mr. Portis is the brother-in-law of Robert A. Frist, Jr., our chief executive officer and chairman of the board of directors.

Stephen Clemens has served as our vice president of interactive development since October 1997. From July 1994 to May 1997, Mr. Clemens served as president of Copernican Systems, Inc., a software and consulting firm. He holds a Bachelor of Science in finance from the University of Tennessee and a Masters of Business Administration from the Owen School of Management at Vanderbilt University.

Robert H. Laird, Jr. has served as our vice president and general counsel since March 1997 and secretary since October 1999. Mr. Laird also served as our director of finance from March 1997 until January 2000. He holds a Bachelor of Arts in English from Tulane University, a J.D. from the University of Tennessee College of Law and a Masters of Business Administration from the University of Tennessee. Prior to attending graduate school from 1993 to 1996, Mr. Laird was employed by CIGNA employee benefits, an insurance organization, in contracts administration from April 1991 to August 1993.

Susan A. Brownie has served as our vice president of finance and corporate controller since November 1999. From August 1986 until 1999, she worked for KPMG LLP, a public accounting and consulting firm, most recently as a senior manager. She holds a Bachelor of Business Administration from the College of William and Mary.

Charles N. Martin, Jr. has served as one of our directors since April 1999. Mr. Martin currently serves as chairman of the board of directors, president and chief executive officer of Vanguard Health Systems, a healthcare company. From January 1992 to January 1997, Mr. Martin served as chairman of the board of directors, president and chief executive officer of OrNda HealthCorp, an investor-owned hospital company, except during the period from April 1994 to August 1995 when Mr. Martin served as chairman and chief executive officer. He holds a Bachelor of Science degree from Southern University in Collegedale, Tennessee.

Thompson S. Dent has served as one of our directors since March 1995. Mr. Dent is a founder of PhyCor, Inc. He currently serves as its president and served as its chief operating officer from October 1997 to October 1998. Mr. Dent served as executive vice president, corporate services, from the inception of PhyCor until October 1997 and served as secretary of PhyCor from 1991 to October 1998. Mr. Dent is a director of PhyCor and Healthcare Realty Trust Incorporated, a real estate investment trust. He holds a Masters in Healthcare Administration from George Washington University.

M. Fazle Husain has served as one of our directors since April 1999 as the designee of Morgan Stanley Venture Partners III, L.P., under a purchase agreement for our preferred stock dated April 21, 1999. Mr. Husain is a general partner of Morgan Stanley Dean Witter Venture Partners. Mr. Husain joined Morgan Stanley Dean Witter in 1987 in its corporate finance department, and joined Venture Partners in 1988. He received a ScB. degree in chemical engineering from Brown University in 1987 and a Masters of Business Administration from Harvard in 1991. Mr. Husain serves as a director of IntegraMed America, a physician practice management company, AllScripts, Inc., a provider of point-of-care physician solutions, and Cardiac Pathways Corp., a manufacturer of minimally invasive cardiac systems.

John H. Dayani, Sr., Ph.D. has served as one of our directors since August 1998. Dr. Dayani served as president and chief executive officer of Network Health Services, Inc. from its inception in May 1996 until he became its executive chairman in 1999. Dr. Dayani was the founder, president and chief executive officer of Medifax, Inc. from 1993 to 1995 and served as its consultant from 1995 to June 1998. He also founded American Nursing Resources, Inc., American Nursing Resources Home Health Agency, Inc., American Nursing Resources Home Infusion, Inc., Nurse America and Quality Managed Care. Dr. Dayani earned a Bachelor of Science and Ph.D. in engineering from Vanderbilt University.

James F. Daniell, M.D. has served as one of our directors since March 1995. Dr. Daniell has maintained a private medical practice at Centennial Medical Center in Nashville since 1984. A founding member of the Society for Reproductive Surgeons, he served as past president of the International Society

of Gynecologic Endoscopy and the Nashville OB/GYN Society. He holds a Bachelor of Science from David Lipscomb University and an M.D. from the University of Tennessee.

William W. Stead, M.D. has served as one of our directors since May 1998. Dr. Stead has served as the associate vice chancellor of Vanderbilt University Medical Center since 1991. Dr. Stead is also the chief technology officer of WebEBM, a healthcare information company. He is the editor-in-chief of the Journal of American Medical Informatics Association and a founding fellow of the American College of Medical Informatics and the American Institute for Engineering in Biology and Medicine. A past president of the American Association for Medical Systems and Informatics, he is the president elect of the American College of Medical Informatics. Dr. Stead earned a Bachelor of Arts in chemistry and an M.D. from Duke University.

ADVISORY BOARDS

We have a Medical Advisory Board chaired by Dr. Daniell, one of our directors. This board consists of nine physicians across several medical specialties who assist us in assessing content and content partners as well as advise us on recent developments in the healthcare market and accreditation issues for CME.

We have a Nursing Advisory Board chaired by Colleen Conway Welch, the dean of nursing at Vanderbilt University. This board consists of 10 individuals who advise us on nursing issues as they relate to continuing education and accreditation issues.

During 1999, our Medical Advisory Board and Nursing Advisory Board members received options to purchase 51,800 shares of our common stock at exercise prices ranging from $2.34 to $6.49 per share. We recorded expense of approximately $12,000 in connection with these grants.

LEGAL PROCEEDINGS

Mr. Dent, serving in his capacity as an officer and a director of PhyCor, has been named as a defendant, along with PhyCor and some of its other current and former officers and directors, in securities fraud class action lawsuits filed in state and federal courts. These lawsuits allege that the defendants issued false and misleading statements which materially misrepresented the earnings and financial condition of PhyCor and failed to disclose other matters in order to conceal the alleged failure of PhyCor's business model. The lawsuits further assert that the alleged misrepresentations caused PhyCor's securities to trade at inflated levels while the individual defendants sold shares.

Mr. Dent, serving in his capacity as an officer and director of PhyCor, has also been named as a defendant, along with PhyCor and some of its other current and former officers and directors, in an action brought by Prem Reddy, M.D., the former majority shareholder of Prime Care International, Inc., a medical network management company acquired by PhyCor in May 1998. The complaint asserts fraudulent inducement relating to the Prime Care transaction and that the defendants issued false and misleading statements which materially misrepresented the earnings and financial condition of PhyCor and failed to disclose other matters in order to conceal the alleged failure of PhyCor's business model.

Mr. Dent and PhyCor believe that they have meritorious defenses to all of these claims and intend to defend vigorously against these actions.

CLASSES OF DIRECTORS

Under the terms of our charter, the board of directors will be divided into three classes: Class I, Class II and Class III. Directors of each class hold office for staggered three-year terms. At each annual meeting of shareholders, the shareholders will either re-elect the directors or elect the successors to the directors whose terms expire at the meeting to serve from the time of their election and qualification until the third annual meeting of shareholders following their election or until a successor has been duly elected and qualified. Messrs. Daniell, Dent and Stead will be Class I directors whose terms will expire at the annual meeting of shareholders in 2000. Messrs. Dayani and McLaren will be Class II directors whose

terms will expire at the annual meeting of shareholders in 2001. Messrs. Frist, Husain and Martin will be Class III directors whose terms will expire at the annual meeting of shareholders in 2002.

BOARD COMMITTEES

The board of directors has an audit committee and a compensation committee. The audit committee will review accounting practices and procedures and the scope of the audit and will recommend the appointment of the independent auditors. The members of the audit committee are Messrs. Daniell, Dayani and Husain. The compensation committee evaluates and approves the compensation policies for the executive officers and will administer our employee benefit plans. The members of the compensation committee are Messrs. Dayani, Dent and Martin.

DIRECTOR COMPENSATION

We do not currently pay cash fees to directors for attendance at meetings. We do reimburse our directors for out-of-pocket expenses related to attending meetings of the board of directors. Non-employee directors are eligible to receive stock option grants under our 1994 Stock Option Plan and our 2000 Stock Incentive Plan. During 1998, our non-employee directors each received a grant of options to purchase 3,700 shares of our common stock at an exercise price of $2.30 per share. During 1999, each of our non-employee directors received a grant of options to purchase 14,800 shares of our common stock at an exercise price of $4.06 per share.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Before April 1999, we did not have a compensation committee, and compensation decisions were made by the full board of directors. Since that time, the compensation committee has made all compensation decisions. No interlocking relationship exists between the board of directors or compensation committee and the board of directors or compensation committee of any other company, nor has any interlocking relationship existed in the past.

EXECUTIVE COMPENSATION

The following table sets forth summary information concerning the compensation we paid for services rendered to us during 1997, 1998 and 1999, by our chief executive officer and the other executive officer whose aggregate cash compensation exceeded $100,000 during the year ended December 31, 1999.

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION			LONG-TERM COMPENSATION AWARDS
NAME AND PRINCIPAL POSITION	FISCAL YEAR	SALARY	BONUS	OTHER ANNUAL COMPENSATION($)	SECURITIES UNDERLYING OPTIONS(#)
Robert A. Frist, Jr.	1999	$ 79,167	$ 9,665	--	83,250
Chief Executive Officer	1998	66,027	2,296	--	47,915
	1997	62,113	6,690	--	--
Michael Pote	1999	$107,561	$14,692	--	83,250
Senior Vice President	1998	98,058	7,296	--	47,915
	1997	34,042	5,728	--	--

STOCK OPTIONS GRANTED DURING FISCAL YEAR 1999

The following table presents all individual grants of stock options during the year ended December 31, 1999 to each of the executive officers named in the Summary Compensation Table above. These options were granted with an exercise price equal to the fair market value of our common stock on the date of grant as determined by our board of directors. The 5% and 10% assumed annual rates of compound stock price appreciation are prescribed by the rules and regulations of the Securities and Exchange Commission and do not represent our estimate or projection of the future trading prices of our common stock. We cannot assure you that the actual stock price appreciation over the ten-year option term will be at the assumed 5% and 10% levels or at any other defined level. Actual gains, if any, on stock option exercises are dependent on numerous factors, including our future performance, overall market conditions and the option holder's continued employment with us throughout the entire vesting period and option term, none of which are reflected in this table. The potential realizable value is calculated by multiplying the fair market value per share of the common stock on the date of grant as determined by the board of directors, which is equal to the exercise price per share, by the stated annual appreciation rate compounded annually for the option term, subtracting the exercise price per share from the product, and multiplying the remainder by the number of shares underlying the option granted.

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERMS	
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(#)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR(%)	EXERCISE PRICE PER SHARE($)	EXPIRATION DATE	5%($)	10%($)
Robert A. Frist, Jr.	83,250	6.0	4.06	9/2/07	138,077	161,571
Michael Pote	83,250	6.0	4.06	9/2/07	138,077	161,571

YEAR-END OPTION VALUES

The following table sets forth information about the number and year-end value of exercisable and unexercisable options held by our executive officers named in the Summary Compensation Table for the year ended December 31, 1999.

	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 1999(#)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1999(1)	
NAME	EXERCISABLE	UNEXERCISABLE	EXERCISABLE($)	UNEXERCISABLE($)
Robert A. Frist, Jr.	314,500	131,165	2,966,250	863,175
Michael Pote	3,700	131,165	34,750	863,175

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(1) Based on an assumed initial public offering price of $10.00 per share (the mid-point of the range set forth on the cover of this prospectus), minus the exercise price, multiplied by the number of shares underlying the option.

416,250 options were exercised during 1999 by our chief executive officer, and 3,170 options were exercised during 1999 by one of our other executive officers.

STOCK PLANS

1994 Stock Option Plan. We adopted the 1994 Stock Option Plan in April 1994. The purpose of the plan is to attract, retain and reward our directors, officers, key employees and consultants by offering performance-based equity interests in our company. The plan provides for grants of incentive stock options, within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, and non-qualified stock options. Our board of directors and shareholders authorized a total of 4,000,000 shares of common stock for issuance under this plan. Upon completion of this offering, no further awards of stock options will be granted under the 1994 plan.

As of December 31, 1999, we had options under this plan for the purchase of 2,470,229 shares of common stock outstanding to employees, consultants, directors and other persons having a business relationship with us. In January 2000, options to purchase 432,245 shares of common stock at prices ranging from $6.49 to $8.65 per share were granted.

2000 Stock Incentive Plan. The 2000 Stock Incentive Plan was adopted by our board of directors on , 2000. The purpose of the plan is to attract, retain and reward key employees, consultants and non-employee directors. This plan allows flexibility in the award of stock-based incentive compensation to these people. The plan provides for grants of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock and other stock-based awards.

The plan authorizes the issuance of up to shares of common stock. However, no individual may receive options to purchase more than 200,000 shares of common stock in any fiscal year. Whenever a share of common stock underlying a stock option is no longer subject to that option, that share of common stock shall again be available for distribution under the plan.

This plan will be administered by the compensation committee of the board of directors. The compensation committee will have the authority to:

- select the individuals who may receive the grant for the options;
- determine the number of shares to be covered by each option or other awards to be granted; and
- determine the terms and conditions of the option, including the exercise price, vesting schedule and any restrictions or limitations on the options.

Grants under the plan may consist of options intended to qualify as incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, non-qualified stock options that are not intended to so qualify, stock appreciation rights, restricted stock or other stock-based awards. Grants can be made to any key employee, consultant and non-employee director. Incentive stock options may only be granted to our employees.

The option price for each share of common stock underlying an incentive stock option shall be at least 100% of the fair market value of the stock at the date of grant. The option price for non-qualified stock options shall be at least 50% of the fair market value of the underlying stock at the date of grant. No incentive stock option shall be exercisable after 10 years from the date of grant. Options are not transferrable except to members of the optionee's immediate family or by will or the laws of descent and distribution.

If an optionee's employment terminates because of death, any option held by the optionee may be exercised to the extent the option was exercisable at the time of death. This exercise must occur within one year from the date of death or until the term of the option expires, whichever is shorter. If an optionee's employment is terminated because of disability, any option held by the optionee may be exercised to the extent the option was exercisable at the time of the disability, unless accelerated by the committee. This exercise must occur within three years from the date of the disability or until the term of the option expires for non-qualified options and one year from the date of disability or until the term of the option expires for incentive stock options, whichever is shorter. If an optionee's employment terminates because of retirement, any option held by the optionee may be exercised to the extent the option was exercisable at the time of the retirement, unless accelerated by the committee. This exercise must occur within three years from the date of the retirement or until the term of the option expires for non-qualified options and three months from the date of the retirement or until the term of the option expires for incentive stock options, whichever is shorter. If an optionee voluntarily terminates employment, the option shall thereupon terminate; however, the board of directors may extend the exercise period for three months or until the term of the option expires, whichever is shorter.

Stock appreciation rights can be granted in connection with all or part of any stock option granted. They will terminate and no longer be exercisable when the related stock option terminates. They are only exercisable at the time and to the extent that the stock options to which they relate are exercisable. Shares

of restricted stock can be issued alone, in addition to or with other awards granted under the plan. The committee can place limitations on the sale or transfer of the restricted stock. Other stock-based awards can be granted by the committee in its discretion. Except for specific grants set forth in the plan, outside directors are not entitled to any awards under the plan. See "Management -- Director Compensation."

The compensation committee can adjust the number of shares reserved for issuance under the plan if there is a merger, reorganization, consolidation, recapitalization, extraordinary cash dividend, stock dividend, stock split or other change in corporate structure. If there is a change in control, any awarded option shall become fully exercisable and vested. This change of control can occur if any person or entity acquires more than 50% of the voting power of our capital stock or if our existing shareholders hold less than fifty percent of our outstanding securities after a cash tender or exchange offer, merger or other business combination, sale of assets or contested election of directors.

EMPLOYMENT AGREEMENT WITH ROBERT A. FRIST, JR.

Under an employment agreement dated April 21, 1999, Robert A. Frist, Jr. is employed as our chief executive officer for a two-year period at an initial base salary of $85,000. He is also entitled to participate in our 1994 Stock Option Plan and our 2000 Stock Incentive Plan. Under this employment agreement, Mr. Frist has agreed not to compete with us and not to solicit our customers or employees for one year after his employment is terminated, with limited exceptions.

Mr. Frist is entitled to severance benefits if he is terminated by us without cause. He is also entitled to severance benefits if he resigns for good reason after a change in control, if he resigns upon the occurrence of a material change in the terms of his employment or if he resigns upon the occurrence of a material breach of the agreement. If termination occurs during the initial two year term of the agreement, the severance benefit shall be the sum of $290,000, less the cumulative amount of base salary actually paid to Mr. Frist during the two year period through the effective date of termination, and $145,000. If termination occurs during any extended one year term of the agreement, the severance benefit shall be the sum of $145,000, less the cumulative amount of base salary actually paid to Mr. Frist during the one year period through the effective date of termination, and $145,000. In addition, if Mr. Frist terminates his employment for good reason after the occurrence of a change in control, all options, shares and other benefits will fully vest immediately.

TRANSACTIONS WITH EXECUTIVE OFFICERS, DIRECTORS AND MORE THAN FIVE PERCENT SHAREHOLDERS

In April 1999, we issued 428,239 shares of our common stock upon the conversion of $1.0 million of debt at $2.34 per share to Robert A. Frist, Jr., our chief executive officer and chairman.

In July and August 1999, we issued an aggregate of 416,250 shares of our common stock upon the exercise of options at $0.54 a share to Robert A. Frist, Jr., our chief executive officer and chairman.

In December 1999, we issued 3,170 shares of our common stock upon the exercise of options at $0.61 per share to Jeffrey L. McLaren, our president, chief product officer and one of our directors.

On November 16, 1998 and February 11, 1999, we issued shares of our series A convertible preferred stock in private placements at $10.00 per share to the following shareholders:

- 25,000 shares to Carol Frist, mother of Robert A. Frist, Jr., our chief executive officer and chairman;
- 25,000 shares to Dr. Robert Frist, father of Robert A. Frist, Jr., our chief executive officer and chairman; and
- 5,000 shares to James and Cassandra Daniell. James Daniell is one of our directors.

In 1999, we issued shares of our series B convertible preferred stock in private placement transactions at $10.00 per share to the following shareholders:

- 20,000 shares to Scott and Carol Len Portis. Scott Portis is our vice president of technology and brother-in-law of Robert Frist, Jr., our chief executive officer and chairman, and Carol Len Portis is the sister of Robert Frist, Jr., our chief executive officer and chairman;
- 150,000 shares to Martin Investment Partnership III, one of our more than five percent shareholders. Charles N. Martin, Jr., its Managing Partner, is one of our directors;
- 50,000 shares to Robert A. Frist, Jr., our chief executive officer and chairman upon conversion of $500,000 worth of debt;
- 15,000 shares to John H. Dayani, Sr., Ph.D., one of our directors;
- 10,000 shares to The Seven Partnership. Thompson S. Dent, one of its partners, is one of our directors;
- 20,000 shares to James Frist, brother of Robert A. Frist, Jr., our chief executive officer and chairman;
- 5,000 shares to Dr. Scott Portis, father of Scott Portis, our vice president of technology; and
- 175,477 shares to Morgan Stanley Venture Partners III, L.P., 16,848 shares to Morgan Stanley Venture Investors III, L.P. and 7,676 shares to The Morgan Stanley Venture Partners Entrepreneur Fund, L.P., each of which are affiliates of Morgan Stanley, one of our more than five percent shareholders.

In 1999, we issued shares of our series B convertible preferred stock upon the exercise of warrants at $10.00 per share to the following shareholders:

- 30,000 shares to Martin Investment Partnership III, one of our more than five percent shareholders. Charles N. Martin, Jr., its Managing Partner, is one of our directors;
- 5,000 shares to Carol Frist, mother of Robert A. Frist, Jr., our chief executive officer and chairman;
- 5,000 shares to Frist Family Internet Partners, an entity managed by Dr. Robert Frist, father of Robert A. Frist, Jr., our chief executive officer and chairman;
- 4,000 shares to Scott and Carol Len Portis. Scott Portis is our vice

president of technology and brother-in-law of Robert Frist, Jr., our chief executive officer and chairman, and Carol Len Portis is the sister of Robert Frist, Jr., our chief executive officer and chairman;

- 4,000 shares to James Frist, brother of Robert A. Frist, Jr., or chief executive officer and chairman;

- 10,000 shares to Robert A. Frist, Jr., our chief executive officer and chairman;

- 3,000 shares to John H. Dayani, Sr, Ph.D., one of our directors;

- 2,000 shares to The Seven Partnership. Thompson S. Dent, one of its partners, is one of our directors;

- 1,000 shares to Dr. Scott Portis, father of Scott Portis, our vice president of technology;

- 1,000 shares to James and Cassandra Daniell. James Daniell is one of our directors; and

- 35,095 shares to Morgan Stanley Venture Partners III, L.P., 3,370 shares to Morgan Stanley Venture Investors III, L.P. and 1,535 shares to The Morgan Stanley Venture Partners Entrepreneur Fund, L.P., each of which are affiliates of Morgan Stanley, one of our more than five percent shareholders.

On August 18, 1999, we issued 300,000 shares of our series C convertible preferred stock at $10.00 per share to HealthStream Partners, one of our more than five percent shareholders.

On September 15, 1999, we issued the following number of shares of our series C convertible preferred stock at $10.00 per share to the following shareholders:

- 3,000 shares to Jeffrey L. and Carrie McLaren. Jeffrey L. McLaren is our president, chief product officer and one of our directors;

- 4,520 shares to James Frist, brother of Robert A. Frist, Jr., our chief executive officer and chairman;

- 4,519 shares to Scott and Carol Len Portis. Scott Portis is our vice president of technology and brother-in-law of Robert Frist, Jr., our chief executive officer and chairman, and Carol Len Portis is the sister of Robert Frist, Jr., our chief executive officer and chairman;

- 33,891 shares to Martin Investment Partnership III, one of our more than five percent shareholders. Charles N. Martin, Jr., its Managing Partner, is one of our directors;

- 11,297 shares to Robert A. Frist, Jr., our chief executive officer and chairman;

- 3,389 shares to John H. Dayani, Sr., Ph.D., one of our directors;

- 1,130 shares to Dr. Scott Portis, father of Scott Portis, our vice president of technology;

- 39,647 shares to Morgan Stanley Venture Partners III, L.P., 3,807 shares to Morgan Stanley Venture Investors III, L.P. and 1,734 shares to The Morgan Stanley Venture Partners Entrepreneur Fund, L.P., each of which are affiliates of Morgan Stanley, one of our more than five percent shareholders;

- 7,000 shares to Dan McLaren, father of Jeffrey L. McLaren, our president, chief product officer and one of our directors;

- 5,648 shares to Carol Frist, mother of Robert A. Frist, Jr., our chief executive officer and chairman;

- 1,130 shares to James and Cassandra Daniell. James Daniell is one of our directors;

- 2,500 shares to Robert Merriman, father-in-law of Robert A. Frist, Jr., our chief executive officer and chairman;

- 5,648 shares to Frist Family Internet Partners, an entity managed by Dr. Robert Frist, father of Robert A. Frist, Jr., our chief executive officer and chairman; and

- 24,648 shares to Borneo Partners, of which Michael Pote, our senior vice president, is administrator.

Each share of series A and series B preferred stock will be converted into 4.28238 shares of common stock upon consummation of this offering. Each share of series C preferred stock will be converted into 2.46013 shares of common stock upon consummation of this offering.

In 1998, 1999 and 2000, we granted the following number of options to purchase shares of our common stock at $2.30, $2.34, $4.06 and $6.49 per share, respectively, to the following directors, executive officers and shareholders who beneficially own five percent or more of our stock:

- 47,915, 0, 83,250 and 0 to Robert A. Frist, Jr., our chief executive officer and chairman;

- 47,915, 0, 83,250 and 0 to Jeffrey L. McLaren, our president, chief product officer and one of our directors;

- 0, 0, 0, and 129,500 to Arthur E. Newman, our senior vice president and chief financial officer;

- 47,915, 0, 83,250 and 0 to Michael Pote, our senior vice president;

- 47,915, 0, 74,000 and 0 to Scott M. Portis, our vice president of technology and brother-in-law of Robert Frist, Jr., our chief executive officer and chairman;

- 23,957, 11,978, 74,000 and 0 to Robert H. Laird, Jr., our vice president, general counsel and secretary;

- 23,957, 11,978, 74,000 and 0 to Stephen Clemens, our vice president of interactive development;

- 0, 0, 0, and 26,825 to Susan A. Brownie, our vice president of finance and corporate controller;

- 11,978, 0, 7,400 and 0 to John Dayani, Jr., one of our employees and son of one of our directors;

- 3,700, 0, 14,800 and 0 to Thompson S. Dent, one of our directors;

- 3,700, 2,775, 14,800 and 0 to James F. Daniell, M.D., one of our directors;

- 3,700, 0, 14,800 and 0 to John H. Dayani, Sr., Ph.D., one of our directors;

- 3,700, 0, 14,800 and 0 to William Stead, M.D., one of our directors;

- 0, 0, 14,800 and 0 to M. Fazle Husain, one of our directors; and

- 0, 0, 14,800 and 0 to Charles N. Martin, Jr., one of our directors.

On April 21, 1999 we executed a promissory note in the principal amount of $1,543,000 payable to Robert A. Frist, Jr., our chief executive officer and chairman of the board of directors. Interest is charged at the lesser of a designated brokerage account rate or 10.5%. On August 23, 1999, the principal amount of the note was reduced to $1,293,000 to reflect the conversion of $250,000 of the debt into series B preferred stock. This note is payable in full or can be converted into 129,300 shares of our series B preferred stock, at Mr. Frist's option, upon consummation of this offering. This note replaces and supersedes notes dated January 18, 1994, February 23, 1994, March 30, 1994, July 11, 1997, December 31, 1997 and April 21, 1999. We also have an unsecured long-term promissory note payable to Mr. Frist. The balance of this note was $12,892 at December 31, 1999. The note requires monthly installments of principal and interest of $2,224 through May 23, 2000. The note accrues interest at 12% per annum.

We had a partially secured $60,000 demand note payable to Scott M. Portis, our vice president of technology at December 31, 1998. The note accrued interest at 12% and was payable monthly. On August 23, 1999, the note was converted into 6,000 shares of our series B preferred stock. Interest expense on the loans to Robert A. Frist, Jr. and Scott M. Portis for the years ended December 31, 1997, 1998 and 1999 totaled $182,708, $328,412 and $193,059, respectively.

We believe that all of these transactions were made on terms as favorable to us as we would have received from unaffiliated third parties. Any future transactions between us and our officers, directors and principal shareholders and their affiliates will be approved by a majority of the board of directors, including a majority of the independent and non-interested directors.

PRINCIPAL SHAREHOLDERS

The following table sets forth information with respect to the beneficial ownership of our common stock as of January 31, 2000 and as adjusted to reflect the sale of the shares of common stock offered in this offering by: (1) each shareholder who owns beneficially more than 5% of our common stock, (2) each of our executive officers and directors and (3) all of our executive officers and directors as a group. The address of all the beneficial owners, unless otherwise stated, is 209 10th Avenue South, Suite 450, Nashville, Tennessee 37203.

The ownership percentage in the table below is based on 13,017,004 shares outstanding on January 31, 2000, on an as if converted basis, and 18,017,004 shares outstanding after this offering. Shares of common stock subject to options that are currently exercisable or that will become exercisable within 60 days after January 31, 2000 are deemed outstanding in computing the percentage ownership of the person holding the options but not for purposes of computing percentage ownership of any other person. Unless otherwise indicated below, the persons and entities named in the table have sole voting and investment power with respect to all shares beneficially owned.

The percentage of shares outstanding assumes the underwriters' over-allotment option is not exercised.

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED	NUMBER OF SHARES BENEFICIALLY OWNED AS A RESULT OF OPTIONS EXERCISABLE WITHIN 60 DAYS OF THE DATE OF THIS PROSPECTUS	PERCENTAGE OF SHARES OUTSTANDING	
			BEFORE OFFERING	AFTER OFFERING
Robert A. Frist, Jr.	5,075,349(1)	314,500	38.99%	28.17%
Entities Associated with Morgan Stanley 1221 Avenue of the Americas New York, New York 10020	1,138,943(2)	--	8.75	6.32
Martin Investment Partnership III(3) 20 Burton Hills Boulevard Suite 100 Nashville, Tennessee 37215	854,204	--	6.56	4.74
HealthStream Partners(4) 900-A, 3319 West End Avenue Nashville, Tennessee 37203	738,039	--	5.67	4.10
Entities associated with The General Electric Company 120 Long Ridge Rd. Stamford, CT 06927	673,270	245,032	5.17	3.74
Jeffrey L. McLaren	367,776(5)	148,714	2.83	2.04
Arthur E. Newman	--	--	--	--
Michael Pote	88,294(6)	27,657	*	*
Scott Portis	489,321(7)	105,242	3.76	2.72
Stephen Clemens	11,978	11,978	*	*
Robert H. Laird, Jr.	23,957	23,957	*	*
Susan A. Brownie	--	--	--	--
Charles N. Martin, Jr.	869,004(8)	14,800	6.68	4.82
Thompson S. Dent	73,589(9)	22,200	*	*
M. Fazle Husain	1,153,743(10)	14,800	8.86	6.40
John H. Dayani, Sr., Ph.D.	103,920	18,500	*	*
James F. Daniell, M.D.	53,448	24,975	*	*
William Stead, M.D.	18,500	18,500	*	*
All executive officers and directors as a group (14 persons)	8,328,883	745,825	63.98	46.23

* Less than one percent

(1) 142,366 of these shares are held by Carol Frist, mother of Robert A. Frist, Jr., 107,059 of these shares are held by Dr. Robert Frist, father of Robert A. Frist, Jr. and 35,307 of these shares are held by a family partnership known as Frist Family Internet Partners.

(2) 999,286 of these shares are held by Morgan Stanley Venture Partners III, L.P., 95,946 are held by MS Venture Investors III, L.P. and 43,709 of these shares are held by The Morgan Stanley Venture Partners Entrepreneur Fund, L.P.

(3) The voting and investment power with respect to shares owned by Martin Investment Partnership III is exercised by Charles N. Martin, Jr.

(4) The voting and investment power with respect to shares owned by HealthStream Partners is exercised by Thomas Frist III.

(5) 17,221 of these shares are held by Dan McLaren, father of Jeffrey McLaren.

(6) 60,637 of these shares are owned by Borneo Partners, of which Mr. Pote is administrator. Mr. Pote disclaims beneficial ownership of these shares except to the extent of his pecuniary interest in those shares.

(7) 28,473 of these shares are held by Dr. Scott Portis, father of Scott Portis.

(8) 854,204 of these shares are owned by Martin Investment Partnership III, of which Mr. Martin is managing partner. Mr. Martin disclaims beneficial ownership of 464,118 of these shares except to the extent of his pecuniary interest in those shares.

(9) 51,389 of these shares are held by The Seven Partnership of which Mr. Dent is one of the partners. Mr. Dent disclaims beneficial ownership of 25,695 of these shares except to the extent of his pecuniary interest in those shares.

(10) 1,138,943 of these shares are owned by entities associated with Morgan Stanley of which Mr. Husain is a general partner. Mr. Husain disclaims beneficial ownership of these shares except to the extent of his pecuniary interest in those shares.

DESCRIPTION OF CAPITAL STOCK

The following description of our capital stock and provisions of our charter and bylaws are only summaries and are qualified by reference to our charter and bylaws filed as exhibits to the registration statement of which this prospectus is a part. As of February 11, 2000 our authorized capital stock consisted of 75,000,000 shares of common stock, no par value per share, and 10,000,000 shares of preferred stock, no par value per share. As of December 31, 1999, there were 4,165,461 shares of common stock outstanding held of record by eight shareholders, 76,000 shares of series A preferred stock outstanding held of record by five shareholders, 1,228,801 shares of series B preferred stock outstanding held of record by 32 shareholders and 627,406 shares of series C preferred stock outstanding held of record by 39 shareholders. All of the shares of preferred stock outstanding prior to this offering will automatically convert into shares of common stock upon consummation of this offering.

COMMON STOCK

Holders of the common stock are entitled to receive, as, when and if declared by the board of directors, dividends and other distributions in cash, stock or property from our assets or funds legally available for those purposes subject to any dividend preferences that may be attributable to preferred stock. Holders of common stock are entitled to one vote for each share held of record on all matters on which shareholders may vote. Holders of common stock are not entitled to cumulative voting for the election of directors. There are no preemptive, conversion, redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are fully paid and non-assessable. In the event of our liquidation, dissolution or winding up, holders of common stock are entitled to share ratably in the assets available for distribution.

PREFERRED STOCK

Our board of directors, without further action by the shareholders, is authorized to issue an aggregate of 10,000,000 shares of preferred stock, as of February 11, 2000. Prior to consummation of this offering, there were 1,932,207 shares of preferred stock outstanding. All of these shares will be converted into shares of common stock upon consummation of the offering. Currently, we have no plans to issue a new series of preferred stock. Our board of directors may, without shareholder approval, issue preferred stock with dividend rates, redemption prices, preferences on liquidation or dissolution, conversion rights, voting rights and any other preferences, which rights and preferences could adversely affect the voting power of the holders of common stock. Issuances of preferred stock could make it harder for a third party to acquire, or could discourage or delay a third party from acquiring, a majority of our outstanding common stock.

REGISTRATION RIGHTS

After the consummation of the offering, the holders of 7,684,864 shares of common stock issuable upon conversion of the preferred stock will have registration rights with respect to those securities. These rights are described in an investors rights agreement between us and the holders of those securities. The agreement provides, in some instances, for registration rights upon the demand of the holders of at least 30% of the shares of common stock then outstanding that were issuable upon the conversion of the preferred stock. In addition, pursuant to that agreement, subject to certain limitations, the holders have rights, referred to as piggyback registration rights, to require us to include their securities in future registration statements we file under the Securities Act of 1933. The holders of those securities also are entitled, subject to some limitations, to require us to register their securities on a registration statement on Form S-3 once we are eligible to use a registration statement on Form S-3 in connection with registrations. However, holders of these shares will be restricted from exercising these rights until 180 days after the date of this prospectus. Registration of shares of common stock by the exercise of these demand registration rights, piggyback registration rights or S-3 registration rights under the Securities Act of 1933 would result in these shares becoming freely tradable without restriction under the Securities Act of 1933 immediately upon the effectiveness of such registration. See "Risk Factors - -- Approximately 13,017,004,

or 72.2%, of our total outstanding shares are restricted from immediate resale but may be sold into the market in the near future, which could cause the market price of our common stock to drop significantly" and "Shares Eligible for Future Sale."

CLASSIFIED BOARD OF DIRECTORS

Our board of directors will be divided into three classes of directors serving staggered three-year terms. As a result, approximately one-third of the board of directors will be elected each year. This provision, along with the provision authorizing the board of directors to fill vacant directorships or increase the size of the board of directors, may deter a shareholder from removing incumbent directors and gaining control of the board of directors by filling vacancies created by the removal with its own nominees.

SHAREHOLDER ACTION; SPECIAL MEETING OF SHAREHOLDERS

The charter states that shareholders may not take action by written consent, but only at duly called annual or special meetings of shareholders. The charter also provides that special meetings of shareholders may be called only by the chairman of the board of directors or a majority of the board of directors.

ADVANCE NOTICE REQUIREMENTS FOR SHAREHOLDER PROPOSALS AND DIRECTOR NOMINATIONS

The bylaws provide that shareholders who want to bring business before an annual meeting of shareholders, or to nominate candidates for election as directors at an annual meeting of shareholders, must provide timely notice in writing. To be timely, a shareholders's notice must be delivered to or mailed and received at our principal executive offices at least 120 days before the first anniversary of the date the previous year's annual meeting notice was provided. If no annual meeting of shareholders was held in the previous year or the date of the annual meeting of shareholders has been changed to be more than 30 calendar days earlier than or 60 calendar days after that anniversary, notice by the shareholder, to be timely, must be received by:

- at least 60 days but no more than 90 days prior to the annual meeting of shareholders or

- the close of business on the 10th day following the date on which notice of the date of the meeting is given to shareholders or made public, whichever first occurs.

The bylaws also specify requirements as to the form and content of a shareholder's notice. These provisions may keep shareholders from bringing matters before an annual meeting of shareholders or from making nominations for directors at an annual meeting of shareholders.

AUTHORIZED BUT UNISSUED SHARES

The authorized but unissued shares of common stock and preferred stock are available for future issuance without shareholder approval. These additional shares may be used for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions and employee benefit plans. The existence of authorized but unissued shares of common stock and preferred stock could make it harder or discourage an attempt to obtain control of us by a proxy contest, tender offer, merger or otherwise.

TENNESSEE ANTI-TAKEOVER LAW AND CHARTER AND BYLAW PROVISIONS THAT MAY HAVE AN ANTI-TAKEOVER EFFECT

Provisions in our charter, bylaws and Tennessee law could make it harder for someone to acquire us through a tender offer, proxy contest or otherwise.

The Tennessee Business Combination Act provides that a party owning 10% or more of the stock in a "resident domestic corporation" is an "interested shareholder." An interested shareholder cannot engage in a business combination with the resident domestic corporation unless the combination:

- takes place at least five years after the interested shareholder first acquired 10% or more of the resident domestic corporation; and

- either is approved by at least two-thirds of the non-interested voting shares of the resident domestic corporation or satisfies fairness conditions specified in the Combination Act.

These provisions apply unless one of two events occurs:

- a business combination with an entity can proceed without delay when approved by the target corporation's board of directors before that entity becomes an interested shareholder, or

- the resident corporation may enact a charter amendment or bylaw to remove itself entirely from the Combination Act. This charter or bylaw amendment must be approved by a majority of the shareholders who have held shares for more than one year before the vote. In addition, the charter amendment or bylaw cannot become operative until two years after the vote.

An interested shareholder, for purposes of the Combination Act, is any person who is an affiliate or associate of the corporation, or the beneficial owner, directly or indirectly, of 10% or more of the outstanding voting shares of the corporation.

The Tennessee Greenmail Act prohibits us from purchasing or agreeing to purchase any of our securities, at a price higher than fair market value, from a holder of 3% or more of any class of our securities who has beneficially owned the securities for less than two years. We can make this purchase if the majority of the outstanding shares of each class of voting stock issued by us approves the purchase or we make an offer of at least equal value per share to all holders of shares of that class.

The effect of the above may make a change of control of us harder by delaying, deferring or preventing a tender offer or takeover attempt that you might consider to be in your best interest, including those attempts that might result in the payment of a premium over the market price for your shares. They may also promote the continuity of our management by making it harder for you to remove or change the incumbent members of the board of directors.

LIMITATIONS ON LIABILITY AND INDEMNIFICATION OF OFFICERS AND DIRECTORS

Our charter provides that, to the fullest extent permitted by the Tennessee Business Corporation Act, a director will not be liable to us or our shareholders for monetary damages resulting from a breach of his or her fiduciary duty as a director. Under the TBCA, directors have a fiduciary duty which is not eliminated by this provision in our charter. In some circumstances, equitable remedies such as injunctive or other forms of nonmonetary relief will remain available. In addition, each director will continue to be subject to liability under the TBCA for breach of the director's duty of loyalty, for acts or omissions which are found by a court of competent jurisdiction to be not in good faith or knowing violations of law, for actions leading to improper personal benefit to the director and for payment of dividends that are prohibited by the TBCA. This provision does not affect the directors' responsibilities under any other laws, such as the Federal securities laws or state or Federal environmental laws.

The TBCA provides that a corporation may indemnify any director or officer against liability incurred in connection with a proceeding if the director or officer acted in good faith or reasonably believed, in the case of conduct in his or her official capacity with the corporation, that the conduct was in the corporation's best interest. In all other civil cases, a corporation may indemnify a director or officer who reasonably believed that his or her conduct was not opposed to the best interest of the corporation. In connection with any criminal proceeding, a corporation may indemnify any director or officer who had no reasonable cause to believe that his or her conduct was unlawful.

In actions brought by or in the right of the corporation, however, the TBCA does not allow indemnification if the director or officer is adjudged to be liable to the corporation. Similarly, the TBCA prohibits indemnification in connection with any proceeding charging improper personal benefit to a director or officer if the director or officer is adjudged liable because a personal benefit was improperly received.

In cases when the director or officer is wholly successful, on the merits or otherwise, in the defense of any proceeding instigated because of his or her status as a director or officer of a corporation, the TBCA mandates that the corporation indemnify the director or officer against reasonable expenses incurred in the proceeding. Notwithstanding the foregoing, the TBCA provides that a court may order a corporation to indemnify a director or officer for reasonable expense if, in consideration of all relevant circumstances, the court determines that the individual is fairly and reasonably entitled to indemnification, whether or not the standard of conduct set forth above was met.

Our bylaws provide that we shall indemnify and advance expenses to our directors and officers to the fullest extent permitted by the TBCA. We also maintain insurance to protect any director or officer against any liability and will enter into indemnification agreements to indemnify our directors and officers in addition to the indemnification provided in our charter and bylaws. These agreements, among other things, indemnify our directors and officers for some expenses, including attorneys' fees and associated legal expenses, judgments and fines and amounts paid in settlement, actually and reasonably incurred by any of these persons in any action, suit or proceeding arising out of the person's services as our director or officer. We believe that these provisions and agreements are necessary to attract and retain qualified directors and officers.

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for our common stock is SunTrust Bank, Atlanta. Its address is P.O. Box 4625, Atlanta, Georgia 30302, and its telephone number at this location is (414) 588-7622.

SHARES ELIGIBLE FOR FUTURE SALE

Sales of substantial amounts of our common stock in the public market after the offering could adversely affect the market price of our common stock and our ability to raise equity capital in the future on terms favorable to us.

After the offering, 18,017,004 shares of our common stock will be outstanding, assuming that the underwriters do not exercise their over-allotment option. Of these shares, all of the 5,000,000 shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, unless these shares are purchased by "affiliates" as that term is defined in Rule 144 under the Securities Act. The remaining shares of common stock held by existing shareholders are "restricted securities" as that term is defined in Rule 144 under the Securities Act. Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Rules 144 or 701 under the Securities Act, which rules are summarized below.

RULE 144

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person, or persons whose shares of common stock are aggregated, including persons who may be deemed our affiliates, who has beneficially owned shares of our common stock for at least one year is entitled to sell, within any three-month period, a number of shares that is not more than the greater of:

- 1% of the number of shares of common stock then outstanding, which will equal approximately 180,000 shares immediately after this offering; or

- the average weekly trading volume of the common stock on the Nasdaq National Market during the four calendar weeks before a notice of the sale on Form 144 is filed with the Securities and Exchange Commission.

Sales under Rule 144 are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

RULE 144(K)

Under Rule 144(k), a person who is not deemed to have been one of our affiliates at any time during the 90 days before a sale, and who has beneficially owned the restricted shares for at least two years, is entitled to sell the shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

RULE 701

In general, under Rule 701 of the Securities Act as currently in effect, any of our employees, consultants, directors or advisors who purchase shares from us under a stock option plan or other written agreement can resell those shares 90 days after the effective date of this offering in reliance on Rule 144, but without complying with certain restrictions, including the holding period, contained in Rule 144.

LOCK-UP AGREEMENTS

All of our executive officers, directors and shareholders will sign lock-up agreements under which they will agree not to transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for shares of common stock, for a period of 180 days after the date of this prospectus. Transfers or dispositions can be made sooner with the prior written consent of FleetBoston Robertson Stephens Inc.

REGISTRATION RIGHTS

Upon completion of this offering, the holders of 7,684,864 shares of our common stock will be entitled to rights with respect to the registration of their shares under the Securities Act. See "Description of

Capital Stock -- Registration Rights" for a description of these registration rights. After the registration, these shares will become freely tradable without restriction under the Securities Act. Any sales of securities by these shareholders could have a material adverse effect on the trading price of our common stock.

STOCK OPTIONS

Immediately after this offering we plan to file a registration statement under the Securities Act covering shares of common stock reserved for issuance under our stock option plans. As of January 31, 2000, options to purchase 2,886,795 shares of common stock were issued and outstanding. When the lock-up agreements described above expire, at least 1,452,231 shares of common stock will be subject to vested options (based on options outstanding as of January 31, 2000). This registration statement is expected to be filed and become effective as soon as practicable after the effective date of the registration statement for this offering. Accordingly, shares registered under that registration statement will, subject to vesting provisions and Rule 144 volume limitations applicable to our affiliates, be available for sale in the open market immediately after the 180 day lock-up agreements expire.

UNDERWRITING

The underwriters named below, acting through their representatives, FleetBoston Robertson Stephens Inc., CIBC World Markets Corp., J.C. Bradford & Co. and E*OFFERING Corp., have severally agreed with us, subject to the terms and conditions of the underwriting agreement, to purchase from us the number of shares of common stock set forth below opposite their respective names. The underwriters are committed to purchase and pay for all shares if any are purchased.

UNDERWRITERS	NUMBER OF SHARES
FleetBoston Robertson Stephens Inc.	
CIBC World Markets Corp.	
J.C. Bradford & Co.	
E*OFFERING Corp.	
Total	5,000,000

The representatives have advised us that the underwriters propose to offer the shares of common stock to the public at the public offering price set forth on the cover page of this prospectus and to certain dealers at that price less a concession of not in excess of $ per share, of which $ may be reallowed to other dealers. After this offering, the public offering price, concession and reallowance to dealers may be reduced by the representatives. No such reduction shall change the amount of the proceeds to be received by us as set forth on the cover page of this prospectus. The common stock is offered by the underwriters as stated in this document, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part.

Prior to this offering, there has been no public market for the common stock. Consequently, the public offering price for the common stock offered by this prospectus will be determined through negotiations among the representatives and us. Among the factors considered in those negotiations will be prevailing market conditions, certain of our financial information, market valuations of other companies that we and the representatives believe to be comparable to us, estimates of our business potential, the present state of our development and other factors deemed relevant.

The underwriters have advised us that they do not expect sales to discretionary accounts to exceed five percent of the total number of shares offered.

OVER-ALLOTMENT OPTION

We have granted to the underwriters an option, exercisable during the 30-day period after the date of this prospectus, to purchase up to 750,000 additional shares of common stock to cover over-allotments, if any, at the public offering price less the underwriting discount set forth on the cover page of this prospectus. If the underwriters exercise their over-allotment option to purchase any of the additional 750,000 shares of common stock, the underwriters have severally agreed, subject to certain conditions, to purchase approximately the same percentage as the number of shares to be purchased by each of them bears to the total number of shares of common stock offered in this offering. If purchased, these additional shares will be sold by the underwriters on the same terms as those on which the shares offered in this offering are being sold. We will be obligated, by the over-allotment option, to sell shares to the underwriters to the extent the over-allotment option is exercised. The underwriters may exercise the over-allotment option only to cover over-allotments made in connection with the sale of the shares of common stock offered in this offering.

The following table summarizes the compensation to be paid by us:

		TOTAL	
	PER SHARE	WITHOUT OVER-ALLOTMENT	WITH OVER-ALLOTMENT
Underwriting discounts and commissions paid by us.....	$	$	$
Expenses payable by us.....	$	$	$

INDEMNITY

The underwriting agreement contains covenants of indemnity among the underwriters and us against civil liabilities, including liabilities under the Securities Act, and liabilities arising from breaches of representations and warranties contained in the underwriting agreement.

LOCK-UP AGREEMENTS

Each of our executive officers, directors and shareholders will agree, for 180 days after the effective date of this prospectus, subject to specified exceptions, not to offer to sell, contract to sell, or otherwise sell, dispose of, loan, pledge or grant any rights with respect to any shares of common stock owned as of the date of this prospectus or acquired after the date of this prospectus directly by those holders or with respect to which they have the power of disposition, without the prior written consent of FleetBoston Robertson Stephens Inc. These lock-up agreements will also cover any options or warrants to purchase any shares of common stock, or any securities convertible into or exchangeable for shares of common stock owned by those holders. However, FleetBoston Robertson Stephens Inc. may, in its sole discretion and at any time or from time to time, without notice, release all or any portion of the securities subject to lock-up agreements. There are no existing agreements between the representatives and any of our shareholders who will execute a lock-up agreement providing consent to the sale of shares prior to the expiration of the lock-up period.

In addition, we will agree that during the lock-up period we will not, without the prior written consent of FleetBoston Robertson Stephens Inc., subject to some exceptions, consent to the disposition of any shares held by shareholders subject to lock-up agreements prior to the expiration of the lock-up period, or issue, sell, contract to sell, or otherwise dispose of, any shares of common stock, any options or warrants to purchase any shares of common stock or any securities convertible into, exercisable for or exchangeable for shares of common stock other than our sale of shares in this offering, the issuance of our common stock upon the exercise of outstanding options or warrants, and the issuance of options under existing stock option and incentive plans provided that those options do not vest prior to the expiration of the lock-up period. See "Shares Eligible for Future Sale."

LISTING

We have made application to list our common stock on the Nasdaq National Market under the symbol "HSTM."

STABILIZATION

The representatives have advised us that, pursuant to Regulation M under the Securities Act of 1933, some persons participating in the offering may engage in transactions, including stabilizing bids, syndicate covering transactions or the imposition of penalty bids, that may have the effect of stabilizing or maintaining the market price of the shares of common stock at a level above that which might otherwise prevail in the open market. A "stabilizing bid" is a bid for or the purchase of shares of common stock on behalf of the underwriters for the purpose of fixing or maintaining the price of the common stock. A "syndicate covering transaction" is the bid for or purchase of common stock on behalf of the underwriters to reduce a short position incurred by the underwriters in connection with the offering. A "penalty bid" is an arrangement permitting the representatives to reclaim the selling concession otherwise accruing to an

underwriter or syndicate member in connection with the offering if the common stock originally sold by that underwriter or syndicate member is purchased by the representatives in a syndicate covering transaction and has therefore not been effectively placed by the underwriter or syndicate member. The representatives have advised us that these transactions may be effected on the Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

E*OFFERING Corp. is the exclusive Internet underwriter for this offering. E*OFFERING Corp. has agreed to allocate a portion of the shares that it purchases to E*TRADE Securities, Inc. E*OFFERING Corp. and E*TRADE Securities Inc. will allocate shares to their respective customers in accordance with usual and customary industry practices. A prospectus in electronic format, from which you can link to a "Meet the Management" Presentation through an embedded hyperlink, (click here for "Meet the Management" Presentation), is being made available on the Web site maintained by E*OFFERING Corp., www.eoffering.com. Other than the prospectus in electronic format, the information that is identified as being a part of the prospectus and any other information that references HealthStream, the information on E*OFFERING Corp.'s Web site and any information provided in any other Web site maintained by E*OFFERING Corp. is not part of this prospectus and has not been approved or endorsed by HealthStream and should not be relied upon by prospectus investors.

J.C. Bradford & Co., one of the underwriters, acted as our financial advisor in connection with the issuance of our series B preferred stock in April, May and August 1999. J.C. Bradford & Co. received customary fees and expenses in connection with these private placements paid in the form of our series B preferred stock. Including the shares received by J.C. Bradford & Co. as payment for its acting as our financial advisor, J.C. Bradford & Co. and affiliates of J.C. Bradford & Co. collectively own shares of our preferred stock representing 435,641 shares of our common stock on an as converted basis. J.C. Bradford & Co. and certain of the other underwriters may act as an underwriter, placement agent or financial advisor in our future financing activities.

LEGAL MATTERS

The validity of the shares of common stock offered in this prospectus will be passed upon for us by Bass, Berry & Sims PLC, Nashville, Tennessee. The underwriters have been represented by Cravath, Swaine & Moore, New York, New York.

EXPERTS

Ernst & Young LLP, independent auditors, have audited (1) our financial statements at December 31, 1998 and 1999, and for each of the three years in the period ended December 31, 1999, (2) the financial statements of Quick Study, Inc. at December 31, 1998 and 1999, and for each of the two years in the period ended December 31, 1999, and (3) the financial statements of SilverPlatter Education, Inc. at December 31, 1997 and 1998, and for each of the two years in the period ended December 31, 1998, as set forth in their reports. We've included these financial statements in the prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP's reports, given on their authority as experts in accounting and auditing.

Lane, Gorman Trubitt L.L.P., independent auditors, have audited the financial statements of MultiMedia Marketing, Inc. d/b/a m3 the Healthcare Learning Company at December 31, 1998 and 1999, and for each of the three years in the period ended December 31, 1999, as set forth in their report. We've included these financial statements in the prospectus and elsewhere in the registration statement in reliance on Lane, Gorman Trubitt L.L.P.'s report, given on their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We filed with the Securities and Exchange Commission a registration statement on Form S-1 under the Securities Act of 1933 that registers the shares of common stock being offered. This prospectus does not contain all of the information described in the registration statement and the related exhibits. For more information about us and the common stock being offered, you should review the registration statement and the related exhibits. Statements contained in this prospectus regarding the contents of any contract or any other document to which reference is made are not necessarily complete, and, in each instance, you should review the copy of the contract or other document filed as an exhibit to the registration statement. A copy of the registration statement and the related exhibits may be inspected without charge and copied upon payment of prescribed fees at the following location of the Securities and Exchange Commission:

Public Reference Room
450 Fifth Street, N.W.
Washington, D.C. 20549

You may also obtain copies of all or any part of the registration statement from that office at prescribed rates. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the operation of the public reference room. The Securities and Exchange Commission maintains a World Wide Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Securities and Exchange Commission. The address of the site is http://www.sec.gov.

We plan to provide our shareholders with written annual reports containing audited financial statements certified by an independent public accounting firm.

INDEX TO FINANCIAL STATEMENTS

PRO FORMA CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

On July 23, 1999, we acquired substantially all assets and assumed certain liabilities of SilverPlatter Education, Inc. from SilverPlatter Information, Inc. for a combination of cash and shares of our common stock. On January 28, 2000, we acquired all of the assets and liabilities of Multimedia Marketing, Inc. d/b/a m3 the Healthcare Learning Company for a combination of cash and shares of our common stock. On January 28, 2000, we acquired substantially all of the assets of EMInet, Inc. for a combination of cash and shares of our common stock. On January 11, 2000, we acquired substantially all of the assets and liabilities of Quick Study, Inc. for a combination of cash and shares of our common stock. On January 3, 2000, we acquired substantially all of the assets of KnowledgeReview, LLC for a combination of cash and shares of our common stock. The acquisitions were accounted for as purchases.

The unaudited pro forma balance sheet gives effect to: (i) the acquisition of Multimedia Marketing, Inc. d/b/a m3 the Healthcare Learning Company; (ii) the acquisition of EMInet, Inc.; (iii) the acquisition of Quick Study, Inc.; (iv) the acquisition of KnowledgeReview, LLC; (v) the conversion of series A, B and C preferred stock into our common stock; (vi) the conversion of $1,293,000 of notes payable-related party to series B preferred stock and conversion to our common stock; and (vii) the issuance of our common stock in this offering at an assumed initial offering price of $10.00 per share as described in "Use of Proceeds", net of offering costs of approximately $4.0 million of which $295,000 have already been paid; and (viii) the repayment of $1,276,708 debt in connection with the acquisition of m3 the Healthcare Learning Company and Quick Study as if the offering and each of the other transactions had been completed as of December 31, 1999.

The unaudited pro forma condensed statements of operations give effect to: (i) the acquisition of SilverPlatter Education, Inc.; (ii) the acquisition of Multimedia Marketing, Inc. d/b/a m3 the Healthcare Learning Company; (ii) the acquisition of EMInet, Inc.; (iii) the acquisition of Quick Study, Inc.; (iv) the acquisition of KnowledgeReview, LLC; (v) the conversion of series A, B and C preferred stock into our common stock; (vi) the conversion of $1,293,000 of notes payable-related party to series B preferred stock and conversion to our common stock; and (vii) the issuance of our common stock in this offering at an assumed initial offering price of $10.00 per share as described in "Use of Proceeds," net of offering costs of approximately $4.0 million as if the offering and each of the other transactions had been completed as of January 1, 1999.

The pro forma condensed financial information presented herein does not purport to represent what our results of operations or financial position would have been had such transactions in fact occurred at the beginning of the periods presented or to project our results of operations in any future period. The pro forma results of operations do not take into account certain operational changes we instituted or will institute as a result of these acquisitions. The unaudited pro forma condensed financial statements should be read in conjunction with the audited financial statements, including the related notes thereto, that appear elsewhere in this prospectus.

HEALTHSTREAM, INC.

UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

DECEMBER 31, 1999

	HEALTHSTREAM	ACQUIRED COMPANIES(1)	ACQUISITION PRO FORMA ADJUSTMENTS(2)	PRE-OFFERING PRO FORMA CONSOLIDATED	OFFERING PRO FORMA ADJUSTMENTS(3)	PRO FORMA CONSOLIDATED
ASSETS						
Current assets:						
Cash, cash equivalents and short term investments	$13,632,144	$ 438,156	$(1,609,000)	$12,461,300	$ 44,973,292	$57,434,592
Accounts receivable, less allowance for doubtful accounts	544,042	973,139	--	1,517,181	--	1,517,181
Accounts receivable -- unbilled	18,877	--	--	18,877	--	18,877
Investments	86,063	--	--	86,063	--	86,063
Prepaid and other assets	263,517	4,424	--	267,941	--	267,941
Total current assets	14,544,643	1,415,719	(1,609,000)	14,351,362	44,973,292	59,324,654
Property and equipment, net	1,333,901	115,905	--	1,449,806	--	1,449,806
Intangible assets, net	1,134,673	--	13,475,030	14,609,703	--	14,609,703
Other assets	441,488	68,190	--	509,678	(295,000)	214,678
Total assets	$17,454,705	$ 1,599,814	$11,866,030	$30,920,549	$ 44,678,292	$75,598,841
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)						
Current liabilities:						
Accounts payable	$ 443,455	$ 151,491	$ --	$ 594,946	$ --	$ 594,946
Accrued liabilities	448,727	281,846	--	730,573	--	730,573
Deferred revenue	791,424	1,650,187	--	2,441,611	--	2,441,611
Current portion of notes payable	--	50,000	--	50,000	(50,000)	--
Notes payable -- related party	1,293,000	2,194,218	(2,178,806)	1,308,412	(1,293,000)	15,412
Current portion of long-term debt-related party	12,892	62,000	--	74,892	(62,000)	12,892
Current portion of capital lease obligation	89,881	--	--	89,881	--	89,881
Total current liabilities	3,079,379	4,389,742	(2,178,806)	5,290,315	(1,405,000)	3,885,315
Capital lease obligation, less current portion	185,801	--	--	185,801	--	185,801
Long-term notes payable, less current portion	--	1,164,708	--	1,164,708	(1,164,708)	--
Shareholders' equity (deficit):						
Common stock	4,008,991	429,096	10,090,200 (429,096)	14,099,191	20,465,060 (295,000) 46,250,000	80,519,251
Additional paid-in capital	--	1,959,985	(1,959,985)	--	--	--
Preferred stock	19,172,060	--	--	19,172,060	(20,465,060) 1,293,000	--
Accumulated other comprehensive loss	(41,690)	--	--	(41,690)	--	(41,690)
Accumulated deficit	(8,949,836)	(6,343,717)	6,343,717	(8,949,836)	--	(8,949,836)
Total shareholders' equity (deficit)	14,189,525	(3,954,636)	14,044,836	24,279,725	47,248,000	71,527,725
	$17,454,705	$ 1,599,814	$11,866,030	$30,920,549	$ 44,678,292	$75,598,841

See accompanying notes to unaudited pro forma condensed balance sheet.

HEALTHSTREAM, INC.

NOTES TO UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

(1) Reflects the acquisition of Multimedia Marketing, Inc. d/b/a m3 the Healthcare Learning Company, EMInet, Inc., Quick Study, Inc. and KnowledgeReview LLC as if such acquisitions occurred on December 31, 1999 as summarized below:

	M3 THE HEALTHCARE LEARNING COMPANY	EMINET, INC.	QUICK STUDY, INC.	KNOWLEDGE REVIEW LLC	ACQUIRED COMPANIES
ASSETS					
Current assets:					
Cash, cash equivalents and short term investments	$ 404,298	$ 25,264	$ 8,594	$ --	$ 438,156
Accounts receivable, less allowance for doubtful accounts	911,765	32,289	28,635	450	973,139
Accounts receivable - unbilled	--	--	--	--	--
Prepaid and other assets	4,318	--	106	--	4,424
Total current assets	1,320,381	57,553	37,335	450	1,415,719
Property and equipment, net	45,544	50,335	20,026	--	115,905
Intangible assets	--	--	--	--	--
Other assets	62,786	--	5,404	--	68,190
Total assets	$ 1,428,711	$ 107,888	$ 62,765	$ 450	$ 1,599,814
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)					
Current liabilities:					
Accounts payable	$ 60,162	$ 34,714	$ 56,615	$ --	$ 151,491
Accrued liabilities	273,222	--	8,624	--	281,846
Deferred revenue	1,276,505	368,072	5,610	--	1,650,187
Current portion of notes payable	--	--	50,000	--	50,000
Notes payable - related party	--	11,069	2,178,806	4,343	2,194,218
Current portion of long-term debt - related party	--	--	62,000	--	62,000
Current portion of capital lease obligation	--	--	--	--	--
Total current liabilities	1,609,889	413,855	2,361,655	4,343	4,389,742
Capital lease obligation, less current portion	--	--	--	--	--
Long-term notes payable, less current portion	1,164,708	--	--	--	1,164,708
Shareholders' equity (deficit):					
Common Stock	52,637	302,559	73,900	--	429,096
Additional paid-in capital	1,959,985	--	--	--	1,959,985
Preferred stock	--	--	--	--	--
Accumulated deficit	(3,358,508)	(608,526)	(2,372,790)	(3,893)	(6,343,717)
Total shareholders' equity (deficit)	(1,345,886)	(305,967)	(2,298,890)	(3,893)	(3,954,636)
	$ 1,428,711	$ 107,888	$ 62,765	$ 450	$ 1,599,814

NOTES TO UNAUDITED PRO FORMA CONDENSED BALANCE SHEET -- (CONTINUED)

(2) Reflects the adjustments to effect the acquisitions of Multimedia Marketing, Inc. d/b/a m3 the Healthcare Learning Company, EMInet, Inc., Quick Study, Inc. and KnowledgeReview LLC as if such acquisitions occurred on December 31, 1999 as summarized below:

	M3 THE HEALTHCARE LEARNING COMPANY(A)	EMINET, INC.(B)	QUICK STUDY, INC(C)	KNOWLEDGE REVIEW LLC(D)	ACQUISITION PRO FORMA ADJUSTMENTS
ASSETS					
Current assets:					
Cash, cash equivalents and short term investments	$ (600,000)	$ (640,000)	$ (59,000)	$(310,000)	$(1,609,000)
Accounts receivable, less allowance for doubtful accounts	--	--	--	--	--
Accounts receivable - unbilled	--	--	--	--	--
Prepaid and other assets	--	--	--	--	--
Total current assets	(600,000)	(640,000)	(59,000)	(310,000)	(1,609,000)
Property and equipment, net	--	--	--	--	--
Intangible assets	9,020,798	3,280,255	710,084	463,893	13,475,030
Other assets	--	--	--	--	--
Total assets	$ 8,420,798	$ 2,640,255	$ 651,084	$ 153,893	$11,866,030
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)					
Current liabilities:					
Accounts payable	$ --	$ --	$ --	$ --	$ --
Accrued liabilities	--	--	--	--	--
Deferred revenue	--	--	--	--	--
Notes payable - related party	--	--	(2,178,806)	--	(2,178,806)
Current portion of long-term debt - related party	--	--	--	--	--
Current portion of capital lease obligation	--	--	--	--	--
Total current liabilities	--	--	(2,178,806)	--	(2,178,806)
Capital lease obligation, less current portion	--	--	--	--	--
Long-term notes payable, less current portion	--	--	--	--	--
Shareholders' equity (deficit):					
Common stock	7,074,912	2,334,288	531,000	150,000	10,090,200
	(52,637)	(302,559)	(73,900)	--	(429,096)
Additional paid-in capital	(1,959,985)	--	--	--	(1,959,985)
Preferred stock	--	--	--	--	--
Accumulated deficit	3,358,508	608,526	2,372,790	3,893	6,343,717
Total shareholders' equity (deficit)	8,420,798	2,640,255	2,829,890	153,893	14,044,836
	$ 8,420,798	$ 2,640,255	$ 651,084	$ 153,893	$11,866,030

- ---

(a) Reflects the elimination of common stock, additional paid-in capital, accumulated deficit, the payment of $600,000 of cash and issuance of 818,036 shares of our common stock at an assigned value of $7,074,912 as well as recording of the intangible assets in connection with our acquisition of m3.

(b) Reflects the elimination of common stock, additional paid-in capital, accumulated deficit, the payment of $640,000 of cash and issuance of 269,902 shares of our common stock at an assigned value of $2,334,288 as well as recording of the intangible assets in connection with our acquisition of EMInet, Inc.

(c) Reflects the elimination of liabilities not assumed, common stock, additional paid-in capital, accumulated deficit, and the payment of $59,000 in cash and issuance of 61,397 shares of our common stock at an assigned value of $531,000, as well as recording of the intangible assets in connection with our acquisition of Quick Study, Inc.

(d) Reflects the payment of $310,000 of cash and issuance of 17,343 shares

of our common stock at an assigned value of $150,000, the elimination of accumulated deficit, as well as recording of the intangible assets in connection with our acquisition of KnowledgeReview LLC.

NOTES TO UNAUDITED PRO FORMA CONDENSED BALANCE SHEET -- (CONTINUED)

(3) Reflects the conversion, upon completion of the offering, of 76,000 shares of Series A Convertible Preferred Stock into 325,461 shares of Common Stock, 1,358,101 shares of Series B Convertible Preferred Stock into 5,815,904 shares of our Common Stock and 627,406 shares of Series C Convertible Preferred Stock into 1,543,499 shares of our Common Stock. Also reflects the effects of the sale of 5,000,000 shares of common stock at an assumed initial public offering price of $10.00 per share and the application of the estimated net proceeds of $46,250,000, the repayment of $1,276,708 of debt assumed in connection with the acquisition of m3 the Healthcare Learning Company and Quick Study, and the conversion of $1,293,000 of notes payable-related party to Series B Convertible Preferred Stock, which are included in the conversion of the Series B Preferred Stock into Common Stock above. Recording of proceeds also includes reclassification of offering costs of $295,000 out of other assets.

HEALTHSTREAM, INC.

UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 1999

	HEALTHSTREAM	ACQUIRED COMPANIES(A)	ACQUISITION PRO FORMA ADJUSTMENTS(B)	PRE-OFFERING PRO FORMA CONSOLIDATED	OFFERING PRO FORMA ADJUSTMENTS	PRO FORMA CONSOLIDATED
Revenues	$ 2,567,868	$4,667,234	$ --	$ 7,235,102	$ --	$ 7,235,102
Operating costs and expenses:						
Cost of revenues	2,119,127	784,270	--	2,903,397	--	2,903,397
Product development	2,037,272	1,277	--	2,038,549	--	2,038,549
Selling, general and administrative expenses	2,971,408	4,607,865	4,553,042	12,132,315	--	12,132,315
Total operating costs and expenses	7,127,807	5,393,412	4,553,042	17,074,261	--	17,074,261
Loss from operations	(4,559,939)	(726,178)	(4,553,042)	(9,839,159)	--	(9,839,159)
Other income (expense), net	103,535	(237,939)	--	(134,404)	193,059(d)	58,655
Net loss	$(4,456,404)	$ (964,117)	$(4,553,042)	$ (9,973,563)	$ 193,059	$ (9,780,504)
Net loss per share:						
Basic	$ (1.19)			$ (2.02)		$ (0.55)
Diluted	$ (1.19)			$ (2.02)		$ (0.55)
Weighted average number of common shares:						
Basic	3,756,556		1,191,279(c)	4,947,835	12,684,864(e)	17,632,699
Diluted	3,756,556		1,191,279(c)	4,947,835	12,684,864(e)	17,632,699

See accompanying notes to unaudited pro forma condensed statement of operations.

HEALTHSTREAM, INC.

NOTES TO UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS

PRO FORMA ADJUSTMENTS FOR THE UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1999.

(a) Reflects the historical results of SilverPlatter Education for the six months ended June 30, 1999 and the results of Multimedia Marketing, Inc. d/b/a m3 the Healthcare Learning Company, KnowledgeReview LLC, EMInet, Inc. and Quick Study, Inc., for the year ended December 31, 1999 summarized as follows:

YEAR ENDED DECEMBER 31, 1999

	SILVERPLATTER EDUCATION	M3 THE HEALTHCARE LEARNING COMPANY	EMINET, INC.	QUICK STUDY, INC.	KNOWLEDGE REVIEW LLC	ACQUIRED COMPANIES
Revenues	$835,847	$3,330,408	$308,453	$ 192,076	$ 450	$4,667,234
Operating costs and expenses:						
Cost of revenues	350,988	237,620	181,347	14,315	--	784,270
Product development	--	--	--	--	1,277	1,277
Selling, general and administrative expenses	504,796	3,425,970	143,179	530,854	3,066	4,607,865
Total operating costs and expenses	855,784	3,663,590	324,526	545,169	4,343	5,393,412
Loss from operations	(19,937)	(333,182)	(16,073)	(353,093)	(3,893)	(726,178)
Other income (expense), net	--	(113,716)	--	(124,223)	--	(237,939)
Net loss	$(19,937)	$ (446,898)	$(16,073)	$(477,316)	$(3,893)	$ (964,117)

NOTES TO UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS -- (CONTINUED)

(b) Reflects the elimination of historical depreciation and recognition of depreciation of property and equipment and amortization of acquired technology and other intangible assets as summarized below:

YEAR ENDED DECEMBER 31, 1999

	SILVERPLATTER EDUCATION	M3 THE HEALTHCARE LEARNING COMPANY	EMINET, INC.	QUICK STUDY, INC.	KNOWLEDGE REVIEW LLC	ACQUISITION PRO FORMA ADJUSTMENTS
Revenues	$ --	$ --	$ --	$ --	$ --	$ --
Operating costs and expenses:						
Cost of revenues	--	--	--	--	--	--
Product development	--	--	--	--	--	--
Selling, general and administrative	(64,574)(1)	(117,244)(1)	(2,541)(1)	(24,523)(1)		
expenses	247,067 (2)	3,016,041 (3)	1,103,485 (4)	240,700 (5)	154,631(6)	4,553,042
Total operating costs and expenses	182,493	2,898,797	1,100,944	216,177	154,631	4,553,042
Loss from operations	(182,493)	(2,898,797)	(1,100,944)	(216,177)	(154,631)	(4,553,042)
Other income (expense), net	--	--	--	--	--	--
Net loss	$(182,493)	$(2,898,797)	$(1,100,944)	$(216,177)	$(154,631)	$(4,553,042)

- ---

(1) Reflects the elimination of historical depreciation and amortization for each entity.

(2) SilverPlatter pro forma entries reflect amortization of goodwill of $1.0 million over a three year life for a half a year, plus amortization of customer list and noncompete agreement ($300,000) over a two year life for half a year, and depreciation of fair value of fixed assets of $54,000 over an average 5 year life.

(3) m3 pro forma entries reflect amortization of goodwill of $9,020,798 over a three year life for a full year and depreciation of fair value of fixed assets of $45,544 over an average 5 year life.

(4) EMInet pro forma entries reflect amortization of goodwill of $3,280,255 over a three year life for a full year and depreciation of fair value of fixed assets of $50,335 over an average 5 year life.

(5) Quick Study, Inc. pro forma entries reflect amortization of goodwill of $710,084 over a three year life for a full year and depreciation of fair value of fixed assets of $20,026 over an average 5 year life.

(6) KnowledgeReview LLC pro forma entries reflect amortization of goodwill of $463,893 over a three year life for a full year.

NOTES TO UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS -- (CONTINUED)

(c) Reflects the issuance of 49,202 (results in an additional 24,601 shares for weighted average shares outstanding) shares of our common stock to acquire SilverPlatter Education, Inc., the issuance of 818,036 shares of our common stock to acquire Multimedia Marketing, Inc. d/b/a m3 the Healthcare Learning Company, the issuance of 61,397 shares of our common stock to acquire Quick Study, Inc., the issuance of 17,343 shares of our common stock to acquire KnowledgeReview LLC, and the issuance of 269,902 shares of our common stock to acquire EMInet, Inc.

(d) Reflects the elimination of the historical interest expense on related-party debt converted to series B preferred stock upon completion of the offering (see note (3) of Notes to Unaudited Pro Forma Condensed Balance Sheet) and on debt assumed in the acquisitions of m3 the Healthcare Learning Company and Quick Study, which will be repaid upon completion of the offering.

(e) Reflects (i) the conversion of series A, B and C preferred stock into 7,684,864 shares of our common stock; and (ii) the sale of 5,000,000 shares of our common stock in this offering.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of

HealthStream, Inc.

We have audited the accompanying balance sheets of HealthStream, Inc. at December 31, 1998 and 1999, and the related statements of operations, shareholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company'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 HealthStream, Inc. at December 31, 1998 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Nashville, Tennessee

January 22, 2000, except for

Note 12, as to which the date

is February 11, 2000

HEALTHSTREAM, INC.

BALANCE SHEETS

	DECEMBER 31,	
	1998	1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 50,823	$13,632,144
Accounts receivable, net of allowance for doubtful accounts of $36,500 in 1998 and $37,000 in 1999	481,316	544,042
Accounts receivable -- unbilled	10,821	18,877
Investments	--	86,063
Prepaid expenses and other assets	8,358	263,517
Total current assets	551,318	14,544,643
Property and equipment:		
Furniture and fixtures	114,186	445,172
Equipment	671,072	1,109,015
Leasehold improvements	196,405	369,346
	981,663	1,923,533
Less accumulated depreciation and amortization	(380,134)	(589,632)
	601,529	1,333,901
Intangible assets, net of accumulated amortization of $0 in 1998 and $213,031 in 1999	--	1,134,673
Other assets	--	441,488
Total assets	$ 1,152,847	$17,454,705
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 119,102	$ 443,455
Accrued liabilities	94,827	448,727
Deferred revenue	322,760	791,424
Notes payable -- related parties	2,835,000	1,293,000
Current portion of long-term debt -- related party	23,585	12,892
Current portion of capital lease obligations	10,539	89,881
Total current liabilities	3,405,813	3,079,379
Long-term debt -- related party	12,892	--
Capital lease obligations, less current portion	19,076	185,801
Commitments and contingencies		
Shareholders' equity (deficit):		
Common stock, no par value; 20,000,000 shares authorized; 3,256,307 and 4,165,461 shares issued and outstanding at December 31, 1998 and 1999, respectively	1,798,498	4,008,991
Preferred Stock, no par value; 1,000,000 and 5,000,000 shares authorized at December 31, 1998 and 1999, respectively	--	--
Series A Convertible Preferred Stock; 41,000 and 76,000 shares issued and outstanding at December 31, 1998 and 1999, respectively	410,000	760,000
Series B Convertible Preferred Stock; no shares and 1,228,801 issued and outstanding at December 31, 1998 and 1999, respectively	--	12,138,000
Series C Convertible Preferred Stock; no shares and 627,406 shares issued and outstanding at December 31, 1998 and 1999, respectively	--	6,274,060
Accumulated other comprehensive loss	--	(41,690)
Accumulated deficit	(4,493,432)	(8,949,836)
Total shareholders' equity (deficit)	(2,284,934)	14,189,525
Total liabilities and shareholders' equity (deficit)	$ 1,152,847	$17,454,705

See accompanying notes.

HEALTHSTREAM, INC.

STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	1997	1998	1999
Revenues	$1,268,352	$ 1,716,094	$ 2,567,868
Operating costs and expenses:			
Cost of revenues	870,061	1,057,453	2,119,127
Product development	293,706	443,336	2,037,272
Selling, general and administrative expenses	875,416	1,476,639	2,971,408
Total operating costs and expenses	2,039,183	2,977,428	7,127,807
Loss from operations	(770,831)	(1,261,334)	(4,559,939)
Other income (expense):			
Interest and other income	2,226	2,634	312,324
Interest expense -- related parties	(182,708)	(328,412)	(193,059)
Interest expense	--	(2,070)	(12,041)
Other expense	(8,792)	(318)	(3,689)
	(189,274)	(328,166)	103,535
Net loss	$ (960,105)	$(1,589,500)	$(4,456,404)
Net loss per share:			
Basic	$ (0.29)	$ (0.49)	$ (1.19)
Diluted	$ (0.29)	$ (0.49)	$ (1.19)
Weighted average shares of common stock outstanding:			
Basic	3,256,307	3,256,307	3,756,556
Diluted	3,256,307	3,256,307	3,756,556

See accompanying notes.

HEALTHSTREAM, INC.

STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)

YEARS ENDED DECEMBER 31, 1997, 1998 AND 1999

	COMMON STOCK		SERIES A CONVERTIBLE PREFERRED STOCK		SERIES B CONVERTIBLE PREFERRED STOCK		SERIES C CONVERTIBLE PREFERRED STOCK		ACCUMULATED DEFICIT
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	
Balance at December 31, 1996	3,256,307	$1,668,166	--	$ --	--	$ --	--	$ --	$(1,943,827)
Net loss	--	--	--	--	--	--	--	--	(960,105)
Balance at December 31, 1997	3,256,307	1,668,166	--	--	--	--	--	--	(2,903,932)
Net loss	--	--	--	--	--	--	--	--	(1,589,500)
Issuance of preferred stock	--	--	41,000	410,000	--	--	--	--	--
Stock options granted	--	130,332	--	--	--	--	--	--	--
Balance at December 31, 1998	3,256,307	1,798,498	41,000	410,000	--	--	--	--	(4,493,432)
Net loss	--	--	--	--	--	--	--	--	(4,456,404)
Unrealized loss on investment, net of tax	--	--	--	--	--	--	--	--	--
Comprehensive loss	--	--	--	--	--	--	--	--	--
Issuance of preferred stock	--	--	35,000	350,000	1,228,801	12,138,000	627,406	6,274,060	--
Issuance of common stock	855,327	1,231,590	--	--	--	--	--	--	--
Issuance of common stock in acquisition	49,202	200,000	--	--	--	--	--	--	--
Issuance of stock options to advisory boards	--	11,760	--	--	--	--	--	--	--
Issuance of common stock for services	4,625	18,800	--	--	--	--	--	--	--
Issuance of warrant	--	748,343	--	--	--	--	--	--	--
Balance at December 31, 1999	4,165,461	$4,008,991	76,000	$760,000	1,228,801	$12,138,000	627,406	$6,274,060	$(8,949,836)

	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL SHAREHOLDERS' EQUITY (DEFICIT)
Balance at December 31, 1996	$ --	$ (275,661)
Net loss	--	(960,105)
Balance at December 31, 1997	--	(1,235,766)
Net loss	--	(1,589,500)
Issuance of preferred stock	--	410,000
Stock options granted	--	130,332
Balance at December 31, 1998	--	(2,284,934)
Net loss	--	(4,456,404)
Unrealized loss on investment, net of tax	(41,690)	(41,690)
Comprehensive loss	--	(4,498,094)
Issuance of preferred stock	--	18,762,060
Issuance of common stock	--	1,231,590
Issuance of common stock in acquisition	--	200,000

Issuance of stock options to advisory boards...	--	11,760
Issuance of common stock for services.....	--	18,800
Issuance of warrant.....	--	748,343
Balance at December 31, 1999.....	$(41,690)	$14,189,525

See accompanying notes.

HEALTHSTREAM, INC.

STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,		
	1997	1998	1999
OPERATING ACTIVITIES:			
Net loss	$(960,105)	$(1,589,500)	$ (4,456,404)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	100,739	132,267	239,248
Amortization	7,775	14,648	213,032
Provision for loss on doubtful accounts	--	36,500	500
Loss on disposal of assets	7,624	3,727	3,689
Noncash legal expense	--	2,100	--
Noncash compensation expense	--	128,232	30,560
Noncash product development	--	--	748,343
Changes in operating assets and liabilities, excluding effects of acquisition:			
Accounts receivable	(165,126)	(232,593)	(51,239)
Accounts receivable -- unbilled	(63,696)	54,150	(8,056)
Prepaid expenses and other assets	(502)	(4,409)	(225,442)
Other assets	--	--	(440,011)
Accounts payable	(4,936)	71,942	324,353
Accrued liabilities	29,425	46,676	236,561
Deferred revenue	177,241	87,005	126,714
Net cash used in operating activities	(871,561)	(1,249,255)	(3,258,152)
INVESTING ACTIVITIES:			
Acquisition of company, net of cash acquired	--	--	(780,206)
Purchase of property and equipment	(239,939)	(208,577)	(639,724)
Purchase of investments	--	--	(127,753)
Net cash used in investing activities	(239,939)	(208,577)	(1,547,683)
FINANCING ACTIVITIES:			
Proceeds from notes payable -- related parties	1,185,000	1,040,000	18,000
Proceeds from issuance of preferred stock	--	410,000	18,202,060
Proceeds from exercise of stock options	--	--	231,590
Payments on notes payable -- related parties	(18,575)	(20,931)	(23,585)
Payments on capital lease obligations	--	(4,779)	(40,909)
Net cash provided by financing activities	1,166,425	1,424,290	18,387,156
Net increase (decrease) in cash and cash equivalents	54,925	(33,542)	13,581,321
Cash and cash equivalents at beginning of period	29,440	84,365	50,823
Cash and cash equivalents at end of period	$ 84,365	$ 50,823	$ 13,632,144
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$ 176,708	$ 320,320	$ 225,074
Capital lease obligations incurred	$ --	$ 34,394	$ 286,976
Conversion of notes payable -- related parties to common stock	$ --	$ --	$ 1,000,000
Conversion of notes payable -- related parties to Series B Preferred Stock	$ --	$ --	$ 560,000
Issuance of common stock in connection with acquisition of company	$ --	$ --	$ 200,000
Issuance of common stock in exchange for professional services	$ --	$ --	$ 18,800
Issuance of stock options to advisory boards	$ --	$ --	$ 11,760

See accompanying notes.

HEALTHSTREAM, INC.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

HealthStream, Inc. ("the Company") was incorporated in 1990 and is based in Nashville, Tennessee. The Company is pioneering a Web-based solution to meet the ongoing training and continuing education needs of the healthcare community. The Company changed its name to HealthStream, Inc. from NewOrder Media, Inc. on September 1, 1998. The Company provides an interactive training solution for delivering and tracking computer based education primarily for the healthcare industry in the United States, utilizing the Training Navigator(R) (T.NAV(R)) software suite developed by the Company. The Company also provides custom content development through the organization and translation of content into an interactive experience, and assists in the development of websites.

RECOGNITION OF REVENUE

The Company recognizes revenue in accordance with Statement of Position 97-2, "Software Revenue Recognition."

Revenues are derived from the license of the Company's T.NAV(R) software, maintenance and support services, custom content development, website development, subscriptions, professional and technical consulting services, implementation and training services. Revenues derived from the sale of products requiring significant modification or customization are recorded based on the percentage of completion method using labor hours. Revenues from subscriptions are deferred and recognized ratably over the term of the subscription. Software support and maintenance revenues are recognized ratably over the term of the related agreement. All other service revenues are recognized as the related services are performed. The Company also receives a percentage of its resellers' revenue from the sale of T.NAV(R) software. The Company recognizes a percentage of revenue from resellers upon notification from the reseller that a sale has occurred. In March 1999, the Company began providing educational training services via the Internet. Through December 31, 1999 revenues from these services have been approximately $216,000.

The Company does not recognize barter transactions unless the value of the transaction is readily determinable and measurable. Through December 31, 1999, the Company had not been party to any significant barter transactions and has not recognized the value of any such transactions in the financial statements.

The Company has recently entered into sponsorship agreements which involve integration with services and provide for varied sources of revenue to the Company over the terms of the agreements. In some cases revenues derived from electronic commerce transactions are shared between the other entity and the Company, in accordance with the term of the arrangement, as realized. Revenues from such transactions have been recognized in accordance with SEC Staff Accounting Bulletin ("SAB") No. 101 "Revenue Recognition."

NET LOSS PER SHARE

The Company computes net loss per share following Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share" and SAB No. 98. Under the provisions of SFAS No. 128, 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 net loss per share is computed by dividing the net loss for the period by the weighted average number of common and common equivalent shares outstanding during the period. Common equivalent shares, composed of incremental common shares issuable upon the exercise of stock options and warrants, and common shares issuable on assumed conversion of Series A, B and C Convertible Preferred Stock, are included in diluted net loss per share to the extent these shares are dilutive. Common equivalent shares are not included in

the computation of diluted net loss per share for the years ended December 31, 1997, 1998 and 1999 because the effect would be anti-dilutive.

Under the provisions of SAB 98, common shares issued for nominal consideration, if any, would be included in the per share calculations as if they were outstanding for all periods presented. No common shares have been issued for nominal consideration.

CONCENTRATIONS OF CREDIT RISK AND SIGNIFICANT CUSTOMERS

The Company places its temporary excess cash investments in high quality short-term money market instruments. At times, such investments may be in excess of the FDIC insurance limits.

The Company sells its systems and services to various companies in the healthcare industry. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers. During 1997, the Company derived approximately $203,000 of its revenues from one customer (Mosby, Inc.) During 1998, the Company derived approximately $560,000 of its revenues from Lippincott, Williams and Wilkins, formerly Waverly, Inc. and approximately $260,000 of its revenues from Mosby, Inc. During 1999, the Company derived approximately $380,000 of its revenues from ActivHealth International, Inc. and approximately $240,000 of its revenues from Lippincott, Williams and Wilkins, formerly Waverly, Inc. The total amounts receivable from Lippincott, Williams and Wilkins, formerly Waverly, Inc. and ActivHealth International, Inc. at December 31, 1999 were approximately $118,000. The total amounts receivable from Lippincott, Williams and Wilkins, formerly Waverly, Inc. and Mosby, Inc. at December 31, 1998 were approximately $126,000.

CASH AND CASH EQUIVALENTS

The Company considers unrestricted, highly liquid investments with initial maturities of less than three months to be cash equivalents.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

Changes in the allowance for doubtful accounts and the amounts charged to bad debt expense were as follows:

	ALLOWANCE BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS	WRITE-OFFS	ALLOWANCE BALANCE AT END OF PERIOD
Year ended December 31:					
1997	$ --	$ --	$ --	$ --	$ --
1998	--	36,500	--	--	36,500
1999	36,500	6,250	--	5,750	37,000

INVESTMENTS

Investments are accounted for in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and are classified as available-for-sale. Available for sale securities are carried at fair value, which is based on quoted prices, with the unrealized gains and losses excluded from earnings and reported, net of tax, as a separate component of shareholders' equity. Realized gains and losses and declines in value judged to be other-than-temporary, are included in other income.

PROPERTY AND EQUIPMENT

Property and equipment are stated on the basis of cost. Depreciation and amortization are provided on the straight-line method over the following estimated useful lives, except for assets under capital leases which are amortized over the shorter of the estimated useful life or the lease term.

	YEARS
Furniture and fixtures	5-10
Equipment	3-5
Leasehold improvements	15

INTANGIBLE ASSETS

Intangible assets, which represents the excess of purchase price over fair value of net tangible assets acquired, customer lists, and non-compete agreements, are amortized on a straight-line basis over the expected periods to be benefited, generally three, two and two years, respectively. These intangible assets relate to the acquisition of certain assets from SilverPlatter Education, Inc. ("SilverPlatter"). See Note 2.

OTHER ASSETS

Other assets are comprised of licensing fees, offering costs and other long term items. Licensing fees are amortized based on the lives of the related agreements, generally 2 years.

LONG-LIVED ASSETS

SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" requires that companies consider whether events or changes in facts and circumstances, both internally and externally, may indicate that an impairment of long-lived assets held for use are present. Management periodically evaluates the carrying value of long-lived assets, including property and equipment and intangible assets and has determined that there were no indications of impairment as of December 31, 1997, 1998 and 1999. Should there be an impairment in the future, the Company will recognize the amount of the impairment based on expected future cash flows from the impaired assets. The cash flow estimates that will be used will be based on management's best estimates, using appropriate and customary assumptions and projections at the time.

ACCOUNTS RECEIVABLE-UNBILLED AND DEFERRED REVENUE

Accounts receivable-unbilled represents revenue earned for contracts accounted for on the percentage of completion basis for which invoices have not been generated. Deferred revenue represents the portion of revenue for which the revenue recognition process is incomplete.

ADVERTISING

The Company expenses the costs of advertising as incurred. Advertising expense for the years ended December 31, 1997, 1998 and 1999, was approximately $8,200, $2,900 and $121,800, respectively.

PRODUCT DEVELOPMENT COSTS

Product development costs incurred to establish the technological feasibility of computer software products are charged to expense as incurred. The Company capitalizes costs incurred between the point of establishing technological feasibility and general release when such costs are material. As of December 31, 1998 and 1999, the Company has no capitalized computer software development costs.

STOCK OPTION PLAN

The Company applies the intrinsic value method of accounting prescribed by Accounting Principles Board Opinion No. 25 ("APB No. 25") "Accounting for Stock Issued to Employees", and related interpretations in accounting for its options. As such, compensation expense would generally be recorded on the date of grant only if the then current market price of the underlying stock exceeded the exercise price.

USE OF ESTIMATES

The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates and such differences could be material to the financial statements.

INCOME TAXES

Prior to October 1, 1998, the Company, with the consent of its shareholders, elected Subchapter S status under the provisions of the Internal Revenue Code. The shareholders of an S Corporation are taxed on their proportionate share of the Company's taxable income in lieu of a corporate income tax. Accordingly, no provision, benefit, or liability for federal income taxes has been included in the financial statements for periods prior to October 1, 1998. The Subchapter S election was not available for Tennessee corporate income tax. On October 1, 1998, the Company terminated the Subchapter S election. Effective October 1, 1998, the Company began providing for federal income taxes. Such taxes have been provided in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes."

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts approximate the fair value because of the short maturity of such instruments.

Accounts receivable, accounts receivable-unbilled, accounts payable, accrued liabilities and deferred revenue: The carrying amounts approximate the fair value because of the short-term nature of such instruments.

Short and long-term debt: The carrying amounts approximate the fair value based on current financing for similar loans available to the Company.

Investments: The carrying amounts approximate the fair value based on quoted prices.

NEWLY ISSUED ACCOUNTING STANDARDS

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income," which is effective for fiscal years beginning after December 15, 1997. This statement establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. The new rule requires that the Company (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in-capital in the equity section of the balance sheet. As a result of adopting SFAS 130, the Company

has recognized other comprehensive loss of $41,690 for the year ended December 31, 1999 which represents an unrealized loss on an investment.

In 1998, the Company adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." SFAS No. 131 requires companies to report selected segment information when certain tests are met. Management has determined that the Company operates in only one reportable segment meeting the applicable tests.

As of January 1, 1998, the Company early adopted Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 establishes standards for reporting and presenting in a full set of general purpose financial statements the costs incurred in the development of internal-use computer software. Internal-use software is acquired, internally developed, or modified solely to meet the Company's internal needs without the intent to market externally. The adoption of SOP 98-1 had no effect on the Company's financial statements.

As of January 1, 1998, the Company early adopted SOP 98-5, "Reporting on the Costs of Start-Up Activities." SOP 98-5 establishes standards for reporting and presenting start-up costs in a full set of general purpose financial statements. Start-up costs, including organizational costs, are expensed as incurred under this SOP. The adoption of SOP 98-5 had no effect on the Company's financial statements.

In February 1998, the FASB issued SFAS No. 132, "Employers' Disclosures About Pensions and Other Postretirement Benefits -- an amendment of FASB Statements No. 87, 88 and 106" which is effective for fiscal years beginning after December 15, 1997. This statement revises employers' disclosures about pension and other postretirement benefit plans. It does not change the measurement or recognition of those plans. The adoption of SFAS No. 132 had no effect on the Company's financial statements.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is effective as amended for fiscal quarters of fiscal years beginning after June 15, 2000. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Management of the Company does not expect the adoption of SFAS No. 133 to have a material effect on the Company's financial statements.

In December 1998, the AICPA issued SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions." SOP 98-9 requires recognition of revenue using the "residual method" in a multiple-element software arrangement when fair value does not exist for one or more of the delivered elements in the arrangement. Under the "residual method," the total fair value of the undelivered elements is deferred and recognized in accordance with SOP 97-2. The Company is required to implement SOP 98-9 for the year ending December 31, 2000. Adoption of SOP 98-9 is not expected to have a material effect on the Company's financial statements.

2. ACQUISITION OF SILVERPLATTER

On July 23, 1999, the Company acquired substantially all of the assets of SilverPlatter, a Boston-based company which provided CD-ROM and Internet-based continuing medical education programs to physicians, for $1.0 million, including $800,000 in cash and 49,202 shares of common stock. The results of operations are included in the Company's financial statements from July 23, 1999. The acquisition was accounted for as a purchase. The excess of purchase price over fair value of net assets acquired of $1.0 million is being amortized on a straight-line basis over three years.

The following unaudited pro forma condensed results give effect to the acquisition of SilverPlatter as if such transaction had occurred at the beginning of each year presented:

	YEAR ENDED DECEMBER 31,	
	1998	1999
Total revenues	$ 4,059,529	$ 3,403,715
Net loss	(2,156,838)	(4,658,834)
Basic net loss per share	$ (0.65)	$ (1.23)
Diluted net loss per share	$ (0.65)	$ (1.23)

3. NOTES PAYABLE AND LONG-TERM DEBT -- RELATED PARTIES

Notes payable and long-term debt consists of the following:

	DECEMBER 31,	
	1998	1999
Notes payable-related parties	$ 2,835,000	$ 1,293,000
Long-term debt-related party	$ 36,477	$ 12,892
Less current portion	(23,585)	(12,892)
	$ 12,892	$ --

The Company had a partially secured demand note payable to a vice president and stockholder of the Company, totaling $60,000 at December 31, 1998 and $0 at December 31, 1999. The note accrued interest at 12% and was converted into Series B Convertible Preferred Stock on August 23, 1999.

The Company has notes payable to the Chief Executive Officer ("CEO") and principal stockholder totaling $2,775,000 at December 31, 1998, and $1,293,000 at December 31, 1999. On April 21, 1999, $1,250,000 of the notes payable were converted into Common Stock and Series B Convertible Preferred Stock. The remaining $1,525,000 was converted into a promissory note ("April note") along with $18,000 of additional indebtedness loaned to the Company by the CEO during 1999. On August 23, 1999, the CEO converted an additional $250,000 of notes payable into Series B Convertible Preferred Stock. The remaining $1,293,000 was converted into a new promissory note ("August note") which has identical terms as the April note. The August note is unsecured and accrues interest at a variable rate equal to the lesser of the margin rate of interest at a designated brokerage account or 10.5% and interest is payable monthly. The August note matures on October 23, 2006 or the earliest of: (i) the date determined by the Company's Board of Directors; (ii) the closing of an Initial Public Offering ("IPO") of at least $30 million; (iii) the sale of the Company; or (iv) the bankruptcy of the Company. The August note is convertible into Series B Convertible Preferred Stock at the option of the CEO, upon the occurrence of: (i) the termination by the Company of the CEO; (ii) any liquidation, dissolution, winding up, consolidation, sale or merger of the Company; or (iii) an IPO.

The Company has an unsecured long-term promissory note payable to the CEO, totaling $36,477 at December 31, 1998, and $12,892 at December 31, 1999. The note requires monthly installments of principal and interest of $2,224 through May 23, 2000. The note accrues interest at 12%.

The Company's weighted average debt outstanding for the years ended December 31, 1998 and 1999 was $2,423,499 and $2,000,261, respectively. The effective interest rate on such debt was 12.5% and 10.1% for the years ended December 31, 1998 and 1999, respectively.

4. INVESTMENTS

At December 31, 1999, the Company held 229,500 shares of ARC Communications, Inc. with a cost of $127,753 and a fair value of $86,063.

5. INCOME TAXES

As described in Note 1, the Company terminated its Subchapter S election on October 1, 1998 and became subject to federal income taxes. As a result of the termination of the S election, the Company was required to provide deferred federal income taxes under SFAS 109, "Accounting for Income Taxes." The 1998 provision for income taxes includes the effect of recording a net deferred tax asset and corresponding valuation allowance of $57,287 as a result of the termination of the S election.

Income tax benefit differs from the amounts computed by applying the federal statutory rate of 34% to the loss before income taxes as follows:

	1997	1998	1999
Tax benefit at the statutory rate	$(326,436)	$(540,430)	$(1,515,177)
State income tax benefit, net of federal benefit	(57,606)	(63,335)	(177,741)
Other	619	2,086	4,382
Tax benefit of losses attributable to shareholders due to S corporation status prior to October 1, 1998	326,436	336,301	--
Deferred taxes recorded upon termination of S corporation status	--	57,287	--
Increase in valuation allowance	56,987	208,091	1,688,536
	$ --	$ --	$ --

Pro forma income taxes as if the Company had been a C Corporation for all periods presented have not been reflected in the financial statements because a 100% valuation allowance would have been provided and accordingly there would not have been a tax benefit.

Deferred federal and state income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows:

	DECEMBER 31,	
	1998	1999
Deferred tax assets:		
Allowance for doubtful accounts	$ 13,870	$ 13,914
Differences related to business combinations	--	66,726
Accrued liabilities	5,604	18,841
Deferred revenue	122,649	303,351
Difference related to warrants	--	284,370
Net operating loss carryforwards	271,332	1,418,589
Total deferred tax assets	413,455	2,105,791
Less: Valuation allowance	(380,481)	(2,069,017)
	32,974	36,774
Deferred tax liability:		
Depreciation	(32,974)	(36,774)
Net deferred tax asset	$ --	$ --

As of December 31, 1999, the Company has federal and state net operating loss carryforwards of $3,326,625 and $7,188,395, respectively, expiring in years 2012 through 2019.

The Company has established a valuation allowance for deferred tax assets at December 31, 1998 and 1999 due to the uncertainty of realizing these assets in the future. The valuation allowance increased $56,987 during 1997, $208,091 during 1998 and $1,688,536 during 1999. No federal or state income tax payments were made during the years ended December 31, 1997, 1998, and 1999.

6. STOCK OPTION PLAN

The Company's 1994 Employee Stock Option Plan (the "Plan") authorizes the grant of options to employees, officers and directors for up to 4,000,000 shares of common stock. Options granted under the Plan have terms of no more than ten years with certain restrictions. The Plan allows the Board of Directors to determine the vesting period of each grant. The vesting period of the options granted ranges from immediate vesting to four years.

The Company accounts for its stock incentive plans in accordance with APB 25. If the alternative method of accounting for stock incentive plans prescribed by SFAS No. 123 had been followed, the Company's net loss and net loss per share would have been:

	YEARS ENDED DECEMBER 31,		
	1997	1998	1999
Net loss as reported	$(960,105)	$(1,589,500)	$(4,456,404)
Pro forma compensation expense	--	80,849	289,426
Pro forma net loss	$(960,105)	$(1,670,349)	$(4,745,830)
Pro forma basic and diluted net loss per share	$ (0.29)	$ (0.51)	$ (1.26)

The resulting pro forma disclosures may not be representative of that to be expected in future years. The weighted average fair value of options granted was determined using the minimum value option pricing model with the indicated assumptions:

	1997	1998	1999
ASSUMPTIONS (WEIGHTED AVERAGE)			
Risk-free interest rate	5.70%	5.70%	6.00%
Expected dividend yield	0.0%	0.0%	0.0%
Expected life (in years)	5	5	5

A progression of activity and various other information relative to stock options is presented in the table below.

	1997		1998		1999	
	COMMON SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	COMMON SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	COMMON SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding -- beginning of period	1,170,639	$0.57	1,170,639	$0.57	1,650,784	$1.07
Granted	--	--	496,332	2.30	1,383,892	4.29
Exercised	--	--	--	--	(427,085)	0.54

Forfeited.....	--	--	(16,187)	2.30	(137,362)	3.26
Outstanding -- end of period.....	1,170,639	0.57	1,650,784	1.07	2,470,229	2.85
Exercisable at end of period.....	1,170,639	0.57	1,196,539	0.61	892,477	1.08

In July and August 1999, the CEO exercised options granted in 1995 and purchased 416,250 shares of the Company's Common Stock at an exercise price of $0.54 per share. In December 1999, the president exercised options granted in 1994 and purchased 3,170 shares of the Company's common stock at an exercise price of $0.608 per share.

During 1998, the Company modified the terms of an option grant to an employee leaving the employment of the Company by extending the exercise date of the options. At the time of the modification, the Company recognized compensation expense totaling $128,232 for the difference between the fair market value and the exercise price of the options. During 1999, the Company issued 51,800 stock options to its medical and nursing advisory boards at exercise prices ranging from $2.34 to $6.49 with vesting periods ranging from immediate to four years. The Company recognized $11,760 of expense in connection with these grants.

Shares of Common Stock available for future grants of options totaled 2,349,216 and 1,102,685 at December 31, 1998 and 1999, respectively. Exercise prices per share and various other information for options outstanding at December 31, 1999 are segregated into ranges as follows:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
EXERCISE PRICE PER SHARE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
$0.54 -- $0.61	743,552	$0.59	5.10	743,552	$0.59
$2.34	461,277	2.34	5.57	45,325	2.34
$4.06	1,109,075	4.06	7.67	103,600	4.06
$6.49	156,325	6.48	7.92	--	6.48
	2,470,229	2.85	6.52	892,477	1.08

During January 2000, options to purchase 432,245 shares of common stock at exercise prices ranging from $6.49 to $8.65 were granted.

7. LEASE COMMITMENTS

The Company leases its office facilities in Nashville, TN and Boston, MA under agreements that expire before or during May 2005. The Nashville, TN lease provides for two five-year renewal options. The Company also leases certain office equipment. Total lease expense under all operating leases was $59,184, $51,756 and $210,234 for the years ended December 31, 1997, 1998 and 1999, respectively. The Company also leases certain computer and office equipment and office furnishings from various third parties accounted for as capital leases. Future rental payment commitments at December 31, 1999 under the capital and operating leases, having an initial term of one year or more, are as follows:

	CAPITAL LEASES	OPERATING LEASES
2000	$109,303	$234,341
2001	88,135	140,512
2002	47,638	140,848
2003	47,638	140,848
2004	28,475	126,873
Thereafter	--	41,359
Total minimum lease payments	321,189	$824,781
Less amounts representing interest	(45,507)	
Present value of net minimum lease payments (including $89,881 classified as current)	$275,682	

The carrying value of assets under capital leases, which are included with owned assets in the accompanying balance sheets is $0, $29,140 and $275,596 at December 31, 1997, 1998 and 1999, respectively. Amortization of the assets under the capital leases is included in depreciation expense.

8. LOSS PER SHARE

The following table sets forth the computation of basic and diluted net loss per share:

	YEAR ENDED DECEMBER 31		
	1997	1998	1999
Numerator:			
Net loss	$(960,105)	$(1,589,500)	$(4,456,404)
Denominator:			
Weighted-average shares outstanding	3,256,307	3,256,307	3,756,556
Net loss per share, basic and diluted	$ (0.29)	$ (0.49)	$ (1.19)

For the years ended December 31, 1997, 1998 and 1999, the calculation of weighted average shares excluded options, warrants and convertible preferred stock because such items were anti-dilutive. The equivalent common shares related to such options, warrants and preferred stock were 1,170,639 in 1997, 1,826,362 in 1998 and 9,846,414 in 1999.

9. EMPLOYEE BENEFIT PLAN

The Company has a defined-contribution employee benefit plan incorporating provisions of Section 401(k) of the Internal Revenue Code. Employees of the Company must have attained the age of 21 and have completed six months of service to be eligible to participate in the plan. Under the plan's provisions, a plan member may make contributions, on a tax deferred basis, not to exceed 15% of compensation subject to IRS limitations. The Company does not provide matching contributions.

10. PREFERRED STOCK

The Company is authorized to issue shares of Preferred Stock in one or more series, having the relative voting powers, designations, preferences, rights and qualifications, limitations or restrictions, and other terms as the Board of Directors may fix in providing for the issuance of such series, without any vote or action of the shareholders.

The Company has authorized the issuance of 76,000 shares of Preferred Stock designated as Series A Convertible Preferred Stock, 1,436,961 shares designated as Series B Convertible Preferred Stock. On April 21, 1999, the Company amended its charter increasing the authorized shares of Preferred Stock to 5 million. On August 18, 1999, the Company further amended its charter designating 650,000 shares of Preferred Stock as Series C Convertible Preferred Stock.

Each holder of Preferred Stock is entitled to notice of any shareholders' meeting and shall vote with the holders of Common Stock, except for those matters required by law to be voted upon separately among the holders of Common Stock and Preferred Stock. In all cases where the holders of Preferred Stock and holders of Common Stock are to vote together, the holder of each share of Preferred Stock is entitled to the number of votes equal to the number of shares of Common Stock into which each share of Preferred Stock is convertible. Except as otherwise required by law, the holders of the Preferred Stock have voting rights and powers equal to the voting rights and powers of the Common Stock.

Each share of Series A and B Convertible Preferred Stock is currently convertible into the Company's Common Stock at the conversion rate of 4.28238 shares of Common Stock per share of Series A and B

Convertible Preferred Stock. Each share of Series C Convertible Preferred Stock is currently convertible into the Company's Common Stock at the conversion rate of 2.46013 shares of Common Stock per share of Series C Convertible Preferred Stock. These rates are subject to an antidilution adjustment if the Company issues or sells shares of Common Stock at a per share price less than $2.34 for Series A and B Convertible Preferred Stock and at a per share price less than $4.06 for Series C Convertible Preferred Stock. An adjustment to the conversion rate of the Preferred Stock would increase the voting power of the holders thereof.

Each share of Series A, B and C Convertible Preferred Stock may, at the option of the holder, be converted at any time into fully paid and non-assessable shares of Common Stock. Each share of Preferred Stock shall automatically and immediately be converted into shares of Common Stock at its then effective conversion rate upon the earlier of (i) the closing of an initial public offering of Common Stock pursuant to an effective registration statement under the Securities Act of 1933 raising gross proceeds of at least $30 million and an offering price per share greater than or equal to $4.86, or (ii) the date specified by written agreement of the holders of 66 2/3% of the then outstanding shares of Preferred Stock.

In the event the Company declares a dividend, the holders of Preferred Stock shall be entitled to a proportionate share of such dividends as though the holders of the Preferred Stock were the holders of a number of shares of Common Stock into which their respective shares of Preferred Stock are convertible as of the record date fixed for the determination of the holders of Common Stock entitled to receive such dividend.

In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary (a "Liquidation"), the holders of the Preferred Stock will be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of the Common Stock, an amount in cash equal to two (2.00) times the Liquidation Preference Payment. The Liquidation Preference Payment is equal to $10.00 per share of Preferred Stock plus an amount equal to all dividends declared but unpaid.

In January and February 1999 the Company issued 35,000 shares of Series A Convertible Preferred Stock for $350,000. In April and May 1999 the Company received commitments to purchase 1,030,501 shares of Series B Convertible Preferred Stock at $10 per share. On April 21, 1999 and May 10, 1999, the Company issued 527,750 shares of the Series B Convertible Preferred Stock in a private placement to a group of institutional and individual investors in exchange for $4,877,500 in cash, the conversion of $250,000 of notes payable to the Company's CEO and the contribution of $150,000 in professional services. The Company issued 502,750 shares of Series B Convertible Preferred Stock at $10 per share in August 1999 in exchange for $4,717,500 in cash and the conversion of $250,000 of notes payable to the Company's CEO and the conversion of $60,000 of notes payables to a vice president and stockholder. Also, each holder of Series A and Series B Convertible Preferred Stock had an option to purchase up to an additional 20% of the number of shares purchased in April, May and August 1999, at $10 per share. Each investor could exercise their option any time prior to April 21, 2000 or upon a subsequent equity financing of at least $5 million. This financing occurred on September 15, 1999 and therefore these options expired on October 15, 1999. Through December 31, 1999, investors have exercised options and purchased 198,300 shares of Series B Convertible Preferred Stock for cash at $10 per share.

In August and September 1999, the Company issued 627,406 shares of the Series C Convertible Preferred Stock to a group of institutional and individual investors at $10 per share.

The Company is required at all times to reserve out of its authorized but unissued shares of Common Stock, a number of its authorized shares of Common Stock sufficient to effect the conversion into Common Stock of the Series A, B and C Convertible Preferred Stock shares from time to time. At December 31, 1998 and 1999, the Company reserved and kept available 175,577 and 7,684,866 shares,

respectively, of Common Stock to effect the conversion of the Series A, B and C Convertible Preferred Stock.

11. STRATEGIC ALLIANCES

The Company periodically enters into strategic alliances with distribution partners, content partners and development partners. Typically, these arrangements provide for payments to these partners based on a percentage of revenues or based on hours of courseware developed. In connection with such arrangements, the Company has entered into agreements with three entities which provide for up front payments of approximately $475,000 in 2000 and $187,500 in 2001. Of these amounts, approximately 79% and 100% in 2000 and 2001, respectively, are nonrefundable. The remaining payments are subject to refund if certain milestones are not reached. Additional payments may be required upon delivery of courses or occurrence of certain events.

The Company also entered into a distribution agreement with an investor during 1999. In connection with the distribution agreement, the investor was provided with warrants to purchase 245,032 shares of the Company's common stock at $4.06 per share. The warrants expire in June 2009. The issuance of the warrants resulted in recognition of $748,343 of expense. No warrants have been exercised as of December 31, 1999.

The Company also entered into a development agreement in January 2000 with an entity under which the Company paid $95,000 and committed to pay the entity at least another $400,000 during 2000 as courses are developed. The fixed commitments related to this contract are included above. In connection with this agreement, the Company received a warrant to purchase 223,834 shares of the entity's common stock at an exercise price of $4.47 per share.

12. SUBSEQUENT EVENTS

Effective January 3, 2000, the Company acquired substantially all of the assets and liabilities of KnowledgeReview LLC (d/b/a "CMECourses.com") for $460,000 consisting of $150,000 (17,343 shares) of the Company's Common Stock and the payment of $310,000 in cash. KnowledgeReview LLC owns and operates an Internet web page which provides a search engine that helps physicians locate continuing medical education by specialty and facilitates online registration for such courses. The acquisition will be accounted for as a purchase.

On January 11, 2000, the Company acquired substantially all of the assets and liabilities of Quick Study, Inc. for $590,000, consisting of $531,000 (61,397 shares) of the Company's Common Stock and the payment of $59,000 in cash. In addition, upon achievement of certain future customer revenue levels, the Company may issue up to 34,687 additional shares of Common Stock. In connection with the acquisition, the Company assumed $112,000 of long-term debt. Quick Study, Inc. is a publisher of CD-ROM and network-based products in the healthcare industry. The acquisition will be accounted for as a purchase.

On January 28, 2000, the Company acquired substantially all of the assets and liabilities of Multimedia Marketing, Inc. d/b/a m3 the Healthcare Learning Company ("m3") for $7.7 million consisting of $7.1 million (818,036 shares) of the Company's Common Stock and the payment of $600,000 in cash. m3 provides interactive, multimedia education and training solutions to hospitals and other healthcare organizations. A portion of the Common Stock will be placed in an escrow account for a one year period, subject to any claims. In connection with the acquisition, the Company assumed $1.2 million of long-term debt. The acquisition will be accounted for as a purchase.

On January 28, 2000, the Company acquired substantially all of the assets of EMInet, Inc. for $3.2 million consisting of $2.3 million (269,902 shares) of the Company's Common Stock and the payment of

$640,000 in cash. A portion of the Common Stock will be placed in an escrow account for a one year period, subject to any claims. In addition, upon the achievement of short-term revenue targets, the Company may issue up to 26,097 additional shares of common stock. EMInet, Inc. sells continuing medical education to emergency medical technicians, primarily via online transactions. The acquisition will be accounted for as a purchase.

The following unaudited pro forma results of operations give effect to the operations of SilverPlatter Education, which was acquired during 1999, and the following acquisitions which have been consummated in 2000: m3; EMInet, Inc; Quick Study, Inc. and KnowledgeReview LLC as if the acquisitions had occurred as of the first day of 1999. 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 periods presented or to project the Company's results of operations in any future period.

	YEAR ENDED DECEMBER 31, 1999
Revenue	$ 7,235,102
Net loss	(9,973,563)
Net loss per share:	
Basic	$ (2.02)
Diluted	$ (2.02)

The Company has filed a Form S-1 for an initial public offering of its common stock with the Securities and Exchange Commission. There can be no assurances that the IPO will be consummated. In connection with the IPO, related party debt of $1,293,000 (see Note 3) is expected to be converted to series B convertible preferred stock, and outstanding preferred stock is to be converted into common stock.

In February 2000, the Company entered into a four-year Online Education Services Provider Agreement with Columbia Information Systems, Inc., an affiliate of Columbia/HCA Healthcare Corporation "Columbia." In connection with the agreement, the Company issued a warrant to Columbia for 2,182,568 shares at an exercise price of $7.18.

In February 2000, the Company increased the authorized common shares outstanding to 75 million shares and the preferred shares to 10 million. In addition, the Board approved a 1.85 for one common stock split. All share information, option, share and warrant prices and earnings per share have been restated to reflect the stock split.

REPORT OF INDEPENDENT AUDITORS

To the Stockholders of SilverPlatter Education, Inc.,
a subsidiary of SilverPlatter Information, Inc.

We have audited the accompanying balance sheets of SilverPlatter Education, Inc., a subsidiary of SilverPlatter Information, Inc., as of December 31, 1997 and 1998, and the related statements of operations, stockholders' deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company'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 SilverPlatter Education, Inc. at December 31, 1997 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Nashville, Tennessee
September 17, 1999

SILVERPLATTER EDUCATION, INC., A SUBSIDIARY OF
SILVERPLATTER INFORMATION, INC.

BALANCE SHEETS

	DECEMBER 31,		JUNE 30
	1997	1998	1999
			(UNAUDITED)
ASSETS			
Current assets:			
Cash	$ 150,151	$ 9,567	$ 347,287
Accounts receivable	260,903	56,020	23,520
Deferred license fees	70,393	34,547	22,444
Prepaid expenses	66,849	46,858	34,475
Total current assets	548,296	146,992	427,726
Property and equipment:			
Furniture and fixtures	41,788	44,174	44,174
Equipment	325,164	296,618	296,618
Leasehold improvements	3,131	3,131	3,131
	370,083	343,923	343,923
Less accumulated depreciation and amortization	225,225	267,462	290,364
	144,858	76,461	53,559
Intangible assets, net	166,691	83,344	41,672
Other assets	5,040	5,040	--
Total assets	$ 864,885	$ 311,837	$ 522,957
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Current liabilities:			
Accounts payable	$ 153,914	$ 80,607	$ 149,703
Accrued liabilities	94,599	51,908	62,011
Due to parent company	3,826,679	4,170,574	4,376,565
Deferred revenue	1,054,490	490,734	436,601
Total current liabilities	5,129,682	4,793,823	5,024,880
Stockholders' deficit:			
Common stock, $.01 par value; 200,000 shares authorized; 1,000 shares issued and outstanding at December 31, 1997 and 1998 and June 30, 1999 (unaudited)	10	10	10
Additional paid-in capital	990	990	990
Accumulated deficit	(4,265,797)	(4,482,986)	(4,502,923)
Total stockholders' deficit	(4,264,797)	(4,481,986)	(4,501,923)
Total liabilities and stockholders' deficit	$ 864,885	$ 311,837	$ 522,957

See accompanying notes.

SILVERPLATTER EDUCATION, INC., A SUBSIDIARY OF
SILVERPLATTER INFORMATION, INC.

STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
	1997	1998	1998	1999
			(UNAUDITED)	
Revenues	$ 2,175,894	$2,343,435	$1,291,761	$835,847
Operating costs and expenses:				
Cost of revenue	1,057,538	923,254	524,504	350,988
Selling, general and administrative expenses	2,315,524	1,637,370	880,097	504,796
Total operating costs and expenses	3,373,062	2,560,624	1,404,601	855,784
Net loss	$(1,197,168)	$ (217,189)	$ (112,840)	$(19,937)

See accompanying notes.

SILVERPLATTER EDUCATION, INC., A SUBSIDIARY OF
SILVERPLATTER INFORMATION, INC.

STATEMENTS OF STOCKHOLDERS' DEFICIT
YEARS ENDED DECEMBER 31, 1997 AND 1998
AND THE SIX MONTHS ENDED JUNE 30, 1999 (UNAUDITED)

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' DEFICIT
	SHARES	AMOUNT			
Balance at January 1, 1997	1,000	$10	$990	$(3,068,629)	$(3,067,629)
Net loss	--	--	--	(1,197,168)	(1,197,168)
Balance at December 31, 1997	1,000	10	990	(4,265,797)	(4,264,797)
Net loss	--	--	--	(217,189)	(217,189)
Balance at December 31, 1998	1,000	10	990	(4,482,986)	(4,481,986)
Net loss	--	--	--	(19,937)	(19,937)
Balance at June 30, 1999 (unaudited)	1,000	$10	$990	$(4,502,923)	$(4,501,923)

See accompanying notes.

SILVERPLATTER EDUCATION, INC., A SUBSIDIARY OF
SILVERPLATTER INFORMATION, INC.

STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
	1997	1998	1998	1999
OPERATING ACTIVITIES:				
Net loss	$(1,197,168)	$(217,189)	$(112,840)	$ (19,937)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:				
Depreciation and amortization	136,501	143,984	71,591	64,574
Changes in operating assets and liabilities:				
Accounts receivable	(211,828)	204,883	67,331	32,500
Deferred license fees	25,352	35,846	19,302	12,103
Prepaid expenses and other assets	(11,821)	19,991	26,372	12,383
Other assets	--	--	--	5,040
Accounts payable	(118,305)	(73,307)	(19,263)	69,096
Accrued liabilities	12,509	(42,691)	11,115	10,103
Due to parent company	877,603	359,056	147,887	205,991
Deferred revenue	280,289	(563,756)	(267,463)	(54,133)
Net cash (used in) provided by operating activities	(206,868)	(133,183)	(55,968)	337,720
INVESTING ACTIVITIES:				
Purchase of property and equipment	(115,684)	(7,401)	(5,015)	--
Net cash used in investing activities	(115,684)	(7,401)	(5,015)	--
Net increase (decrease) in cash	(322,552)	(140,584)	(60,983)	337,720
Cash at beginning of period	472,703	150,151	150,151	9,567
Cash at end of period	$ 150,151	$ 9,567	$ 89,168	$ 347,287
NON-CASH TRANSACTIONS:				
Assets transferred to (from) Parent Company, at net book value	$ (250,035)	$ 15,161	$ 15,161	$ --

See accompanying notes.

SILVERPLATTER EDUCATION, INC., A SUBSIDIARY OF
SILVERPLATTER INFORMATION, INC.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

SilverPlatter Education, Inc. (the "Company") was incorporated on December 29, 1992 and is a publisher of CD-ROM and Internet products in the healthcare industry. The Company is based in Norwood, Massachusetts and is a wholly-owned subsidiary of SilverPlatter Information, Inc. (the "Parent"). The Company primarily focuses on the use of multimedia for continuing medical education and also produces specialty-oriented bibliographic databases on CD-ROM for literature searching and clinical reference. The Company's products are offered globally. SilverPlatter Education is accredited by the Accreditation Council for Continuing Medical Education.

UNAUDITED INTERIM FINANCIAL STATEMENTS

The unaudited balance sheet as of June 30, 1999 and the related unaudited statements of operations, stockholders' deficit, and cash flows for the six months ended June 30, 1998 and 1999, (interim financial statements) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the interim financial statements include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the interim results.

The interim financial statements should be read in conjunction with the audited financial statements appearing herein. The results of the six months ended 1999 may not be indicative of operating results for the full year.

RECOGNITION OF REVENUE

Subscription revenue is deferred and recognized ratably over the subscription period which is generally 12 months. Revenues derived from the sale of products requiring significant modification or customization are recorded based on the percentage of completion using labor hours. All other service revenues are recognized as the related services are performed.

CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and accounts receivable. At times, cash balances in the Company's accounts may exceed FDIC insurance limits.

The Company sells its systems and services to various companies in the healthcare industry. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers.

The carrying amounts reported in the balance sheets for cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value because of the short maturity of such instruments.

The Company is dependent upon various information providers to provide content for use on the Company's products.

PROPERTY AND EQUIPMENT

Property and equipment are stated on the basis of cost. Depreciation and amortization are provided on the straight-line method over the following estimated useful lives:

	YEARS
Furniture and fixtures	7
Equipment	3
Leasehold improvements	3

INTANGIBLE ASSETS

Intangible assets consist primarily of acquired subscription lists and are recorded at cost. Amortization is provided using the straight-line method over three years. Accumulated amortization totaled approximately $83,300 and $166,700 at December 31, 1997 and 1998, respectively.

LONG-LIVED ASSETS

Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" requires that companies consider whether indicators of impairment of long-lived assets held for use are present. If such indicators are present, companies determine whether the sum of the estimated undiscounted future cash flows attributable to such assets is less than their carrying amount, and if so, companies recognize an impairment loss based on the excess of the carrying amount of the assets over their fair value. Management periodically evaluates the ongoing value of property, equipment and intangibles and has determined that there were no indications of impairment for the years ended December 31, 1997 and 1998.

DEFERRED REVENUE

Deferred revenue represents the portion of revenue received where the revenue recognition process is incomplete.

DEFERRED LICENSE FEES

Deferred license fees represent amounts paid in advance to information providers. Such fees are deferred and expensed ratably over the terms of the subscription periods to match the recognition of the related revenue.

ADVERTISING

The Company expenses the costs of advertising as incurred. During 1997 and 1998, advertising expense was approximately $38,400 and $1,100, respectively.

USE OF ESTIMATES

The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates and such differences could be material to the financial statements.

INCOME TAXES

Income taxes have been provided in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes."

NEWLY ISSUED ACCOUNTING STANDARDS

In March 1998, the AICPA issued SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 establishes standards for reporting and presenting in a full set of general purpose financial statements the costs incurred in the development of internal-use computer software. Internal-use software is acquired, internally developed, or modified solely to meet the Company's internal needs without the intent to market externally. The Company adopted SOP 98-1 on January 1, 1999. The adoption of SOP 98-1 had no effect on the Company's financial condition or results of operations.

In December 1998, the AICPA issued SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions." SOP 98-9 requires recognition of revenue using the "residual method" in a multiple-element software arrangement when fair value does not exist for one or more of the delivered elements in the arrangement. Under the "residual method," the total fair value of the undelivered elements is deferred and recognized in accordance with SOP 97-2. The Company is required to implement SOP 98-9 for the year ending December 31, 2000. SOP 98-9 also extends the deferral of the application of SOP 97-2 to certain other multiple-element software arrangements through the year ending December 31, 1999. Management does not expect the adoption of SOP 98-9 to have a significant effect on the Company's financial condition or results of operations.

ALLOCATION OF CERTAIN EXPENSES

The Parent provides various administrative services to the Company including legal assistance, accounting, marketing and advertising services. The Parent allocated these expenses to the Company. The allocation policy applied by the Company is as follows: first on the basis of direct usage when identifiable, with the remainder allocated among the Parent's subsidiaries on the basis of their respective annual sales. In the opinion of management, this method of allocation is reasonable and is consistent with Securities and Exchange Commission Staff Accounting Bulletin No. 55, "Allocation of Expenses and Related Disclosure in Financial Statements of Subsidiaries, Divisions or Lesser Business Components of Another Entity". However, the allocation methodology utilized in preparing the financial statements of the Company may not necessarily reflect the results of operations, cash flows, or financial position of the Company in the future, or what the results of operations, cash flows or financial position would have been had the Company been a separate stand-alone entity. Management is unable to estimate what the administrative expenses would have been if the Company had been on a stand alone basis.

Due to parent company included in the balance sheets represents a net balance as the result of various transactions between the Company and the Parent. There are no terms of settlement or interest charges associated with the account balance. The balance is primarily the result of the Parent funding payroll, other operating, selling, general and administrative expenses of the Company and allocated expenses incurred by the Parent on behalf of the Company.

An analysis of transactions in the Due to Parent Company account are as follows:

	YEAR ENDED	
	1997	1998
Balance at beginning of year	$2,699,041	$3,826,679
Net cash remitted from Parent	876,244	161,584
Allocated expenses from the Parent	251,394	182,311
Balance at end of year	$3,826,679	$4,170,574
Average balance during the year	$3,251,330	$3,896,040

2. INCOME TAXES

For the tax periods presented, the Company filed income tax returns as part of a consolidated group. As a result, the current and deferred income tax amounts were allocated by applying SFAS No. 109 on a separate return basis.

Income tax benefit differs from the amount computed by applying the federal statutory rate of 34% to loss before income taxes as follows:

	DECEMBER 31,	
	1997	1998
Tax benefit at the statutory rate	$(398,537)	$(73,844)
State income taxes, net of federal benefit	(46,903)	(8,722)
Change in valuation allowance	445,440	82,566
Total	$ --	$ --

Deferred federal and state income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows:

	DECEMBER 31,	
	1997	1998
Deferred tax assets:		
Depreciation	$ 18,670	$ 17,357
Amortization	27,857	50,674
Allowance for doubtful accounts	3,302	1,921
Net operating loss carryforwards	950,264	1,014,245
Total deferred tax assets	1,000,093	1,084,197
Less: Valuation allowance	(999,946)	(1,082,512)
	147	1,685
Deferred tax liability:		
Prepaid assets	(147)	(1,685)
Net deferred tax asset	$ --	$ --

As of December 31, 1998 the Company had net operating loss carryforwards of $2,699,065 expiring in years 2008 to 2019.

The Company has established a valuation allowance for deferred tax assets at December 31, 1997 and 1998 due to the uncertainty of realizing these assets in the future. The valuation allowance increased $82,566 during 1998.

3. LEASE COMMITMENTS

The Company leased office facilities under an operating lease that expired in February 1999. Subsequent to February 1999, the Company leases its office facilities on a month-to-month basis.

Total rent expense under all operating leases was approximately $62,125 and $64,466 for 1997 and 1998, respectively.

4. EMPLOYEE BENEFIT PLAN

Employees of the Company participate in the Parent's employee benefit plan.

The Parent has a defined-contribution employee benefit plan incorporating provisions of Section 401(k) of the Internal Revenue Code. Under the plan's provisions, a plan member may make contributions, on a tax deferred basis, not to exceed 15% of compensation. It is the Company's policy to match employer contributions at a rate of 25% of the first 4% contributed by the employee. The Company incurred expense on behalf of its participants which totaled approximately $7,400 and $8,200 in 1997 and 1998, respectively.

5. COMMITMENTS AND CONTINGENT LIABILITIES

The Company, along with three other SilverPlatter International, N.V. (Parent Company of SilverPlatter Information, Inc.) subsidiaries, has guaranteed repayment of indebtedness under promissory notes given by the Parent. The amount outstanding at December 31, 1998 under these promissory notes was $1,704,928. The guarantee is to remain in full force and effect until the promissory notes are paid in full. The final payment of the promissory notes is for $558,900 and is due on September 30, 1999.

The Company is a defendant in a legal proceeding in connection with copyright infringements with one of the Company's vendors. The parties are in settlement discussions and the plaintiffs are demanding $38,000 to settle the case. In the opinion of management, the resolution of this proceeding will not have a material adverse effect on the Company's financial position or results of operations.

6. IMPACT OF YEAR 2000 (UNAUDITED)

Many computer systems in use today were designed and developed using two digits, rather than four, to specify the year. As a result, such systems will recognize the Year 2000 as "00" and may assume that the year is 1900 rather than 2000. This could cause many computer applications to fail completely or to create erroneous results unless corrective measures are taken. The Company recognizes the need to minimize the risk that its operations will be adversely affected by Year 2000 software failures and is in the process of preparing for the Year 2000.

The Parent has evaluated its Year 2000 risk in three separate categories: information technology systems ("IT"), non-IT Systems ("Non-IT") and material third party relationships. The Parent has developed a plan in which the risks in each of these categories are being reviewed and addressed by the appropriate level of management as follows:

IT. IT systems have been divided into three classification: database products, ERL and SPIRS products and internal systems. To date, 169 of the Parent and Company's database products will be ready by the end of 1999. The Parent has performed an analysis and made programming changes to

ensure Year 2000 compliance. All of the significant functionality of the Parent and Company's ERL and SPIRS products technology are Year 2000 compliant with the exception of minor or cosmetic problems which will be addressed in subsequent releases. Internal systems are currently 90% Year 2000 ready. The Company has internally-developed sales, accounts receivable and cash receipts software programs which are not Year 2000 compliant. The Company is in the process of modifying these programs to ensure Year 2000 compliance and expects that this process will be completed by October 31, 1999.

Non-IT. Non-IT systems involve embedded technologies, such as microcontrollers or microprocessors. Management believes the Company's Non-IT risks are minimal. Most of the costs of addressing Non-IT risks are included in normal upgrade and replacement expenditures which were planned outside of the Company's Year 2000 review.

Third Party Risk. To help the Company assess the level of Year 2000 exposure and the need for equipment replacement or upgrades, the Parent has contacted the manufacturers and/or installers of the various software products and systems used. The Parent and Company believe that with modifications to existing software, conversions to new software, and replacement or upgrade of equipment, the Year 2000 issue will not pose significant operational problems for its computer systems. However, if such modifications and conversions are not made, or are not completed timely, the Year 2000 issue could have a material impact on the operations of the Company.

The Parent and Company obtained written verification from each of its significant vendors in 1998 and 1999 and performed Year 2000 compliance testing on products distributed to each of its significant customers.

The Company and Parent believe that the Year 2000 issue is being appropriately addressed by its material vendors and does not expect the Year 2000 issue to have a material adverse effect on the financial position, results of operations or cash flows of the Company in future periods. The Parent's and Company's statements regarding Year 2000 issues are dependent on many factors, including the ability of the Company's vendors to achieve Year 2000 compliance and the proper functioning of the IT and non-IT systems and development of software, some of which are beyond the Company's control.

Given that no significant issues have arisen based on the assessments to date, the Company has not developed a contingency plan to address the failure of the Company's IT or non-IT systems or the systems of material third parties to be Year 2000 compliant. The Parent and the Company will continue to assess the Year 2000 compliance issue on an on-going basis in an effort to resolve any Year 2000 issue in a timely manner.

The Company has expensed less than $10,000 of costs related to Year 2000 compliance and expects to incur less than $10,000 of additional costs. These costs have been financed through the Parent.

As discussed in Note 7, on July 23, 1999, HealthStream, Inc. acquired selected assets of the Company. In connection with this transaction, the Company entered into a services agreement with the Parent to continue to provide certain accounting and information systems support until October 31, 1999. Currently, the Company is transitioning its accounting and information systems support to HealthStream, Inc.'s own Year 2000 compliant accounting software. This transition is expected to be complete before December 31, 1999.

7. SUBSEQUENT EVENT

On July 23, 1999, HealthStream, Inc. acquired certain assets and assumed certain liabilities of the Company for $1 million.

REPORT OF INDEPENDENT AUDITORS

To the Stockholders of Quick Study, Inc.,

We have audited the accompanying balance sheets of Quick Study, Inc., as of December 31, 1998 and 1999, and the related statements of operations, stockholders' deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company'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 Quick Study, Inc. at December 31, 1998 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Nashville, Tennessee
January 22, 2000

QUICK STUDY, INC.

BALANCE SHEETS

	DECEMBER 31,	
	1998	1999
ASSETS		
Current assets:		
Cash	$ 3,676	$ 8,594
Accounts receivable, less allowance for doubtful accounts of $0 in 1998 and 1999	19,631	28,635
Other current assets	106	106
Total current assets	23,413	37,335
Property and equipment:		
Equipment	87,058	87,198
Furniture and fixtures	27,653	25,979
	114,711	113,177
Less accumulated depreciation	69,712	93,151
	44,999	20,026
Other assets	5,404	5,404
Total assets	$ 73,816	$ 62,765
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Line of credit	50,000	50,000
Accounts payable and accrued liabilities	50,163	56,615
Deferred revenue	--	5,610
Accrued interest -- related parties	4,284	8,624
Due to shareholders and other related parties	1,728,943	2,178,806
Note payable -- related parties	62,000	62,000
Total current liabilities	1,895,390	2,361,655
Stockholders' deficit:		
Common stock, no par value; 750,000 and 12,000,000 shares authorized at December 31, 1998 and 1999, respectively, 677,340 shares issued and outstanding at December 31, 1998 and 1999	73,900	73,900
Accumulated deficit	(1,895,474)	(2,372,790)
Total stockholders' deficit	(1,821,574)	(2,298,890)
Total liabilities and stockholders' deficit	$ 73,816	$ 62,765

See accompanying notes.

QUICK STUDY, INC

STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,	
	1998	1999
Revenues	$ 173,556	$ 192,076
Operating costs and expenses:		
Cost of revenue	26,951	14,315
Selling, general and administrative expenses	769,180	530,854
Total operating costs and expenses	796,131	545,169
Loss from operations	(622,575)	(353,093)
Interest expense:		
Interest expense -- related parties and shareholders	140,128	118,057
Interest expense	6,166	6,166
	146,294	124,223
Net loss	$(768,869)	$(477,316)

See accompanying notes.

QUICK STUDY, INC.

STATEMENTS OF STOCKHOLDERS' DEFICIT
YEARS ENDED DECEMBER 31, 1998 AND 1999

	COMMON STOCK		ACCUMULATED	TOTAL STOCKHOLDERS'
	SHARES	AMOUNT	DEFICIT	DEFICIT
Balance at December 31, 1997	607,500	$66,212	$(1,126,605)	$(1,060,393)
Repurchase of common stock	(5,160)	(562)	--	(562)
Exercise of stock options	75,000	8,250	--	8,250
Net loss	--	--	(768,869)	(768,869)
Balance at December 31, 1998	677,340	73,900	(1,895,474)	(1,821,574)
Net loss	--	--	(477,316)	(477,316)
Balance at December 31, 1999	677,340	$73,900	$(2,372,790)	$(2,298,890)

See accompanying notes.

QUICK STUDY, INC.

STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,	
	1998	1999
OPERATING ACTIVITIES:		
Net loss	$(768,869)	$(477,316)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	27,005	24,523
Loss on disposal of property and equipment	--	590
Deferred salary to shareholders	217,800	195,600
Changes in operating assets and liabilities:		
Accounts receivable	9,825	(9,004)
Other current assets	(106)	--
Other assets	(579)	--
Accounts payable and accrued liabilities	39,282	6,452
Deferred revenue	--	5,610
Accrued interest -- related parties	2,448	4,340
Accrued interest on due to shareholders	99,333	142,920
Net cash used in operating activities	(373,861)	(106,285)
INVESTING ACTIVITIES:		
Purchase of property and equipment	(25,989)	(140)
Net cash used in investing activities	(25,989)	(140)
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	8,250	--
Cash paid for stock repurchase	(562)	--
Proceeds from note payable -- related parties	27,000	--
Proceeds from shareholders loans	366,569	111,343
Net cash provided by financing activities	401,257	111,343
Net increase in cash	1,407	4,918
Cash at beginning of period	2,269	3,676
Cash at end of period	$ 3,676	$ 8,594

See accompanying notes.

QUICK STUDY, INC.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Quick Study, Inc. (the "Company") was incorporated as an S-corporation on May 24, 1994 and is a publisher of CD-ROM and network-based products and services in the healthcare industry. The Company is based in Portola Valley, California. The Company primarily focuses on the use of multimedia for continuing medical education. The Company's products and services are offered throughout the United States. Quick Study is accredited by the California State Board of Nursing.

RECOGNITION OF REVENUE

The Company recognizes revenue in accordance with Statement of Position 97-2 "Software Revenue Recognition." Revenues are derived from the license of the Company's software products. Revenue is recognized upon delivery and installation of the software. As a part of the license agreement, maintenance and telephone support are provided if necessary over the one year license term. Cost for providing maintenance and telephone support have been insignificant.

DEFERRED REVENUE

Deferred revenue represents the portion of revenue for which the revenue recognition process is incomplete.

CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and accounts receivable.

The Company sells its products and services to various companies in the healthcare industry. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers. During 1998 and 1999, the Company derived approximately $79,735 and $79,960, respectively, of its revenues from Santa Rosa Memorial Hospital. The Company had no receivables outstanding as of December 31, 1998 and 1999 from Santa Rosa Memorial Hospital.

The carrying amounts reported in the balance sheets for cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value because of the short-term nature of such instruments.

PROPERTY AND EQUIPMENT

Property and equipment are stated on the basis of cost. Depreciation and amortization are provided on the straight-line method over the following estimated useful lives:

	YEARS
Equipment	3
Furniture and fixtures	5

LONG-LIVED ASSETS

Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" requires that companies consider whether indicators of impairment of long-lived assets held for use are present. If such indicators are present, companies determine whether the sum of the estimated undiscounted future cash flows attributable to such assets is less than their carrying amount, and if so, companies recognize an impairment loss based on the excess of the carrying amount of the assets over their fair value.

Management periodically evaluates the ongoing value of property and equipment and has determined that there were no indications of impairment as of December 31, 1998 and 1999.

ADVERTISING

The Company expenses the costs of advertising as incurred. During 1998 and 1999, advertising expense was approximately $43,000 and $18,000, respectively.

USE OF ESTIMATES

The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates and such differences could be material to the financial statements.

INCOME TAXES

The Company, with the consent of its shareholders, elected Subchapter S status under the provisions of the Internal Revenue Code. The shareholders of an S Corporation are taxed on their proportionate share of the Company's taxable income in lieu of a corporate income tax. Accordingly, no provision, benefit, or liability for federal income taxes has been included in the financial statements. The Subchapter S election was not available for California corporate income tax. As a result, such taxes have been provided in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes."

Pro forma income taxes as if the Company had been a C corporation for all periods presented have not been reflected in the financial statements because a 100% valuation allowance would have been provided and accordingly there would not have been a tax benefit.

NEWLY ISSUED ACCOUNTING STANDARDS

In March 1998, the AICPA issued SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 establishes standards for reporting and presenting in a full set of general purpose financial statements the costs incurred in the development of internal-use computer software. Internal-use software is acquired, internally developed, or modified solely to meet the Company's internal needs without the intent to market externally. The Company adopted SOP 98-1 on January 1, 1999. The adoption of SOP 98-1 had no effect on the Company's financial condition or results of operations.

In December 1998, the AICPA issued SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions." SOP 98-9 requires recognition of revenue using the "residual method" in a multiple-element software arrangement when fair value does not exist for one or more of the delivered elements in the arrangement. Under the "residual method," the total fair value of the undelivered elements is deferred and recognized in accordance with SOP 97-2. The Company is required to implement SOP 98-9 for the year ending December 31, 2000. Management does not expect the adoption of SOP 98-9 to have a material effect on the Company's financial condition or results of operations.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is effective as amended for fiscal quarters of fiscal years beginning after June 15, 2000. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure

those instruments at fair value. Management of the Company does not expect the adoption of SFAS No. 133 to have a material effect on the Company's financial statements.

In December 1998, the AICPA issued SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions." SOP 98-9 requires recognition of revenue using the "residual method" in a multiple-element software arrangement when fair value does not exist for one or more of the delivered elements in the arrangement. Under the "residual method," the total fair value of the undelivered elements is deferred and recognized in accordance with SOP 97-2. The Company is required to implement SOP 98-9 for the year ending December 31, 2000. Adoption of SOP 98-9 is not expected to have a material effect on the Company's financial statements.

2. LEASE COMMITMENTS

Minimum rental commitments under operating leases having an initial or remaining noncancelable term of more than one year are as follows:

2000	$ 49,338
2001	49,338
2002	14,330
Thereafter	--
	113,006
Less: Sublease rental payments	48,263
	$ 64,743

Total rent expense under all operating leases was approximately $45,000 and $4,000 for 1998 and 1999, respectively. In February 1999, the Company began subleasing the office space for an amount equal to the Company's monthly rental payments of approximately $3,700. The sublease rental payments received by the Company have been recorded as a reduction in rental expense.

3. INCOME TAXES

Deferred state income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows:

	DECEMBER 31,	
	1998	1999
Deferred tax assets:		
Cash to accrual adjustment	$ 10,140	$ 12,994
Research and development credits	4,733	7,233
Net operating loss carryforwards	16,794	20,985
Total deferred tax assets	31,667	41,212
Less: Valuation allowance	(31,667)	(41,212)
Net deferred tax asset	$ --	$ --

As of December 31, 1999, the Company has state net operating loss carryforwards of $1,399,028, expiring in years 2002 through 2004.

The Company has established a valuation allowance for deferred tax assets at December 31, 1998 and 1999, due to the uncertainty of realizing these assets in the future. The valuation allowance increased

$14,035 and $9,545 during 1998 and 1999, respectively. No state income tax payments were made during the years ended December 31, 1998 or 1999.

4. STOCK OPTION PLAN

The Company's 1997 Equity Incentive Plan (the "Plan") authorizes the grant of options to employees, officers and directors for up to 150,000 shares of common stock. Options granted under the Plan have terms of no more than ten years with certain restrictions. The Plan allows the Board of Directors to determine the vesting period of each grant. The vesting period of the options granted ranges from immediate vesting to five years.

The Company accounts for its stock incentive plans in accordance with Accounting Principles Board Opinion No. 25 ("APB 25"). The Company has not recognized compensation expense for stock options, because the exercise price of the options equals the market price of the underlying stock on the date of grant, which is the measurement date. If the alternative method of accounting for stock incentive plans prescribed by SFAS No. 123 had been followed, the Company's net loss for the years ended December 31, 1998 and 1999 would have increased by $1,300 and $400, respectively. The resulting pro forma disclosures may not be representative of amounts to be expected in future years. The weighted average fair value of options granted was determined using the minimum value option pricing model with the indicated assumptions:

	1998	1999
ASSUMPTIONS (WEIGHTED AVERAGE)		
Risk-free interest rate	5.7%	5.7%
Expected dividend yield	0.0%	0.0%
Expected life (in years)	5	5

A progression of activity and various other information relative to stock options is presented in the table below.

	1998		1999	
	COMMON SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	COMMON SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding -- beginning of year	--	$ --	37,500	$0.11
Granted	142,500	0.11	--	--
Exercised	(75,000)	0.11	--	--
Forfeited	(30,000)	0.11	(15,000)	0.11
Outstanding -- end of year	37,500	0.11	22,500	0.11
Exercisable at end of year	3,750	$0.11	11,250	$0.11

Shares of Common Stock available for future grants of options totaled 37,500 at December 31, 1998 and 52,500 at December 31, 1999. Upon the acquisition of the Company by HealthStream, Inc., (see Note 8) the stock options lapsed.

5. LINE OF CREDIT AND NOTE PAYABLE -- RELATED PARTIES

The Company has an unsecured line of credit agreement with a financial institution with a maximum credit line of $50,000. The line of credit accrues interest at the bank reference rate plus 3.375%, which was 8.75% at December 31, 1999, and is payable monthly. The line of credit matures July 1, 2000. At December 31, 1999, the balance outstanding under the line of credit was $50,000.

The Company has an unsecured demand note payable to family members of two of the Company's shareholders. The note payable accrues interest at 7%. Accrued interest totaled $4,284 and $8,624 at December 31, 1998 and 1999, respectively.

6. DUE TO SHAREHOLDERS

Due to shareholders consists of (1) loans made to the Company for working capital use, (2) deferred salaries related to shareholders' service to the Company, and (3) accrued interest on the loans and deferred salaries at 7% annually. Due to shareholders was as follows:

	DECEMBER 31, 1998	DECEMBER 31, 1999
Deferred salaries	$ 641,300	$ 836,900
Loans	891,352	1,002,695
Accrued interest	196,291	339,211
	$1,728,943	$2,178,806

7. IMPACT OF YEAR 2000 (UNAUDITED)

The Company did not experience any software failures or interruption of business as a result of Year 2000 issues. Total cost incurred related to Year 2000 issues was approximately $5,000.

8. SUBSEQUENT EVENT

On January 11, 2000, HealthStream, Inc. acquired substantially all the assets and assumed $112,000 of liabilities of the Company. The purchase price was $590,000 consisting of a cash payment of $59,000 and issuance of shares of HealthStream's Common Stock. The shareholders can receive an additional payment of up to $300,000 in shares of Common Stock upon the achievement of revenue goals.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
m3 The Healthcare Learning Company

We have audited the accompanying balance sheets of MultiMedia Marketing, Inc. d/b/a m3 The Healthcare Learning Company as of December 31, 1998 and 1999 and the related statements of operations, stockholders' deficit, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 m3 The Healthcare Learning Company as of December 31, 1998 and 1999 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles.

/s/ Lane Gorman Trubitt, L.L.P.

Dallas, Texas
January 14, 2000

M3 THE HEALTHCARE LEARNING COMPANY

BALANCE SHEETS

	DECEMBER 31,	
	1998	1999
ASSETS		
Current assets		
Cash and cash equivalents	$ 182,333	$ 208,450
Certificates of deposit	198,627	195,848
Accounts receivable -- less allowance for doubtful accounts of $0 in 1998 and $14,000 in 1999	1,911,751	911,765
Prepaid expenses	29,180	4,318
Total current assets	2,321,891	1,320,381
Property and equipment -- at cost		
Computer equipment	144,480	147,400
Furniture and fixtures	22,801	22,802
Capitalized software	9,245	9,245
	176,526	179,447
Less accumulated depreciation and amortization	(107,765)	(133,903)
	68,761	45,544
Other assets		
Software development costs, net of accumulated amortization	127,585	48,339
Debt issue costs and other intangible assets, net of accumulated amortization of $6,471 in 1998 and $11,303 in 1999	12,004	14,447
	139,589	62,786
	$ 2,530,241	$ 1,428,711
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	$ 35,694	$ 60,162
Accrued expenses	363,469	273,222
Deferred revenue	2,377,034	1,276,505
Total current liabilities	2,776,197	1,609,889
Note payable -- long-term	727,904	1,164,708
Stockholders' deficit		
Common stock, $.01 par value; 10,000,000 shares authorized; issued and outstanding 5,029,176 shares in 1998 and 5,263,740 shares in 1999	50,292	52,637
Additional paid-in capital	1,853,458	1,923,735
Additional paid-in capital -- warrants	34,000	36,250
Accumulated deficit	(2,911,610)	(3,358,508)
	(973,860)	(1,345,886)
	$ 2,530,241	$ 1,428,711

The accompanying notes are an integral part of these statements.

M3 THE HEALTHCARE LEARNING COMPANY

STATEMENTS OF OPERATIONS

	YEARS ENDED DECEMBER 31,		
	1997	1998	1999
Net revenues	$ 899,015	$2,565,875	$3,330,408
Costs and expenses			
Cost of revenues	101,896	439,061	237,620
General and administrative expenses	2,023,371	3,042,808	3,425,970
Total operating costs and expenses	2,125,267	3,481,869	3,663,590
Loss from operations	(1,226,252)	(915,994)	(333,182)
Other income (expense)			
Interest expense	(76,915)	(104,304)	(128,703)
Interest income	20,857	53,168	14,987
	(56,058)	(51,136)	(113,716)
Net loss	$(1,282,310)	$ (967,130)	$ (446,898)

The accompanying notes are an integral part of these statements.

M3 THE HEALTHCARE LEARNING COMPANY

STATEMENTS OF STOCKHOLDERS' DEFICIT

YEARS ENDED DECEMBER 31, 1997, 1998 AND 1999

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL		ACCUMULATED	
	SHARES	AMOUNT	COMMON STOCK	WARRANTS	DEFICIT	TOTAL
Balance at January 1, 1997	4,562,509	$45,625	$1,208,125	$ --	$ (662,170)	$ 591,580
Sale of common stock	66,667	667	149,333	--	--	150,000
Issuance of warrants to purchase common stock in connection with note payable agreement	--	--	--	34,000	--	34,000
Net loss	--	--	--	--	(1,282,310)	(1,282,310)
Balance at December 31, 1997	4,629,176	46,292	1,357,458	34,000	(1,944,480)	(506,730)
Sale of common stock	400,000	4,000	496,000	--	--	500,000
Net loss	--	--	--	--	(967,130)	(967,130)
Balance at December 31, 1998	5,029,176	50,292	1,853,458	34,000	(2,911,610)	(973,860)
Exercise of stock options	150,000	1,500	13,500	--	--	15,000
Exercise of stock options	84,564	845	--	--	--	845
Issuance of warrants to purchase common stock in connection with note payable agreement	--	--	--	2,250	--	2,250
Stock option compensation	--	--	56,777	--	--	56,777
Net loss	--	--	--	--	(446,898)	(446,898)
Balance at December 31, 1999	5,263,740	$52,637	$1,923,735	$36,250	$(3,358,508)	$(1,345,886)

The accompanying notes are an integral part of these statements.

M3 THE HEALTHCARE LEARNING COMPANY

STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,		
	1997	1998	1999
Cash flows from operating activities			
Net loss	$(1,282,310)	$ (967,130)	$ (446,898)
Adjustments to reconcile net loss to net cash used in operating activities			
Stock option compensation	--	--	56,777
Issuance of stock warrants	--	--	2,250
Depreciation	32,257	27,937	26,138
Amortization	60,892	87,119	91,107
Provision for losses on accounts receivable	43,798	111,627	51,001
Changes in assets and liabilities, net:			
Accounts receivable	(327,690)	(1,193,888)	948,985
Prepaid expenses	(51,615)	30,369	24,862
Accounts payable	65,330	(46,646)	24,468
Accrued expenses	(181,383)	191,099	(90,247)
Deferred revenue	1,167,523	1,027,968	(1,100,529)
Net cash used in operating activities	(473,198)	(731,545)	(412,086)
Cash flows from investing activities			
Purchase of certificates of deposit	--	(198,627)	(291,221)
Maturity of certificates of deposit	--	--	294,000
Software development costs and capitalized software	(120,003)	(43,081)	--
Purchase of equipment	(12,414)	(28,318)	(2,921)
Net cash used in investing activities	(132,417)	(270,026)	(142)
Cash flows from financing activities			
Issuance of note payable	750,000	--	430,000
Debt issue costs	(18,500)	--	(7,500)
Sale of common stock	150,000	500,000	15,845
Net cash provided by financing activities	881,500	500,000	438,345
Net increase (decrease) in cash and cash equivalents	275,885	(501,571)	26,117
Cash and cash equivalents at beginning of year	408,019	683,904	182,333
Cash and cash equivalents at end of year	$ 683,904	$ 182,333	$ 208,450
Supplemental disclosures of cash flow information			
Cash paid during the year for interest	$ 65,000	$ 97,500	$ 116,155

The accompanying notes are an integral part of these statements.

M3 THE HEALTHCARE LEARNING COMPANY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES

BUSINESS ACTIVITY

m3 The Healthcare Learning Company (the "Company") provides interactive, multimedia education and training solutions to the healthcare industry. The Company serves clients across the entire healthcare continuum, including hospitals of all sizes, physician clinics, surgical centers, post-acute care facilities, MSOs, long-term care centers and public health departments. A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

CASH EQUIVALENTS

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Company maintains its cash balances at a financial institution located in Dallas, Texas, which at times may exceed insured limits. Cash in excess of operating requirements is invested in an income producing money market mutual fund, which is not insured. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

CERTIFICATES OF DEPOSIT

The Company has two certificates of deposit with a financial institution with original maturities ranging from over three months to less than one year. These investments are stated at cost, as it is the intent of the Company to hold these securities until maturity.

ACCOUNTS RECEIVABLE

Accounts receivable consist of uncollateralized receivables from customers primarily in the healthcare industry. The Company routinely assesses the financial strength of its customers and believes it is not exposed to any significant credit risk.

PROPERTY AND EQUIPMENT

Depreciation and amortization is provided in amounts sufficient to relate the cost of assets to operations over their estimated service lives. Capitalized software consists of costs to purchase and develop software. Major additions and betterments are capitalized while replacements and maintenance and repairs that do not improve or extend the life of the respective assets are expensed. When property is retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is reflected in operations.

Depreciation and amortization is provided using the double declining balance method over five to seven years. Depreciation and amortization expense charged to operations was $32,257, $27,937 and $26,138 for the years ended December 31, 1997, 1998 and 1999, respectively.

DEBT ISSUE COSTS

Debt issue costs represent amounts incurred by the Company to enable it to enter into the loan agreement described in Note 3. Such amounts are amortized, on a straight-line basis, over 5 years, which is the term of the note. Amortization expense charged to operations was $2,775, $3,696 and $4,832 for the years ended December 31, 1997, 1998 and 1999, respectively.

SOFTWARE DEVELOPMENT COSTS

Certain software development costs are capitalized upon the establishment of technological feasibility for each product or process and capitalization ceases when the product is available for general release to customers or is put into service. The establishment of technological feasibility and the ongoing assessment of recoverability of capitalized software development costs require considerable judgment by management with respect to certain external factors, including, but not limited to, anticipated future revenues, estimated economic life and changes in software and hardware technology. Research and development costs related to software development that has not reached technological feasibility are expensed as incurred and totaled $34,838, $250,723 and $197,219 for the years ended December 31, 1997, 1998 and 1999, respectively. Software development costs are amortized utilizing the straight-line method over the estimated economic lives of the related products not to exceed three years. Amortization of capitalized software costs charged to operations totaled $53,017, $76,067 and $79,247 for the years ended December 31, 1997, 1998 and 1999, respectively. Capitalized software development costs were $127,585 and $48,339 at December 31, 1998 and 1999, respectively, and net of accumulated amortization of $296,604 and $375,851 at December 31, 1998 and 1999, respectively.

REVENUE RECOGNITION

The Company recognizes revenue for the sale of software in accordance with Statement of Position (SOP) 97-2 "Software Revenue Recognition".

The Company records gross revenue for all sales to VHA organizations under an exclusive product agreement. Fees paid to VHA under this agreement are recorded as marketing expense.

DEFERRED REVENUE

Deferred revenue represents the portion of revenue for which the revenue recognition process is incomplete.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ADVERTISING COSTS

Advertising costs are charged to operations when incurred. Advertising expense totaled $24,245, $44,318 and $5,301 for the years ended December 31, 1997, 1998 and 1999, respectively.

LONG-LIVED ASSETS

Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", requires that companies consider whether events or changes in circumstances may indicate that an impairment of long-lived assets held for use are present. If such indications are present, companies determine whether the sum of the estimated undiscounted future cash flows attributable to such assets is less than their carrying amount, and if so, companies recognize an impairment loss based on the excess of the carrying amount of the assets over their fair value. Management periodically evaluates the carrying value of its property and equipment and has determined that there were no indications of impairment as of December 31, 1998 and 1999.

NEWLY ISSUED ACCOUNTING STANDARDS

In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". SOP 98-1 establishes standards for reporting and presenting in a full set of general purpose financial statements the costs incurred in the development of internal-use computer software. Internal-use software is acquired, internally developed, or modified solely to meet the Company's internal needs without the intent to market externally. The adoption of SOP 98-1 had no material effect on the Company's financial condition or results of operations.

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which is effective as amended for fiscal quarters of fiscal years beginning after June 15, 2000. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Management of the Company does not expect the adoption of SFAS No. 133 to have a material effect on the Company's financial statements.

In December 1998, the AICPA issued SOP 98-9, "Modification of SOP 97-2 Software Revenue Recognition, with Respect to Certain Transactions". SOP 98-9 requires recognition of revenue using the "residual method" in a multiple-element software arrangement when fair value does not exist for one or more of the delivered elements in the arrangement. Under the "residual method", the total fair value of the undelivered elements is deferred and recognized in accordance with SOP 97-2. The Company is required to implement SOP 98-9 for the year ending December 31, 2000. Adoption of SOP 98-9 is not expected to have a material effect on the Company's financial statements.

2. INCOME TAXES

Deferred tax assets and liabilities are determined based on the difference between financial statement and tax bases of assets and liabilities as measured by the currently enacted tax rates. Deferred tax expense or benefit is the result of the changes in deferred tax assets and liabilities.

Current deferred income taxes result from the differences between financial statement and tax return recognition of accrued expenses. Noncurrent deferred income tax results from the use of accelerated methods of depreciation for income tax purposes, and a net operating loss carryforward. If it is likely that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized.

The components of deferred taxes in the accompanying balance sheets are summarized below:

	1998	1999
Deferred tax assets:		
Current	$ 12,582	$ 10,557
Noncurrent	847,374	1,084,090
	859,956	1,094,647
Valuation allowance	(851,481)	(1,084,721)
Net deferred tax assets	8,475	9,926
Deferred tax liabilities:		
Current	--	--
Noncurrent	8,475	9,926
	8,475	9,926
	$ --	$ --

The net increase in the valuation allowance was $ 421,570, $ 268,005 and $233,240 for the years ended December 31, 1997, 1998 and 1999, respectively. The Company has a net operating loss carryforward of approximately $3,188,500 at December 31, 1999 of which $379,400 will expire in 2010 and $17,400 in 2011, and $2,791,700 in 2019.

3. NOTE PAYABLE

On April 3, 1997, the Company issued a note payable to a finance company in the amount of $750,000. On August 4, 1999, the note payable was amended to the amount of $1,180,000. The note bears interest at 13%, and is collateralized by substantially all of the Company's assets. Monthly interest payments of $12,783 are payable until April 30, 2002, at which time the outstanding principal balance, with all accrued interest is due. In connection with this transaction, the Company issued detachable stock warrants to the finance company and a portion of the proceeds has been allocated to these detachable stock warrants. See Note 10 for further discussion of these warrants.

The loan agreement contains various provisions and restrictions including payment of cash dividends; purchase of insurance coverages; payment of taxes and assessments; limitations on indebtedness, guarantees and transactions with affiliates; issuance of stock below fair value; and financial reporting covenants. In 1998, the Company obtained a waiver for the financial reporting covenant. In 1999, the Company obtained a waiver for the exercise of stock options at an exercise price below the current fair value of the common stock.

4. ACCRUED EXPENSES

Accrued expenses consist of the following:

	1998	1999
Compensation	$ 54,922	$ 54,787
Marketing fees	131,478	--
Sales tax	106,628	146,952
Customer advances	30,730	30,730
Interest	6,815	10,309
Consulting fees	22,000	22,000
Other	10,896	8,444
	$363,469	$273,222

5. STOCK OPTIONS

The Company has a restricted stock option agreement and a performance-based agreement. Under the restricted stock option agreement, the exercise price of each option is greater than or equal to the fair market value of the Company's stock on the date of the grant and vest over a period of three years. Under the performance-based agreement, vesting is contingent upon the Company's revenue growth, earnings and employee performance over a period of three years.

The following schedule summarizes the changes:

	PERFORMANCE-BASED		RESTRICTED STOCK OPTION	
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, January 1, 1997	--	$ --	275,000	$0.28
Granted	250,000	0.01	--	--
Exercised	--	--	--	--
Expired/forfeit	--	--	--	--
Outstanding, December 31, 1997	250,000	0.01	275,000	0.28
Granted	--	--	294,000	2.50
Exercised	--	--	--	--
Expired/forfeit	--	--	--	--
Outstanding, December 31, 1998	250,000	0.01	569,000	1.43
Granted	--	--	17,000	2.50
Exercised	(84,564)	0.01	(150,000)	0.10
Expired/forfeit	--	--	(113,000)	2.06
Outstanding, December 31, 1999	165,436	$0.01	323,000	$1.88

Options exercisable at December 31, 1997, 1998 and 1999 are as follows:

YEAR ENDING	PERFORMANCE-BASED	RESTRICTED STOCK OPTION
December 31, 1997	--	41,667
December 31, 1998	13,814	83,333
December 31, 1999	--	171,665

Following is a summary of the status of options:

	WEIGHTED AVERAGE REMAINING LIFE IN YEARS		WEIGHTED AVERAGE FOR VALUE OF OPTIONS GRANTED	
YEAR ENDING	PERFORMANCE-BASED	RESTRICTED STOCK OPTION	PERFORMANCE-BASED	RESTRICTED STOCK OPTION
December 31, 1997	2.25	2.00	$0.81	$0.81
December 31, 1998	1.25	2.80	0.81	0.81
December 31, 1999	0.25	2.45	0.81	0.81

100,000 of the Restricted Stock Options are exercisable at $0.50 per share; the remaining 223,000 are exercisable at $2.50 per share.

In connection with the performance based stock options, $56,777 of compensation expense was recognized during the year ended December 31, 1999.

The Company recognizes and measures compensation costs related to stock options utilizing the intrinsic value-based method. Had compensation expense been determined on the fair value of awards granted, net loss would have been as follows:

	1997	1998	1999
Net loss as reported	$(1,282,310)	$(967,130)	$(446,898)
Pro forma compensation expense, net of taxes (net of recorded compensation expense in 1999 of $56,777)	(6,441)	(11,100)	(40)
Pro forma net loss	$(1,288,751)	$(978,230)	$(446,938)

The fair value of each option is estimated with the following assumptions used for grants: risk free interest rate 5.00%; expected life 3 years; divided yield 0%. The fair values may not be indicative of the future benefit, if any, that may be received by the option holder.

6. OPERATING LEASES

The Company conducts its operations from various leased facilities under long-term lease agreements, classified as operating leases, which expire at various dates through March 2003. In the normal course of business, operating leases are generally renewed or replaced by other leases. The Company also leases certain equipment under operating leases.

The following is a schedule of future minimum lease payments required by noncancellable operating leases with initial or remaining terms in excess of one year at December 31, 1999:

YEAR ENDING DECEMBER 31,	TOTAL
2000	$38,840
2001	3,192
2002	3,192
2003	665
Thereafter	--
	$45,889

Rent expense totaled $35,461, $110,275 and $206,925 which consists of $-0-, $66,408 and $145,195 paid to a related party and $35,461, $43,867 and $61,730 of minimum rentals paid to non related parties for the years ended December 31, 1997, 1998 and 1999, respectively. Related party leases are for a term of one year or less.

7. EMPLOYEE BENEFIT PLAN

The Company sponsors a 401(k) plan to which both the Company and eligible employees may contribute. Company contributions are voluntary and at the discretion of the board of directors. Company contributions totaled $20,013 for 1999. There were no Company contributions for 1997 and 1998.

8. PRODUCT AGREEMENT

In April 1997, the Company entered into an exclusive product agreement with VHA, Inc. ("VHA") whereby the Company has been selected by VHA to provide technology-delivered learning to VHA organizations. Under the terms of the agreement, the Company pays marketing fees to VHA of 20% of certain defined revenues, subject to certain exceptions and limitations. Marketing expense under this agreement totaled $26,496, $245,363 and $44,135 for the years ended December 31, 1997, 1998 and 1999, respectively.

9. MAJOR CUSTOMERS

A substantial portion of the Company's revenue is derived from three or fewer clients. During 1997, 1998 and 1999 revenues from these clients aggregated $441,159, $486,936 and $402,846, respectively. At December 31, 1998 and 1999, amounts due from those clients included in accounts receivable were $545,361 and $223,892, respectively.

	1997	1998	1999
Fountain View	$ 93,794	$ --	$ --
Integris Health	131,450	--	--
Marriot	215,915	264,250	--
Texas Eng Extension Service	--	222,686	402,846
	$441,159	$486,936	$402,846
Marriot		$225,500	$ --
Texas Eng Extension Service		319,861	223,892
		$545,361	$223,892

10. WARRANT

In connection with the issuance of the note payable agreement described in Note 3, $34,000 of the proceeds has been allocated to the detachable stock warrants. Upon surrender of a warrant, the holder is entitled to purchase one share of the Company's common stock for $.01 per share. The Company grants to the holder the right to purchase 138,300 shares of the Company's common stock (the "Base Amount"), provided that in the event that any portion of the indebtedness evidenced by the note is outstanding, the Base Amount is increased 13,830 shares per annum, which amount may be accrued on a monthly basis beginning May 1, 1999 and ending on the date the note is paid in full but in any event no later than April 30, 2002. The warrant is exercisable at any time until April 20, 2002.

11. SUBSEQUENT EVENT (UNAUDITED)

In January 2000, the Company was acquired by HealthStream, Inc. for $7.7 million.

"MEET THE MANAGEMENT" PRESENTATION FOR

HEALTHSTREAM

Prospective investors will be able to log on to a website maintained by E*OFFERING Corp. at www.eoffering.com, where a prospectus is available for review. Within designated sections of the prospectus, including the table of contents and the Underwriting Section of the prospectus, an embedded hyperlink Iclick here for "Meet the Management" PresentationJ will provide exclusive access to the "Meet the Management" Presentation. This presentation highlights selected information contained elsewhere in the prospectus. This presentation does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, including the "Risk Factors" and our financial statements and notes to those financial statements, before making an investment decision.

VISUAL 1: DISCLAIMER

Imagery: Company logo.

Visual Text: The "Meet the Management" Presentation is part of our prospectus. This presentation highlights selected information contained elsewhere in this prospectus. This presentation does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, including the "Risk Factors" and our financial statements and notes to those financial statements, before making an investment decision.

Script: (Robert Frist) The "Meet the Management" Presentation is part of our prospectus. This presentation highlights selected information contained elsewhere in this prospectus. This presentation does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, including the "Risk Factors" and our financial statements and notes to those financial statements, before making an investment decision.

VISUAL 2: INTRODUCTION

Imagery: Border and Company logo. See description of artwork on page of the Registration Statement for a description of the image located on the inside front cover of the prospectus.

Script: (Robert Frist) Welcome to the "Meet the Management" Presentation for HealthStream. I'm Robert Frist, Chairman and CEO. I would like to introduce Jeff McLaren, our President and Chief Product Officer, and Arthur Newman, our Chief Financial Officer. We would like to talk to you about HealthStream, a Web-based solution to meet the training and education needs of the healthcare industry.

VISUAL 3: MARKET OPPORTUNITY

Imagery: Border and Company logo. There is an arrow connecting the number of participants in the medical industry to the text highlighting the total amount of money spent annually on training and continuing education.

Visual Text: Title: Market Opportunity. Table: Allied healthcare professionals -- 5,000,000; Registered nurses -- 2,600,000; Non-clinical healthcare workers -- 2,400,000; Active physicians -- 600,000. Arrow points to a summary box containing the following text: Over $6.0 billion spent annually on ongoing training and continuing education.

Script: (Robert Frist) (see "Business -- Industry Background -- Continuing Education in the Healthcare Industry"): Healthcare services in the U.S. are delivered by over an estimated 5.0 million allied healthcare professionals, 2.6 million registered nurses, 2.4 million non-clinical healthcare workers and 600,000 active physicians. Regulations administered by various state and Federal agencies require ongoing training and continuing education for healthcare professionals and other healthcare workers. For example, physician and nursing licensing boards require up to 20 hours of continuing education per year. Other

agencies, including the Occupational and Safety Health Administration, or OSHA, the Healthcare

Financing Administration, or HFCA, and the Joint Commission on Accreditation of Healthcare Organizations, or JCAHO require hospitals and other healthcare providers to provide employees with various types of workplace safety training. The healthcare industry spends over $6.0 billion annually on ongoing training and continuing education, including over $3.0 billion on continuing education units, or CEU, for nurses and continuing medical education, or CME, for physicians.

VISUAL 4: MARKET CHARACTERISTICS AND ISSUES

Imagery: Border and Company logo. Three arrows on the left of the page pointing to the right.

Visual Text: Title: Market Characteristics and Issues. Subheading: "Limitations of existing healthcare training programs." To the right of the first arrow will appear the caption, "Inconvenient and costly to attend and may result in lost productivity." To the right of the second arrow will appear the caption, "Limited in terms of breadth of offering and timeliness and may be costly to produce on a per user basis." To the right of the third arrow will appear the caption, "Difficult to review and assess results, track employee compliance and respond to the effectiveness of programs."

Script: (Robert Frist) (see "Business -- Industry Background -- Continuing Education in the Healthcare Industry"): Historically, healthcare professionals have received continuing education and training through offline publications, such as medical journals and CD-ROMs, and by attending conferences and seminars. Although these existing approaches satisfy ongoing training and continuing education requirements, they are limited in the following ways: seminars and instructor-led training may be inconvenient and costly to attend and may result in lost productivity. In addition, ongoing training and continuing education courses offered locally may be limited in terms of breadth of offering and timeliness and may be costly to produce on a per user basis. Furthermore, administrators find it difficult to review and assess results, track employee compliance with certification requirements and respond to the effectiveness of education and training programs. The inefficiencies inherent in traditional methods of providing ongoing training and continuing education, combined with the time constraints and the increased cost pressures in the healthcare industry, have prompted healthcare professionals and organizations to improve information exchange and consider alternative training methodologies.

VISUAL 5: HEALTHSTREAM SOLUTION

Imagery: Border and Company logo. See description of artwork on page of the Registration Statement for a description of the image located on the inside front cover of the prospectus.

Script: (Robert Frist) (see "Summary," "Business -- Industry Background -- Convergence of the Internet and Online Healthcare Education Services" and "-- The HealthStream Solution"): We believe the healthcare ongoing training and continuing education market is particularly well-suited for business-to-business e-commerce and online services. We bring authors and publishers of training and continuing education content together with end users through our Web-based distribution network. We will expand our distribution of courses and services to include two methods. The first method provides Internet access to our courses and education management software that enables healthcare administrators to configure, assess and manage training for employees in their organizations. This method of providing access to and usage of our courses and software on a transactional basis over the Internet is commonly referred to providing services on an application services provider, or ASP, basis. Under the second method, we deliver our courses through strategic distribution partners, which we refer to as our Web distribution network. This network currently consists of 30 distribution partners, including MedicaLogic, GE Medical Systems, Pointshare, Medsite.com, HealthGate and ChannelHealth (an IDX company).

VISUAL 6: HEALTHSTREAM SOLUTION

Imagery: Border and Company logo. See description of artwork on page of the Registration Statement for a description of the image located on the inside front cover of the prospectus.

Visual Text: Title: HealthStream Solution. Subheading: "Distribution through ASP Model."

Script: (Robert Frist) (see "Business -- HealthStream Services -- Services Distributed Through ASP Model"): Healthcare organizations are responsible for providing both government mandated and internally required training to their employees. We are developing our ASP model to enable these healthcare organizations to provide, assess and manage this training process. Under our ASP model, our online systems are hosted in a central data center that provides administrative access to our customers through Web-based reporting and management tools, rather than through software that is installed and maintained at the customer's site. We will bill our customers on a per transaction and/or subscription fee basis, enabling them to treat their investment in online continuing education and training as an operating expense rather than a capital expense. We anticipate that eliminating the need for a capital outlay may shorten the sales cycle to these customers. In addition, our hosted ASP service is scalable to enable healthcare organizations to monitor and administer the continuing education and training needs of large and geographically dispersed employee bases.

VISUAL 7: HEALTHSTREAM SOLUTION

Imagery: Border and Company logo. See description of artwork on page of the Registration Statement for a description of the image located on the inside front cover of the prospectus.

Visual Text: Title: HealthStream Solution. Subheading: "Distribution through Web Network."

Script: (Robert Frist) (see "Business -- HealthStream Services -- Services Provided through Web Distribution Network" and "-- The HealthStream Solution"): Most healthcare professionals are responsible for meeting their own continuing education requirements. We enable these healthcare professionals to meet their continuing education requirements by obtaining credit through use of our online courseware. We deliver our online courseware to healthcare professionals through multiple, co-marketed Web sites offered in partnerships with health Web sites, academic and medical institutions, pharmaceutical and equipment manufacturers and healthcare providers. Healthcare professionals and other healthcare workers can sign up to become registered users of our service after accessing our log-in screen at our or any one of our distribution partners' Web sites. Each of these Web sites is based upon our standard template but is customized to match the look and feel of the Web site of the referring distribution partner. We believe our services will provide an online training and continuing education solution for healthcare organizations, end users, distribution partners and content partners.

VISUAL 8: HEALTHSTREAM VALUE PROPOSITION

Imagery: Border and Company logo. Three arrows on the left of the page pointing to the right.

Visual Text: Title: HealthStream Value Proposition. Subheading: "Value to Healthcare Organizations." To the right of the first arrow will appear the caption, "Access to high quality content on a cost-effective basis." To the right of the second arrow will appear the caption, "Allows organizations to contribute to and enhance the content provided." To the right of the third arrow will appear the caption, "Provides the ability to track compliance and measure the effectiveness and results of training."

Script: (Robert Frist) (see "Business -- The HealthStream Solution -- Value to Healthcare Organizations"): We offer healthcare organizations the ability to provide access to high quality content on a cost-effective basis for the ongoing training and continuing education needs of their employees. Our services allow these organizations to contribute to and enhance the content provided through our services and to configure training to meet the specific needs of different groups of employees. In addition, we provide administrators of these organizations the ability to track compliance with certification requirements and measure the effectiveness and results of training.

VISUAL 9: HEALTHSTREAM VALUE PROPOSITION

Imagery: Border and Company logo. Three arrows on the left of the page pointing to the right.

Visual Text: Title: HealthStream Solution. Subheading: "Value to End Users." To the right of the first arrow will appear the caption, "Comprehensive training and continuing education offerings." To the

right of the second arrow will appear the caption, "Cost-effective training and continuing education." To the right of the third arrow will appear the caption, "Convenient access and compelling user experience."

Script: (Robert Frist) (see "Summary -- Our Business" and "Business -- Overview" and "Business -- The HealthStream Solution -- Value to End Users"): We believe we provide one of the largest online libraries of ongoing training and continuing education content covering a range of medical specialties. Through strategic relationships with medical institutions and commercial organizations, we have amassed over 3,000 hours of training and education courses and currently distribute approximately 1,000 hours of these courses online. Our content comes from a broad range of leading medical education institutions, commercial providers and professional groups such as Vanderbilt University Medical Center, Duke University Medical Center, The Cleveland Clinic Foundation, Scripps Clinic, KnowledgeLinc, Challenger Corporation and American Health Consultants. Moreover, by eliminating the need for travel and expensive in-house programs, we estimate that we can significantly reduce the cost of ongoing training and continuing education. Our end users pay for our services on a per transaction and/or subscription basis, eliminating the need for substantial up-front expenditures. Our online services also allow our end users the freedom to utilize our services when it is convenient for them.

VISUAL 10: HEALTHSTREAM VALUE PROPOSITION

Imagery: Border and Company logo. Three arrows on the left of the page pointing to the right.

Visual Text: Title: HealthStream Value Proposition. Subheading: "Value to Network Distribution Partners." To the right of the first arrow will appear the caption, "Training and continuing education solution." To the right of the second arrow will appear the caption, "Premier continuing education healthcare content." To the right of the third arrow will appear the caption, "Recurring traffic opportunity."

Script: (Robert Frist) (see "Business -- Overview" and "Business -- The HealthStream Solution -- Value to Network Distribution Partners"): We offer our network distribution partners an online training and continuing education solution that includes one of the largest libraries of courseware. Most of our distribution partners provide online access to continuing education as an ancillary service to their core businesses. To drive traffic to their Web sites, our network distribution partners want to provide their online users with a compelling ongoing training and continuing education experience. Our solution delivers these services to our network distribution partners. Additionally, we offer our network distribution partners access to content from premier healthcare organizations through our established relationships with medical education and professional institutions and commercial publishers. We have the exclusive right to distribute some of these institutions' content online. We believe we will also offer our network distribution partners a predictable source of online traffic due to the recurring nature of regulated training and continuing education requirements. In addition, we believe visits by online users accessing our service through one of our distribution partners' Web sites should be substantially longer than a typical online experience due to the nature of our product offering. This recurring and "sticky" base of traffic will complement the other services provided by our distribution partners.

VISUAL 11: HEALTHSTREAM VALUE PROPOSITION

Imagery: Border and Company logo. Three arrows on the left of the page pointing to the right.

Visual Text: Title: HealthStream Solution. Subheading: "Value to Content Partners." To the right of the first arrow will appear the caption, "Compelling Web distribution network." To the right of the second arrow will appear the caption, "Comprehensive outsourcing solution." To the right of the third arrow will appear the caption, "Significant expertise in content conversion."

Script: (Robert Frist) (see "Business -- The HealthStream Solution -- Value to Content Partners"): We believe we currently offer our content partners one of the largest Web networks for the distribution of training and education for the healthcare community. Through our Web distribution network, our content partners can realize new product sales by targeting a broader audience than they could on their own. We

enable our content partners to focus on their core competency of producing and authoring content and to reallocate resources that may have used to develop their own delivery systems and distribution partnerships. We also offer publishers and authors of training and continuing education content our experience in producing online materials for the healthcare industry. We provide customers with a complete set of proprietary tools which enables them to quickly and inexpensively develop online courseware.

VISUAL 12: HEALTHSTREAM STRATEGY

Imagery: Border and Company logo. HealthStream logo in center of page with five circles filled with text headings connected to the logo as spokes.

Visual Text: Title: HealthStream Strategy. The following text would be inserted into the surrounding five circles:

- Provide healthcare organizations with Web-based access to our courses and education management software on an ASP basis

- Expand and enhance our online training and education library

- Increase the number of partners in our Web distribution network

- Expand our sales and marketing efforts

- Generate additional revenue opportunities

Script: (Robert Frist) (see "Summary -- Our Growth Strategy"): Our objective is to be the leading provider of Web-based training and education solutions for the healthcare industry. The following are the key elements of our growth strategy: First, provide healthcare organizations with Web-based access to our courses and education management software on an ASP basis. Second, expand and enhance our online training and education library. Third, increase the number of partners in our Web distribution network. Fourth, expand our sales and marketing efforts that target healthcare organizations, healthcare professionals and potential content and distribution partners. And lastly, generate additional revenue opportunities by aggregating the performance data collected by our system and offering sponsorship products based on the attractive demographics of our end users.

Now I would like to turn it over to Jeff McLaren, our President and Chief Product Officer, to talk about our products and services.

VISUAL 13: SERVICES

Imagery: Border and Company logo. Company logo with two rectangular boxes below labeled with the headings, "Services Distributed through ASP Model" and "Services Provided through Web Distribution Network"

Visual Text: Title: Services. Each rectangle will include captions listing the following services:

SERVICES DISTRIBUTED THROUGH ASP MODEL	SERVICES PROVIDED THROUGH WEB DISTRIBUTION NETWORK
- - Administrative and management tools	- Online courseware
- - Online courseware	- Webcast events
- - Content conversion and development	- Search engine

Script: (Jeff McLaren) (see "Business -- HealthStream Services"): Thanks, Robert. We provide our Web-based ongoing training and continuing education services to healthcare organizations through our ASP model and individual

healthcare professionals through our Web distribution network. Our services for healthcare organizations include: administrative and management tools, online courseware and content conversion and development. Our administrative and management tools will be used by human resources, training and management personnel to manage curriculum and employee population training performance

data. The courseware we provide under our ASP model will primarily focus on mandated training content. Many healthcare organizations provide their employees with organization-specific training. We have full-service capabilities to convert existing course materials to a Web-enabled format or develop custom courseware for these healthcare organizations.

Our services for healthcare professionals include: online courseware, Webcast events, and a search engine. The online courseware available through our network of co-branded web sites and our web site is targeted to healthcare professionals and includes primarily accredited continuing education content. We also offer both live and pre-recorded Webcasts of medical procedures, the viewing of which may be credited toward continuing education requirements. Additionally, through our acquisition of KnowledgeReview we acquired a search engine and several associated domain names through which we offer a method for physicians and other healthcare professionals to search for both online and traditional continuing education products. In addition, we plan to offer products and services that complement our online continuing education and training courses and link sales of our courseware to related books, videotapes, audio tapes, and other educational and reference products produced by our content partners. Back to you Robert.

VISUAL 14: STRATEGIC RELATIONSHIPS AND ACQUISITIONS

Imagery: Border and Company logo. Four arrows on the left of the page pointing to the right.

Visual Text: Title: Strategic Relationships and Acquisitions. Subheading: "Services Distributed through ASP Model." To the right of the first arrow will appear the caption, "Columbia/HCA Healthcare Corporation." To the right of the second arrow will appear the caption, "m3 the Healthcare Learning Company." To the right of the third arrow will appear the caption, "EMInet." To the right of the fourth arrow will appear the caption, "Quick Study."

Script: (Robert Frist) (see "Business--Strategic Relationships and Acquisitions -- Services Distributed through ASP Model"): Thanks, Jeff. In February 2000, we entered into a four-year Online Education Services Provider Agreement pursuant to which we will provide Columbia/HCA with online training and education services and courseware for its doctors, nurses and staff on an ASP basis. In January 2000, we acquired m3 the Healthcare Learning Company which provides us with an established client base of over 450 hospitals and the opportunity to convert these hospitals to our ASP model. In January 2000, we also acquired EMInet, a provider of online continuing education to emergency medical services personnel, which expands the content offering of our online library and customer base for our services. Additionally, in January 2000, we acquired Quick Study, a provider of over 60 hours of nursing and OSHA content, which we have added to our online library and will deliver to healthcare organizations through our ASP model.

VISUAL 15: STRATEGIC RELATIONSHIPS AND ACQUISITIONS

Imagery: Border and Company logo. Two vertical rectangles with the titles "Content" and "Distribution."

Visual Text: Title: Strategic Relationships and Acquisitions. Subhead: Services Provided Through Web Distribution Network. Each rectangle will include captions listing the following names of the Company's strategic relationships and acquisitions:

CONTENT	DISTRIBUTION
- Vanderbilt University Medical Center	- ChannelHealth (an IDX Company)
- Duke University Medical Center	- GE Medical Systems
- The Cleveland Clinic Foundation	- Pointshare
- Challenger Corporation	- Medsite.com
- American Health Consultants	- MedicaLogic
- e-Vitro	- State Medical Associations
- SilverPlatter Education	- HealthGate
	- cmesearch.com

Script: (Robert Frist) (see "Business -- Strategic Relationships"): We have entered into strategic relationships with several content partners and 30 distribution partners and continue to aggressively pursue additional strategic relationships. We believe that these strategic relationships along with the acquisition of complementary businesses will enable us to increase our course offerings, expand our product distribution and expand our brand awareness. In addition, our recent acquisitions have expanded our course offerings and provided us with experienced sales personnel. In July 1999, we acquired SilverPlatter Education, a provider of over 100 hours of continuing medical education programs to physicians on CD-ROM and via the Internet. In January 2000, we acquired KnowledgeReview which operates cmesearch.com, a healthcare education search engine which allows physicians and other healthcare professionals to search for online and traditional continuing education. cmesearch.com currently provides listings and information on over 2,000 courses and seminars. Selected content partners include: Vanderbilt University Medical Center, Duke University Medical Center, The Cleveland Clinic Foundation, Challenger Corporation, American Health Consultants, e-Vitro and SilverPlatter Education. Selected distribution partners include: ChannelHealth (an IDX Company), GE Medical Systems, Pointshare, Medsite.com, MedicaLogic, State Medical Associations, HealthGate and cmesearch.com.

VISUAL 17: COMPETITION

Imagery: Border and Company logo. Eight arrows on the left of the page pointing to the right.

Visual Text: Title: Competition. Subheading "Potential competitors fall into the following categories:" To the right of the first arrow will appear the caption, "Other online training and continuing education providers." To the right of the second arrow will appear the caption, "Web sites targeting medical professionals." To the right of the third arrow will appear the caption, "Traditional medical publishers and continuing education providers." To the right of the fourth arrow will appear the caption, "Academic medical centers." To the right of the fifth arrow will appear the caption, "Software developers that bundle their training systems." To the right of the sixth arrow will appear the caption, "Professional membership organizations." To the right of the seventh arrow will appear the caption, "Companies that market general-purpose computer-managed instruction systems." To the right of the eighth arrow will appear the caption, "Interactive media development companies."

Script: (Robert Frist) (see "Business -- Competition"): The market for the provision of online training and continuing education to the healthcare industry is new and rapidly evolving. We face competitive pressures from numerous actual and potential competitors, including: Other online training and continuing education providers, Web sites targeting medical professionals that currently offer or may develop their own continuing education content in the future; traditional medical publishers and continuing education providers; academic medical centers; software developers that bundle their training systems with industry training content; professional membership organizations; companies that market general-purpose computer-managed instruction systems into the healthcare industry; and, interactive media development companies focused on the healthcare industry.

And with that, I will turn it over to Arthur Newman for an overview of our financial results. Arthur . . .

VISUAL 18: FINANCIAL SUMMARY

Imagery: Border and Company logo. Selected Financial Data.

Visual Text: Title: Financial Summary. "Selected Financial Data" table.

Script: (Arthur Newman) (See "Management's Discussion and Analysis of Financial Condition -- Overview," "-- Results of Operations" and "-- Year Ended December 31, 1998 Compared to Year Ended December 31, 1999"): Thanks, Robert. Revenues currently consist primarily of sales of multimedia development services for training modules and promotional materials for the healthcare industry. Revenues also including licensing fees and royalties from product sales of proprietary training software to healthcare companies as well as transaction fees from sales of continuing education credit from content delivered over

the Internet. We expect that revenues in future periods will be increasingly derived from online services to healthcare organizations and healthcare professionals.

Revenues increased $852,000 or 49.6% from approximately $1.7 million for the year ended December 31, 1998 to approximately $2.6 million for the year ended December 31, 1999. The increase in revenues was due to increased sales and marketing of our T.NAV product and multimedia development services as well as increased development and content production services.

Cost of revenues increased approximately $1.0 million or 100.4% from approximately $1.0 million for the year ended December 31, 1998 to approximately $2.1 million for the year ended December 31, 1999. The increase was primarily attributable to increased volume of business, including approximately $800,000 of increases in salaries, labor and related benefits.

Product development expenses increased approximately $1.6 million, or 359.5%, from $443,000 for the year ended December 31, 1998 to approximately $2.0 million for the year ended December 31, 1999. As a percentage of revenues, product development expenses increased from 25.8% for the year ended December 31, 1998 to 79.3% for the year ended December 31, 1999. The increase as a percentage of revenues was due to significant upfront product development expenses incurred to implement our online services, including salaries and employee benefits associated with increased content conversion and development and royalties due to content and distribution partners. We anticipate significant additional product development expenses in future periods due to salaries and employee benefits associated with increased content conversion.

Selling, general and administrative expenses increased approximately $1.5 million, or 101.2%, from approximately $1.5 million for the year ended December 31, 1998 to approximately $3.0 million for the year ended December 31, 1999. The increase was primarily due to increased personnel and related benefits costs of approximately $500,000 associated with new employees, an increase of approximately $228,000 in advertising, promotional and marketing expenditures, an increase of approximately $131,000 in professional service fees, an increase of $213,000 related to amortization of intangible assets, an increase of approximately $168,000 in travel expenses and facility and depreciation expenses of approximately $96,000.

Other expense decreased $122,000 or 36.9% from $331,000 for the year ended December 31, 1998 to $209,000 for the year ended December 31, 1999.

Net loss increased approximately $2.9 million, or 180.4%, from approximately $1.6 million for the year ended December 31, 1998 to approximately $4.5 million for the year ended December 31, 1999 due to the factors described above.

Robert . . .

VISUAL 19: END OF PRESENTATION

Imagery: Border and company logo. See description of artwork on page of the Registration Statement for a description of the image located on the inside front cover of the prospectus.

Script: (Robert Frist): We hope that this presentation was helpful in understanding the business model of HealthStream and the strategy that our management team intends to execute. We encourage you to refer back to the prospectus for additional support and disclosure as well as to take a look at the "Risk Factors" in detail. Again, thank you for your interest in HealthStream.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL SECURITIES, AND WE ARE NOT SOLICITING OFFERS TO BUY THESE SECURITIES, IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED FEBRUARY 14, 2000

(HEALTHSTREAM LOGO)

HEALTHSTREAM, INC.

5,000,000 SHARES

COMMON STOCK

We are offering 5,000,000 shares of our common stock. This is our initial public offering and no public market currently exists for our shares. We have made application for approval for quotation of our common stock on the Nasdaq National Market under the symbol "HSTM." We anticipate that the initial public offering price will be between $9.00 and $11.00 per share.

INVESTING IN OUR COMMON STOCK INVOLVES RISKS.
SEE "RISK FACTORS" BEGINNING ON PAGE 5.

	PER SHARE	TOTAL
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds to HealthStream, Inc	$	$

THE SECURITIES AND EXCHANGE COMMISSION AND STATE SECURITIES REGULATORS HAVE NOT APPROVED OR DISAPPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

We have granted the underwriters a 30-day option to purchase up to an additional 750,000 shares of common stock to cover over-allotments.

ROBERTSON STEPHENS INTERNATIONAL
CIBC WORLD MARKETS
J.C. BRADFORD & CO.

THE DATE OF THIS PROSPECTUS IS , 2000.

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the costs and expenses, other than the underwriting discount payable by us in connection with the sale of the common stock being registered. All amounts are estimates except the SEC registration fee and the NASD filing fee. Of these estimated expenses, approximately $295,000 were paid prior to the offering.

	AMOUNT TO BE PAID
SEC registration fee	$ 16,698
NASD filing fee	6,250
Nasdaq National Market listing fee	5,000
Printing and engraving fees and expenses	150,000
Legal fees and expenses	175,000
Accounting fees and expenses	175,000
Blue sky fees and expenses (including legal fees)	5,000
Transfer agent fees	5,000
Miscellaneous	7,052
Total	$545,000

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Under the Tennessee Business Corporation Act, there is no specific provision either expressly permitting or prohibiting a corporation from limiting the liability of its directors for monetary damages. Our charter provides that, to the fullest extent permitted by the TBCA, a director will not be liable to the corporation or its shareholders for monetary damages for breach of his or her fiduciary duty as a director.

The TBCA provides that a corporation may indemnify any director or officer against liability incurred in connection with a proceeding if the director or officer acted in good faith or reasonably believed, in the case of conduct in his or her official capacity with the corporation, that the conduct was in the corporation's best interest. In all other civil cases, a corporation may indemnify a director or officer who reasonably believed that his or her conduct was not opposed to the best interest of the corporation. In connection with any criminal proceeding, a corporation may indemnify any director or officer who had no reasonable cause to believe that his or her conduct was unlawful.

In actions brought by or in the right of the corporation, however, the TBCA does not allow indemnification if the director or officer is adjudged to be liable to the corporation. Similarly, the TBCA prohibits indemnification in connection with any proceeding charging improper personal benefit to a director or officer if the director or officer is adjudged liable because a personal benefit was improperly received.

In cases when the director or officer is wholly successful, on the merits or otherwise, in the defense of any proceeding instigated because of his or her status as a director or officer of a corporation, the TBCA mandates that the corporation indemnify the director or officer against reasonable expenses incurred in the proceeding. Notwithstanding the foregoing, the TBCA provides that a court may order a corporation to indemnify a director or officer for reasonable expense if, in consideration of all relevant circumstances, the court determines that the individual is fairly and reasonably entitled to indemnification, whether or not the standard of conduct set forth above was met.

Our bylaws provide that we will indemnify and advance expenses to our directors and officers to the fullest extent permitted by the TBCA. We also maintain insurance to protect any director or officer against any liability and will enter into indemnification agreements with each of our directors.

At present, there is no pending litigation or proceeding involving any director, officer, employee or agent as to which indemnification will be required or permitted under our charter. We are not aware of any threatened litigation or proceeding that may result in a claim for indemnification.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

The Registrant has sold and issued the following unregistered securities since January 1, 1997:

- In October and November 1998 and January and February 1999, an aggregate of 76,000 shares of our series A preferred stock were issued to raise capital, only to accredited investors in private placements under Rule 506 of the Securities Act at $10.00 per share for total consideration of $760,000;

- On April 21, 1999, 428,239 shares of our common stock were issued to Robert A. Frist, Jr. upon conversion of $1 million in debt under Section 3(a)(9) of the Securities Act at $2.34 per share for total consideration of $1,000,000;

- On July 23, 1999, 49,202 shares of our common stock were issued to SilverPlatter Information, Inc. for an acquisition of the assets of SilverPlatter Education, Inc. for an aggregate of $200,000 under Section 4(2) of the Securities Act, in which no public solicitations were made;

- In July and August 1999, Robert A. Frist, Jr. exercised options received under our written 1994 stock option plan for 416,250 shares of our common stock under Rule 701 of the Securities Act at $0.54 per share for total consideration of $225,000;

- On August 9, 1999, 4,625 shares of our common stock were issued to Richard Schapiro, for $18,800 worth of consulting services, in a private placement under Section 4(2) of the Securities Act, in which no public solicitations were made;

- In 1999, an aggregate of 1,157,801 shares of our series B preferred stock were issued to raise capital, only to accredited investors in private placements under Rule 506 of the Securities Act at $10.00 per share for total consideration of $11,578,010;

- In April 1999, 15,000 shares of our series B preferred stock were issued to J.C. Bradford & Company under Rule 506 of the Securities Act at $10.00 per share for total consideration of $150,000;

- In April and August 1999, 50,000 shares of our series B preferred stock were issued to Robert A. Frist, Jr. upon conversion of $500,000 in debt under Section 3(a)(9) of the Securities Act at $10.00 per share;

- In August 1999, 6,000 shares of our series B preferred stock were issued to Scott Portis upon conversion of $60,000 in debt under Section 3(a)(9) of the Securities Act at $10.00 per share;

- In August and September 1999, an aggregate of 627,406 shares of our series C preferred stock were issued to raise capital, only to accredited investors in private placements under Rule 506 of the Securities Act at $10.00 per share for total consideration of $6,274,060;

- In December 1999, Jeffrey L. McLaren exercised options received under our 1994 stock option plan for 3,170 shares of our common stock under Rule 701 of the Securities Act at $0.61 per share for total consideration of $1,928;

- In December 1999, Kelly Stewart exercised options received under our 1994 stock option plan for 7,666 shares of our common stock under Rule 701 of the Securities Act at $0.61 per share for total consideration of $4,662.

- In January 2000, 17,343 shares of our common stock were issued to the

members of KnowledgeReview, LLC for an acquisition of the assets of KnowledgeReview, LLC, for an aggregate of $150,000 under Rule 506 of the Securities Act, in which no public solicitations were made;

- In January 2000, 61,397 shares of our common stock were issued to the shareholders of Quick Study, Inc. in connection with the merger of Quick Study into one of our wholly-owned subsidiaries for an aggregate of $531,008 under Section 4(2) of the Securities Act, in which no public solicitations were made;

- In January 2000, 818,036 shares of our common stock were issued to the shareholders of Multimedia Marketing, Inc. in connection with the merger of Multimedia into one of our wholly-owned subsidiaries for an aggregate of $7,074,912 under Rule 506 and Section 4(2) of the Securities Act, in which no public solicitations were made; and

- In January 2000, 269,902 shares of our common stock were issued to Emergency Medicine Internetwork, Inc. for an acquisition of the assets of EMInet for an aggregate of $2,334,288 under Section 4(2) of the Securities Act, in which no public solicitations were made.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits.

NUMBER		DESCRIPTION
1.1	--	Form of the underwriting agreement among HealthStream, Inc. and the underwriters
**2.1	--	Asset Purchase Agreement, dated July 23, 1999, among SilverPlatter Education, Inc., SilverPlatter Information, Inc. and HealthStream, Inc.
*2.2	--	Agreement and Plan of Merger, dated January 5, 2000, among HealthStream, Inc., HealthStream Acquisition I, Inc., Quick Study, Inc. and each shareholder of Quick Study, Inc.
*2.3	--	Asset Purchase Agreement, dated December 16, 1999, among KnowledgeReview, LLC, Louis Bucelli and Maksim Repik, and HealthStream, Inc.
*2.4	--	Agreement and Plan of Merger, dated January 25, 2000 among HealthStream, Inc., HealthStream Acquisition II, Inc., Multimedia Marketing, Inc., and the stockholders of Multimedia Marketing, Inc.
*2.5	--	Asset Purchase Agreement, dated January 27, 2000, between Emergency Medicine Internetwork, Inc. and HealthStream, Inc.
**3.1	--	Form of Fourth Amended and Restated Charter of HealthStream, Inc.
**3.2	--	Form of Amended and Restated Bylaws of HealthStream, Inc.
4.1	--	Form of certificate representing the common stock, no par value per share, of HealthStream, Inc.
4.2	--	Article 7 of the Fourth Amended and Restated Charter -- included in Exhibit 3.1
4.3	--	Article II of the Amended and Restated Bylaws -- included in Exhibit 3.2
*4.4	--	Investors' Rights Agreement, dated April 21, 1999, as amended August 11, 1999, between HealthStream, Inc. and some of its shareholders
**4.5	--	Promissory note, dated August 23, 1999, between HealthStream, Inc., as maker, and Robert A. Frist, Jr., as lender
*4.6	--	Warrant to purchase common stock of HealthStream, Inc., dated June 14, 1999, held by GE Medical Systems.
*4.7	--	Warrant to purchase common stock of HealthStream, Inc., dated February 11, 2000, held by Columbia Information Systems.
*5.1	--	Opinion of Bass, Berry & Sims PLC as to the legality of the common stock being offered
**10.1	--	Series A Convertible Preferred Stock Purchase Agreement
**10.2	--	Series B Convertible Preferred Stock Purchase Agreement
**10.3	--	Series C Convertible Preferred Stock Purchase Agreement
**10.4	--	1994 Employee Stock Option Plan, effective as of April 15, 1994
**10.5	--	Form of 1999 Stock Incentive Plan
**10.6	--	Form of Indemnification Agreement
**10.7	--	Executive Employment Agreement, dated April 21, 1999, between HealthStream, Inc. and Robert A. Frist, Jr.
**10.8	--	Lease dated March 27, 1995, as amended June 6, 1995 and September 22, 1998, between Cummins Station LLC, as landlord, and NewOrder Media, Inc., as tenant

NUMBER		DESCRIPTION
+10.9	--	Continuing Education Agreement between HealthStream, Inc. and Vanderbilt University
+10.10	--	Interactive Content Development and Licensing Agreement between NewOrder Media, Inc. d/b/a HealthStream, Inc. and Duke University
+10.11	--	Joint Marketing and Licensing Agreement between HealthStream, Inc. and The Cleveland Clinic Center for Continuing Education
+10.12	--	Strategic Alliance Agreement between HealthStream, Inc. and Challenger Corporation
+10.13	--	Development and Distribution Agreement between HealthStream, Inc. and GE Medical Systems
+10.14	--	Agreement between HealthStream, Inc. and Medsite.Com, Inc.
+10.15	--	Web Site Linking Agreement between HealthStream, Inc. and IDX Systems Corporation
+10.16	--	Agreement between HealthStream, Inc. and Phycor, Inc.
+10.17	--	Marketing Services Agreement between HealthStream, Inc. and HealthGate Data Corp.
+10.18	--	Continuing Education Services Agreement between HealthStream, Inc. and HealthGate Data Corp.
*10.19	--	Courseware Development Agreement between HealthStream, Inc. and e-Vitro, Inc.
+10.20	--	Software Licensing and Distribution Agreement between HealthStream, Inc. and Pointshare.
+10.21	--	Content Licensing Agreement between HealthStream, Inc. and American Health Consultants dated September 20, 1999.
+10.22	--	Content Licensing Agreement between HealthStream, Inc. and American Health Consultants dated January 31, 2000.
+10.23	--	Continuing Education Distribution Agreement between HealthStream, Inc. and the Mississippi State Medical Association.
+10.24	--	Joint Marketing and Distribution Agreement between HealthStream, Inc. and the Medical Association of Georgia.
+10.25	--	Online Services Agreement between HealthStream, Inc. and Columbia Information Systems.
+10.26	--	Software Licensing and Distribution Agreement between HealthStream, Inc. and MedicaLogic, Inc.
+10.27	--	Joint Marketing and Licensing Agreement between HealthStream, Inc. and Scripps Clinic
+10.28	--	Joint Marketing and Licensing Agreement between HealthStream, Inc. and KnowledgeLinc, Inc.
*23.1	--	Consent of Ernst & Young LLP
23.2	--	Consent of Bass, Berry & Sims PLC (included in opinion filed as Exhibit 5.1)
*23.3	--	Consent of Lane Gorman Trubitt, L.L.P
**24.1	--	Power of Attorney (included on page II-5)
*27.1	--	Financial Data Schedule (for SEC use only)
**27.2	--	Financial Data Schedule (for SEC use only)

(b) Financial Statement Schedules.

All schedules have been omitted because they are inapplicable or the information is provided in the Company's financial statements, including the notes thereto.

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* Filed herewith

** Filed previously

\+ Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions are included in the confidential treatment request filed separately with the Commission.

ITEM 17. UNDERTAKINGS

(1) The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

(2) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described

in Item 14, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(3) The undersigned registrant hereby undertakes that: (i) for purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective; (ii) for the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this amendment number 1 to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Nashville, State of Tennessee, on February 14, 2000.

HEALTHSTREAM, INC.

By: /s/ ROBERT A. FRIST, JR.
Robert A. Frist, Jr.
Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, each person whose signature appears below hereby constitutes and appoints Robert A. Frist, Jr. and Robert H. Laird, Jr., and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place, and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement, and any registration statement relating to the same offering as this registration statement that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing, ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this amendment number 1 to the registration statement has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE	TITLE(S)	DATE
* Robert A. Frist, Jr.	Chief Executive Officer and Chairman (principal executive officer)	February 14, 2000
* Jeffrey L. McLaren	President and Director	February 14, 2000
/s/ ARTHUR E. NEWMAN Arthur E. Newman	Chief Financial Officer and Senior Vice President (principal financial and accounting officer)	February 14, 2000
* Charles N. Martin, Jr.	Director	February 14, 2000
* Thompson S. Dent	Director	February 14, 2000
/s/ M. FAZLE HUSAIN M. Fazle Husain	Director	February 14, 2000
* John H. Dayani, Sr., Ph.D	Director	February 14, 2000

SIGNATURE	TITLE(S)	DATE
*	Director	February 14, 2000
James F. Daniell, M.D.		
*	Director	February 14, 2000
William Stead, M.D.		
*By: /s/ ROBERT A. FRIST, JR. Robert A. Frist, Jr. Attorney-in-fact		February 14, 2000

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+10.13	--	Development and Distribution Agreement between HealthStream, Inc. and GE Medical Systems

NUMBER		DESCRIPTION
+10.14	--	Agreement between HealthStream, Inc. and Medsite.Com, Inc.
+10.15	--	Web Site Linking Agreement between HealthStream, Inc. and IDX Systems Corporation
+10.16	--	Agreement between HealthStream, Inc. and Phycor, Inc.
+10.17	--	Marketing Services Agreement between HealthStream, Inc. and HealthGate Data Corp.
+10.18	--	Continuing Education Services Agreement between HealthStream, Inc. and HealthGate Data Corp.
*10.19	--	Courseware Development Agreement between HealthStream, Inc. and e-Vitro, Inc.
+10.20	--	Software Licensing and Distribution Agreement between HealthStream, Inc. and Pointshare.
+10.21	--	Content Licensing Agreement between HealthStream, Inc. and American Health Consultants dated September 20, 1999.
+10.22	--	Content Licensing Agreement between HealthStream, Inc. and American Health Consultants dated January 31, 2000.
+10.23	--	Continuing Education Distribution Agreement between HealthStream, Inc. and the Mississippi State Medical Association.
+10.24	--	Joint Marketing and Distribution Agreement between HealthStream, Inc. and the Medical Association of Georgia.
+10.25	--	Online Services Agreement between HealthStream, Inc. and Columbia Information Systems.
+10.26	--	Software Licensing and Distribution Agreement between HealthStream, Inc. and MedicaLogic, Inc.
+10.27	--	Joint Marketing and Licensing Agreement between HealthStream, Inc. and Scripps Clinic
+10.28	--	Joint Marketing and Licensing Agreement between HealthStream, Inc. and KnowledgeLinc, Inc.
*23.1	--	Consent of Ernst & Young LLP
23.2	--	Consent of Bass, Berry & Sims PLC (included in opinion filed as Exhibit 5.1)
*23.3	--	Consent of Lane Gorman Trubitt, L.L.P
**24.1	--	Power of Attorney (included on page II-5)
*27.1	--	Financial Data Schedule (for SEC use only)
**27.2	--	Financial Data Schedule (for SEC use only)

(b) Financial Statement Schedules.

All schedules have been omitted because they are inapplicable or the information is provided in the Company's financial statements, including the notes thereto.

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* Filed herewith

** Filed previously

\+ Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions are included in the confidential treatment request filed separately with the Commission.

EXHIBIT 2.2

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (this "Agreement"), is executed as of the 5th day of January, 2000, by and among HealthStream, Inc., a Tennessee corporation ("HealthStream"), HealthStream Acquisition I, Inc., a newly formed Tennessee corporation and wholly owned subsidiary of HealthStream ("Merger Sub"), Quick Study, Inc., a California corporation ("QS"), and each shareholder of QS (individually, a "QS Shareholder," and, collectively, the "QS Shareholders").

RECITALS

WHEREAS, the Boards of Directors of HealthStream, Merger Sub, and QS each have determined that a business combination between HealthStream, Merger Sub, and QS is in the best interests of their respective companies and shareholders and presents an opportunity for their respective companies to achieve long-term strategic and financial benefits, and accordingly have agreed to effect the merger provided for herein upon the terms and subject to the conditions set forth herein.

WHEREAS, for federal income tax purposes, it is intended that the merger provided for herein shall qualify as a reorganization within the meaning of Section 368(a)(2)(D) of the Internal Revenue Code of 1986, as amended (the "Code").

NOW, THEREFORE, in consideration of the foregoing, and of the representations, warranties, covenants, and agreements contained herein, the parties hereto hereby agree as follows:

ARTICLE 1.
THE MERGER

1.1. The Merger. Subject to the terms and conditions of this Agreement, at the Effective Time (as defined in Section 1.3), QS shall be merged with and into Merger Sub in accordance with this Agreement and the separate corporate existence of QS shall thereupon cease (the "Merger"). Merger Sub shall be the surviving corporation in the Merger (sometimes hereinafter referred to as the "Surviving Corporation") and shall be a wholly owned subsidiary of HealthStream. The Merger shall have the effects specified in Section 48-21-108 of the Tennessee Business Corporation Act ("TBCA").

1.2. The Closing. Subject to the terms and conditions of this Agreement, the closing of the Merger (the "Closing") shall take place at the offices of HealthStream, 209 10th Ave. South, Suite 450, Nashville, Tennessee, at 11:00 a.m., local time, on the first business day immediately following the day on which the last to be fulfilled or waived of the conditions set forth in Article 7 herein shall be fulfilled or waived in accordance herewith or at such other time, date, or place as HealthStream and QS may agree. The date on which the Closing occurs is hereinafter referred to as the "Closing Date."

1.3. Effective Time. If all the conditions to the Merger set forth in Article 7 herein shall have been fulfilled or waived in accordance herewith and this Agreement shall not have been terminated as provided in Article 8 herein, the parties hereto shall cause Articles of Merger, substantially in the form attached hereto as Exhibit A, to be properly executed and filed in accordance with the applicable provisions of the TBCA and the California General Corporation Law on the Closing Date. The Merger shall become effective at the time of filing of the Articles of Merger with the Tennessee Secretary of State and the California Secretary of State or at such later time that the parties hereto shall have agreed upon and designated in such filing as the effective time of the Merger (the "Effective Time").

ARTICLE 2.
CHARTER, BYLAWS,
AND OFFICERS AND DIRECTORS OF THE SURVIVING CORPORATION

2.1. Charter. The Charter of Merger Sub in effect immediately prior to the Effective Time shall, except as amended immediately following the Effective Time in accordance with the Articles of Merger attached as Exhibit A, be the Charter of the Surviving Corporation.

2.2. Bylaws. The Bylaws of Merger Sub in effect immediately prior to the Effective Time shall be the Bylaws of the Surviving Corporation.

2.3. Directors. The directors of Merger Sub immediately prior to the Effective Time shall be the directors of the Surviving Corporation as of the Effective Time.

2.4. Officers. The officers of Merger Sub immediately prior to the Effective Time shall be the officers of the Surviving Corporation as of the Effective Time.

ARTICLE 3.
MERGER CONSIDERATION

3.1. Conversion of QS Shares in the Merger. At the Effective Time, by virtue of the Merger and without any action on the part of the QS Shareholders, the outstanding shares of common stock, no par value, of QS outstanding immediately prior to the Effective Time (the "QS Common Stock") shall be converted into, and become exchangeable for, the right to receive 33,188 shares of validly issued, fully paid, and nonassessable common stock, no par value, of HealthStream (the "HealthStream Common Stock"). The 33,188 shares of HealthStream Common Stock issuable in connection with the Merger are sometimes referred to herein as the "Consideration Shares." The Consideration Shares, the Earn Out Shares defined in Section 3.2 and the Cash Consideration defined in Section 3.6 herein shall be collectively referred to as the "Merger Consideration."

3.2. Earn Out Shares. The QS Shareholders shall also be eligible to receive (up to an aggregate of 18,750 shares of HealthStream Common Stock) as additional consideration (i) one (1) share of HealthStream Common Stock for each sixteen dollars (US$16.00) of gross revenue recognized from existing QS customers within 180 days after the Closing Date; plus (ii) one (1) share of HealthStream Common Stock for each sixteen dollars (US$16.00) of gross revenue recognized by Merger Sub or HealthStream from QS branded products sold or licensed to any customer other than the entities listed in Exhibit B attached hereto within 180 days after the Closing Date; plus (iii) one (1) share of HealthStream Common Stock for each thirty-two dollars (US$32.00) of gross revenue recognized by Merger Sub or HealthStream from QS branded products sold or licensed to any of the entities listed in Exhibit B attached hereto within 180 days after the Closing Date (collectively, the "Earn Out Shares"). The Earn Out Shares shall constitute a portion of the Merger Consideration for all purposes and have been calculated (along with the Consideration Shares and the Cash Consideration) to provide the QS Shareholders with the agreed upon value of the QS Common Stock. The Earn Out Shares shall be allocated among the QS Shareholders in the same proportion as the Consideration Shares. On or before the day that is 210 days after the Closing Date, HealthStream will prepare and deliver to the QS Shareholders a statement of the revenue recognized by HealthStream and Merger Sub according to (i) through (iii) above during the 180 day period following the Closing Date, prepared in accordance with generally accepted accounting principles ("GAAP") consistently applied, provided that gross revenue recognized from the licensing of QS branded CD-ROMs shall be recognized upon receipt of a purchase order by Merger Sub or HealthStream from a customer. The Earn Out Shares, if any, due based on such revenue in accordance with this Section 3.2 shall be placed in the Escrow Fund as described in Section 3.3 herein.

3.3. Escrow. At the Closing, pursuant to an Escrow Agreement, substantially in the form attached hereto as Exhibit C (the "Escrow Agreement"), the parties shall establish an escrow (the "Escrow Fund") comprised of fifty percent (50%) of the Consideration Shares issued to the QS Shareholders pursuant to Section 3.1 above and all of the Earn Out Shares, if any, issuable to the QS Shareholders pursuant to Section 3.2 above (collectively the "Escrow Shares"). The Escrow Shares will be maintained in escrow for sole purpose of satisfying claims by HealthStream for indemnification under Article 9 below.

3.4. Fractional Shares. In lieu of the issuance of fractional shares of HealthStream Common Stock, each QS Shareholder, upon surrender of a certificate which immediately prior to the Effective Time represented QS Common Stock, shall be entitled to receive a cash payment (without interest) equal to the value of any fraction of a share of HealthStream Common Stock (based on a value of $16.00 per share) to which such holder would be entitled under Sections 3.1 and 3.2 herein, but for this provision.

3.5. Adjustments of HealthStream Common Stock. In the event HealthStream changes the number of shares of HealthStream Common Stock issued and outstanding following the date of this Agreement but prior to the Effective Time as a result of a stock split, stock dividend, recapitalization, reorganization, or any other transaction in which any security of HealthStream or any other entity or cash is issued or paid in respect of the outstanding shares of HealthStream Common Stock and the record date therefor is after the date of this Agreement and prior to the Effective Time, the Consideration Shares and Earn Out Shares shall be proportionately adjusted.

3.6. Cash Consideration. For purposes of this Agreement, the "Cash Consideration" shall be fifty nine thousand dollars (US$59,000), less any fees of accountants and attorneys for QS, which will be payable at the Closing. The Cash Consideration shall be paid to the QS Shareholders in proportion to their ownership in cash at Closing in immediately available funds.

3.7. Consent to Merger; Waiver of Dissenters' Rights. By their execution of this Agreement each QS Shareholder (a) consents to the terms of the Merger and to the taking of shareholder action to approve the

Merger without a meeting, (b) acknowledges that he or she is aware of his or her rights to dissent to the Merger and demand payment for his or her shares of QS Common Stock in accordance with Section 1300 of the California Corporations Code, and (c) waives such rights to dissent and demand payment.

ARTICLE 4.
REPRESENTATIONS AND WARRANTIES OF QS AND THE PRINCIPAL SHAREHOLDERS

Except as set forth in the disclosure letter delivered prior to the execution hereof to HealthStream (the "QS Disclosure Letter"), QS and the QS Shareholders, jointly and severally, represent, warrant, and agree as follows:

4.1. Existence; Good Standing; Corporate Power and Authority. QS is a corporation duly organized, validly existing, and in good standing under the laws of the State of California. QS is qualified to do business as a foreign corporation and is in good standing under the laws of any state of the United States in which the character of the properties owned or leased by them therein or in which the transaction of business makes such qualification necessary, except where the failure to be so qualified would not have a material adverse effect on the business, results of operations, financial condition or prospects of QS (a "QS Material Adverse Effect"). QS has all requisite corporate power and authority to own, operate, and lease its respective properties and to carry on its respective business as now conducted. QS has provided to HealthStream complete and correct copies of its articles of incorporation and bylaws, each of which is in full force and effect.

4.2. Authorization, Validity, and Effect of Agreements. QS has the full corporate power and authority to execute and deliver this Agreement and all agreements and documents contemplated hereby. This Agreement and the Merger have been approved by the Board of Directors of QS and the QS Shareholders and the consummation by QS of the transactions contemplated hereby has been duly authorized by all requisite corporate action. This Agreement constitutes, and all agreements and documents contemplated hereby (when executed and delivered pursuant hereto) will constitute, the valid and legally binding obligations of QS and the QS Shareholders, enforceable in accordance with their respective terms.

4.3. Capitalization. The authorized capital stock of QS consists of 750,000 shares of QS Common Stock, 677,340 shares of which are issued and outstanding as of the date of this Agreement and owned beneficially and of record by the QS Shareholders as set forth in the QS Disclosure Letter. QS has no outstanding capital stock, bonds, debentures, notes, or other obligations the holders of which have the right to vote (or which are convertible into or exercisable for securities having the right to vote) with the shareholders of QS on any matter. All issued and outstanding shares of QS Common Stock are duly authorized, validly issued, fully paid, nonassessable, and free of preemptive rights. There are no options, warrants, calls, subscriptions, convertible securities, or other rights, agreements, or commitments that obligate QS to issue, transfer, or sell any shares of its capital stock. None of the outstanding shares of QS Common Stock are subject to any voting trust agreement, lien, encumbrance, security interest, restriction, or claim.

4.4. Other Interests. QS does not own, directly or indirectly, or have any obligation to acquire any interest or investment in any corporation, partnership, joint venture, business, trust, or other entity.

4.5. No Violation. Neither the execution and delivery by QS and the QS Shareholders of this Agreement nor the consummation by QS and the QS Shareholders of the transactions contemplated hereby in accordance with the terms hereof, will: (i) conflict with or result in a breach of any provisions of the articles of

incorporation or bylaws of QS; (ii) conflict with, result in a breach of any provision of or the modification or termination of, constitute a default under, or result in the creation or imposition of any lien, security interest, charge, or encumbrance upon any of the assets of QS or any QS Shareholder pursuant to any material commitment, lease, contract, or other material agreement or instrument to which QS or any QS Shareholder is a party (including, without limitation, "Material Contracts" as defined in Section 4.21 below); or (iii) violate or result in a change in any rights or obligations under any governmental permit or license or any order, arbitration award, judgment, writ, injunction, decree, statute, rule, or regulation applicable to QS or any QS Shareholder.

4.6. Regulatory Consents. No consent, approval, order, or authorization of, or registration, declaration, or filing with, any governmental entity, is required by or with respect to QS or any QS Shareholder in connection with the execution and delivery of this Agreement by QS or any QS Shareholder, or the consummation by QS or any QS Shareholder of the transactions contemplated hereby, which the failure to obtain would have a QS Material Adverse Effect.

4.7. Financial Statements. Prior to the date hereof, QS has delivered to HealthStream its audited financial statements for the nine months ended September 30, 1999 and its audited financial statements for the years ended December 31, 1997 and 1998. Each of the balance sheets provided to HealthStream by QS (including the related notes and schedules) fairly presents the financial position of QS as of their respective dates and each of the statements of income, shareholders' equity, and cash flows provided to HealthStream by QS (including any related notes and schedules) fairly presents the results of operations, shareholders' equity, and cash flows of QS for the periods set forth therein (subject, in the case of interim statements, to normal year-end audit adjustments, none of which will be material in amount or effect), in each case in accordance with GAAP consistently applied. Such financial statements have been prepared from the books and records of QS which accurately and fairly reflect the transactions and the acquisitions and dispositions of the assets of QS. QS does not have any liabilities, contingent or otherwise, whether due or to become due, known or unknown, other than as reflected on the September 30, 1999 balance sheet or the QS Disclosure Letter.

4.8. No Material Adverse Changes. Since September 30, 1999, there has not been (i) any material adverse change in the financial condition, results of operations, business, assets, or liabilities (contingent or otherwise, whether due or to become due, known or unknown) of QS; (ii) any dividend declared or paid or distribution made on the capital stock of QS, or any capital stock thereof redeemed or repurchased; (iii) any incurrence by QS of long term debt; (iv) any salary, bonus, or compensation increases to any officers, employees, or agents of QS; (v) any pending or threatened labor disputes or other labor problems against or potentially affecting QS; or (vi) any other transaction entered into by QS except in the ordinary course of business and consistent with past practice.

4.9. Tax Matters.

4.9.1. For purposes of this Agreement, (i) "Tax" means any federal, state, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Section 59A of the Code), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not, and (ii) "Tax Return" means any return, report, information return, or other document (including any related or supporting information) filed or required to be filed with any taxing authority in connection with its determination, assessment, collection, administration, or imposition of any Tax.

4.9.2. QS has duly and timely filed all Tax Returns and has duly and timely paid all material Taxes (whether or not shown on any Tax Return) due to any federal, foreign, state, or local taxing authorities prior to the Effective Time or has set up an adequate reserve for all material Taxes payable. True and correct copies of all Tax Returns relating to federal Taxes and state income and sales Taxes for the period from organization through September 30, 1999 have been heretofore delivered to HealthStream. The accruals and reserves for Taxes contained in the financial statements and carried on the books of QS (other than any reserve for deferred taxes established to reflect timing differences between book and tax income) are adequate to cover all material Tax liabilities. Since September 30, 1999, QS has not incurred any material Tax liabilities other than in the ordinary course of business. There are no Tax liens (other than liens for current Taxes not yet due) upon any properties or assets of QS (whether real, personal, or mixed, tangible or intangible), and, except as reflected in the financial statements, there are no pending or, to QS's knowledge, threatened audits or examinations relating to, or claims asserted for, Taxes or assessments against QS and QS is aware of no basis for any such claims. QS has not granted or been requested to grant any extension of the limitation period applicable to any claim for Taxes or assessments with respect to Taxes. QS is not a party to any Tax allocation or sharing agreement. QS has no liability for the Taxes of any Affiliated Group under Treasury Regulation 1.1502-6 (or any similar provision of state, local, or foreign law). QS has withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, or shareholder.

4.9.3. The QS Disclosure Letter lists each jurisdiction in which QS files Tax Returns for each period or portion thereof ending on or before the Closing Date. Except as set forth in the QS Disclosure Letter, there is no claim outstanding against QS by any taxing authority in a jurisdiction where QS does not file Tax Returns that it is or may be subject to taxation by that jurisdiction.

4.9.4. All material elections with respect to Taxes affecting QS as of the date hereof are set forth in the QS Disclosure Letter.

4.9.5. All joint ventures, partnerships, or other arrangements or contracts to which QS is a party and that could be treated as a partnership for federal income tax purposes are set forth in the QS Disclosure Letter.

4.9.6. QS has not (i) filed a consent pursuant to Section 341(f) of the Code nor agreed to have Section 341(f)(2) apply to any disposition of a subsection (f) asset (as such term is defined in Section 341(f) of the Code) owned by QS; (ii) agreed, or is required to agree, to make any adjustment under Section 481(a) of the Code by reason of a change in accounting method or otherwise that will

affect the liability of QS for Taxes; (iii) made an election, or is required to make an election, to treat any asset of QS as owned by another person pursuant to the provisions of former Section 168(f)(8) of the Code or as tax-exempt bond financed property or tax-exempt use property within the meaning of Section 168 of the Code; and (iv) made any of the foregoing elections or is required to apply any of the foregoing rules under any comparable state or local tax provision.

4.9.7. As soon as practicable following the Effective Time, the QS Shareholders shall, on behalf of QS, timely file all Tax Returns for, and pay all Taxes due with respect to the period ending December 31, 1999 as well as the short period beginning January 1, 2000 and ending on the Closing Date. The QS Shareholders shall close QS's books on the Closing Date and shall report on QS's federal corporate income Tax Return for the short period ending on the Closing Date all items of income, loss, deduction, and credit arising during the short period under QS's method of accounting.

4.10. Employees and Fringe Benefit Plans.

4.10.1. The QS Disclosure Letter sets forth the names, ages, and titles of all members of the Board of Directors and officers of QS and all employees of QS earning in excess of $30,000 per year, and the annual rate of compensation (including bonuses) being paid to each such officer and employee as of the most recent practicable date.

4.10.2. The QS Disclosure Letter lists each employment, bonus, deferred compensation, pension, stock option, stock appreciation right, profit-sharing or retirement plan, arrangement, or practice, each medical, vacation, retiree medical, severance pay plan, and each other agreement or fringe benefit plan, arrangement, or practice, of QS, whether legally binding or not, that affects one or more of QS's employees, including all "employee benefit plans" as defined by Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (collectively, the "Plans"). QS neither has nor sponsors, nor participates in any Plan that is subject to Title IV of ERISA or the minimum funding standards of Section 412 of the Code.

4.10.3. For each Plan that is an "employee benefit plan" under Section 3(3) of ERISA, QS has delivered to HealthStream correct and complete copies of the plan documents and summary plan descriptions, the most recent determination letter received from the Internal Revenue Service, the most recent Form 5500 Annual Report, and all related trust agreements, insurance contracts, and funding agreements that implement each such Plan.

4.10.4. QS does not have any commitment, whether formal or informal and whether legally binding or not, (i) to create any additional Plan; (ii) to modify or change any Plan; or (iii) to maintain for any period of time any Plan. The QS Disclosure Letter contains an accurate and complete description of the funding policies (and commitments, if any) with respect to each existing Plan.

4.10.5. QS does not have any unfunded past service liability in respect of any Plans; QS, nor any Plan nor any trustee, administrator, fiduciary, or sponsor of any Plan has engaged in any prohibited transaction as defined in Section 406 of ERISA or Section 4975 of the Code for which there is no statutory exemption in Section 408 of ERISA or Section 4975 of the Code; all filings, reports, and descriptions as to such Plans (including Form 5500 Annual Reports, summary plan descriptions, and summary annual reports) required to have been made or distributed to participants, the Internal Revenue Service, the United States Department of Labor, and other governmental agencies have been made in a timely manner or will be made on or prior to the Closing Date; there is no material litigation, disputed claim, governmental proceeding, or investigation pending or

threatened with respect to any of the Plans, the related trusts, or any fiduciary, trustee, administrator, or sponsor of the Plans; the Plans have been established, maintained, and administered in all material respects in accordance with their governing documents and applicable provisions of ERISA and the Code and Treasury Regulations promulgated thereunder; and each Plan that is intended to be a qualified plan under Section 401(a) of the Code has received a favorable determination letter from the Internal Revenue Service with respect to the current terms of the Plan.

4.10.6. Except where failure to do so would not have a QS Material Adverse Effect, QS has complied in all respects with all applicable federal, state, and local laws, rules, and regulations relating to employees' employment and employment relationships, including, without limitation, wage related laws, anti-discrimination laws, employee safety laws, and COBRA (defined herein to mean the requirements of Code Section 4980B, Proposed Treasury Regulation Section 1.162-26 and Part 6 of Subtitle B of Title I of ERISA).

4.10.7. The consummation of the transactions contemplated by this Agreement will not (i) result in the payment or series of payments by QS to any employee or other person of an "excess parachute payment" within the meaning of Section 280G of the Code; (ii) entitle any employee or former employee of QS to severance pay, unemployment compensation, or any other payment; or (iii) accelerate the time of payment or vesting of any stock option, stock appreciation right, deferred compensation, or other employee benefits under any Plan (including vacation and sick pay).

4.10.8. None of the Plans that are "welfare benefit plans," within the meaning of Section 3(1) of ERISA, provide for continuing benefits or coverage after termination or retirement from employment, except for COBRA rights under a "group health plan" as defined in Code Section 4980B(g) and ERISA Section 607.

4.10.9. Neither QS nor any member in a "controlled group" with QS (as defined in ERISA) has ever contributed to, participated in, or withdrawn from a multi-employer plan as defined in Section 4001(a)(3) of Title IV of ERISA, and QS has not incurred or owes any liability as a result of any partial or complete withdrawal by any employer from such a multi-employer plan as described under Section 4201, 4203, or 4205 of ERISA.

4.11. Assets. QS owns the assets reflected in the September 30, 1999 balance sheet, including the leasehold estates, with good and marketable title, free and clear of any and all claims, liens, mortgages, security interests, or encumbrances whatsoever, and, to the best of QS's knowledge, free and clear of any rights or privileges capable of becoming claims, liens, mortgages, securities interests, or encumbrances. The buildings, plants, structures, and equipment owned or leased by QS are in good operating condition and repair, and are adequate for the uses for which they are being put, and none of such buildings, plants, structures, or equipment is in need of maintenance or repairs except for ordinary and routine maintenance and repairs that are not material in nature or cost. The assets of the business of QS reflected in the September 30, 1999 balance sheet are sufficient for the continued conduct of the business of QS after the Closing Date in substantially the same manner as conducted prior to the Closing Date.

4.12. Accounts Receivable. All accounts receivable of QS that are reflected on the balance sheet dated September 30, 1999 and on the accounting records of QS as of the Closing Date (collectively, the "Accounts Receivable") represent or will represent valid obligations arising from sales actually made or services actually performed in the ordinary course of business. Unless paid prior to the Closing Date, the Accounts Receivable are or will be as of the Closing Date current and collectible net of the respective reserves shown on the balance sheet dated September 30, 1999, or on the accounting records of QS as of the Closing

Date (which reserves are adequate and calculated consistent with past practice and, in the case of the reserve as of the Closing Date, will not represent a greater percentage of the Accounts Receivable as of the Closing Date than the reserve reflected in the balance sheet dated September 30, 1999, and will not represent a material adverse change in the composition of such Accounts Receivable in terms of aging). Subject to such reserves, to the best of QS's knowledge, each of the Accounts Receivable either has been or will be collected in full, without any set-off, within one hundred and twenty (120) days after the day on which it first becomes due and payable. There is no contest, claim, or right of set-off with any maker of an Accounts Receivable relating to the amount or validity of such Accounts Receivable.

4.13. Lawful Operations. QS has been and currently is conducting its business, and each of the premises leased or owned by QS has been and now is being used and operated, in compliance with all statutes, regulations, orders, covenants, restrictions, and plans of federal, state, regional, county, or municipal authorities, agencies, or boards applicable to the same, except where the failure to so comply would not have a QS Material Adverse Effect.

4.14. Litigation. There is no suit, action, or proceeding pending or, to the knowledge of QS or any of the QS Shareholders, threatened against or affecting QS. QS is not subject to any currently existing order, writ, injunction, or decree relating to its respective operations.

4.15. Corporate Records; Other Information. The minute books of QS, copies of which have been provided to HealthStream, reflect all meetings of the boards of directors, committees of the boards of directors, and the shareholders thereof. All documents and other written information as to existing facts relating to QS and its respective assets and liabilities which have been provided to HealthStream in connection with this Agreement are true, correct, and complete in all material respects except to the extent that any such documents or other written information were later specifically supplemented or corrected prior to the date of this Agreement with additional documents or written information that were provided to HealthStream.

4.16. Intellectual Property Rights. QS owns or possesses the right to use all trademarks, service marks, trade names, slogans, copyrights in published and unpublished works, patents, patent applications, inventions and discoveries that may be patentable, rights in mask works, and all trade secrets, it currently uses without any conflict or alleged conflict with the rights of others, except where any such conflict would not have a QS Material Adverse Effect. All copyrights have been registered and are currently in compliance with formal legal requirements, are valid and enforceable, and are not subject to any maintenance fees, taxes, or actions falling due within ninety days after the Closing Date. To the best of QS's knowledge, no copyright is infringed or has been challenged or threatened in any way. To the best of QS's knowledge, none of the subject matter of any copyright infringes or is alleged to infringe any copyright of any third party or is a derivative work based on the work of a third party. All works encompassed by a copyright have been marked with the proper copyright notice.

4.17. Certain Business Practices and Regulations. Neither QS, nor to QS's knowledge, any of its executive officers, directors, or employees, has (i) made or agreed to make any contribution, payment, or gift to any customer, supplier, landlord, political candidate, governmental official, employee, or agent where either the contribution, payment, or gift or the purpose thereof was illegal under any law or regulation; (ii) established or maintained any unrecorded fund or asset for any purpose or made any false entries on its respective books and records for any reason; (iii) made or agreed to make any contribution, or reimbursed any political gift or contribution made by any other person, to any candidate for federal, state, or local public office in violation of any law or regulation; or (iv) submitted any claim for services rendered or reimbursement for expenses to any person where the services were not actually rendered or the expenses were not actually incurred.

4.18. Insurance. All policies and binders of insurance for professional liability, directors and officers, fire, liability, workers' compensation, and other customary matters held by or on behalf of QS ("Insurance Policies") are described in the QS Disclosure Letter and have been made available to HealthStream. The Insurance Policies (which term shall include any insurance policy entered into after the date of this Agreement in replacement of an Insurance Policy provided that such replacement policy shall insure against risks and liabilities, and in amounts and under terms and conditions, substantially the same as those provided in such replaced policy or binder) are in full force and effect. QS is not in default with respect to any material provision contained in any Insurance Policy. QS has not failed to give any notice of any claim under any Insurance Policy in due and timely fashion, nor has any coverage for current claims been denied.

4.19. No Brokers. Other than fees to be paid by QS to Dave Evans, QS has not entered into any contract, arrangement, or understanding with any person or firm that may result in the obligation of QS or HealthStream to pay any finder's fees, brokerage or agent's commissions, or other like payments in connection with the negotiations leading to this Agreement or the consummation of the transactions contemplated hereby.

4.20. HealthStream Stock Ownership; Investment Intent.

4.20.1. The shares of HealthStream Common Stock issuable in the Merger are being acquired by the QS Shareholders for investment and not with a view to the distribution thereof, and each of the QS Shareholders acknowledges and understands that the certificate(s) representing such shares of HealthStream Common Stock will bear a legend in substantially the following form:

THE SHARES OF STOCK REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES ACT AND CANNOT BE SOLD, TRANSFERRED, OR OTHERWISE DISPOSED OF UNLESS REGISTERED UNDER SUCH ACTS OR UNLESS EXEMPTIONS FROM REGISTRATION ARE AVAILABLE.

THE TRANSFERABILITY OF THE SHARES EVIDENCED BY THIS CERTIFICATE IS RESTRICTED BY THE PROVISIONS OF A SHAREHOLDERS' AGREEMENT ENTERED INTO BETWEEN THE HOLDER OF THIS CERTIFICATE AND THE COMPANY. A COPY OF THE SHAREHOLDERS' AGREEMENT IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY AND MAY BE REVIEWED AT SUCH OFFICE UPON REQUEST.

4.20.2. Each QS Shareholder, severally and not jointly, represents, warrants, and agrees as follows:

(i) Each of the QS Shareholders confirms that HealthStream has made available to him or her to his or her representatives the opportunity to ask questions of HealthStream's officers and directors and to acquire such information about the shares of HealthStream Common Stock and the business and financial condition of HealthStream as the QS Shareholders have requested, which additional information has been received.

(ii) In deciding to acquire shares of HealthStream Common Stock pursuant to the Merger, the QS Shareholders have consulted with their legal, financial, and tax advisers with

respect to the Merger and the nature of the investment together with additional information concerning HealthStream provided under subsection (i) above.

(iii) Each QS Shareholder has adequate means of providing for his or her current needs and personal contingencies and has no need for liquidity in his or her investment in HealthStream. Each of the QS Shareholders, either alone or with his or her representatives, has such knowledge and experience in financial and business matters that he or she is capable of evaluating the merits and risks of an investment in HealthStream.

(iv) Each QS Shareholder has discussed with counsel, to the extent such QS Shareholder felt necessary, the requirements, limitations, and restrictions on his or her ability to sell, transfer, or otherwise dispose of the HealthStream Common Stock to be received in the Merger, and fully understands the requirements, limitations, and restrictions on his or her ability to transfer, sell, or otherwise dispose of the HealthStream Common Stock.

(v) Until the earlier of (i) the Effective Time or (ii) the termination of this Agreement, each QS Shareholder will not sell, transfer, or otherwise dispose of, or reduce such person's interest in or risk relating to, any QS Common Stock or any instrument exercisable for or convertible into QS Common Stock currently owned by the QS Shareholder.

4.21. Contracts; No Defaults. The QS Disclosure Letter contains a complete and accurate list, and QS has previously delivered to HealthStream complete copies of, all contracts and agreements for the performance of services on the purchase or leasing of property by QS of an amount or value in excess of ten thousand dollars (US$10,000) ("Material Contracts"). To the best of QS's knowledge, each of the Material Contracts is in full force and effect and is valid and enforceable in accordance with its terms, and QS, and to the best of QS's knowledge, each other person that has or had any obligation or liability under a Material Contract are in full compliance with all applicable terms and requirements thereof. No event has occurred or circumstance exists that (with or without notice or lapse of time) may contravene, conflict with, or result in a violation or breach of, or give any person the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate, or modify, any Material Contract. There are no renegotiations of, attempts to renegotiate, or outstanding rights to renegotiate any material amounts paid or payable to QS under any Material Contract with any person, including any governmental authority, having the contractual or statutory right to demand or require such renegotiation.

4.22. Affiliate Transactions. None of the QS Shareholders has any interest in any property (whether real, personal, or mixed, tangible or intangible) used in or pertaining to QS business. No QS Shareholder owns, of record or beneficially, any equity or other financial or profit interest in any entity that has had business dealings with QS or that has engaged in competition with QS.

4.23. Full Disclosure. All of the information provided by QS and its representatives herein or in the QS Disclosure Letter is true, correct, and complete in all material respects, and no representation, warranty, or statement made by QS or the QS Shareholders in or pursuant to this Agreement or the QS Disclosure Letter contains or will contain any untrue statement of a material fact or omits or will omit to state any material fact necessary to make such representation, warranty, or statement not misleading.

4.24. Accreditation. QS' continuing education product line complies with the rules and regulations of California State Board of Nursing. QS has no knowledge of any acts or omissions by QS in its business practices that would impede continued accreditation in the nearfuture and QS Shareholders shall, for up to one

year following the Closing Date, use reasonable efforts to assist Merger Sub in securing the accreditation of QS' current titles in California going forward.

ARTICLE 5.
REPRESENTATIONS AND WARRANTIES OF HEALTHSTREAM AND MERGER SUB

Except as set forth in the disclosure letter delivered at or prior to the execution hereof to QS and the QS Shareholders (the "HealthStream Disclosure Letter"), HealthStream and Merger Sub, jointly and severally, represent, warrant, and agree as follows:

5.1. Existence; Good Standing; Corporate Authority. HealthStream is duly incorporated, validly existing, and in good standing under the laws of the State of Tennessee. Merger Sub is duly incorporated, validly existing, and in good standing under the laws of the State of Tennessee. HealthStream is duly licensed or qualified to do business as a foreign corporation and is in good standing under the laws of any other state of the United States in which the character of the properties owned or leased by it therein or in which the transaction of its business makes such qualification necessary, except where the failure to be so qualified would not have a material adverse effect on the business, results of operations, or financial condition of HealthStream, taken as a whole (a "HealthStream Material Adverse Effect"). HealthStream has all requisite corporate power and authority to own, operate, and lease its properties and carry on its business as now conducted.

5.2. Authorization, Validity, and Effect of Agreements. Each of HealthStream and Merger Sub has the requisite corporate power and authority to execute and deliver this Agreement and all agreements and documents contemplated hereby. The consummation by HealthStream and Merger Sub of the transactions contemplated hereby has been duly authorized by all requisite corporate action. This Agreement constitutes, and all agreements and documents contemplated hereby (when executed and delivered pursuant hereto) will constitute, the valid and legally binding obligations of HealthStream and Merger Sub, enforceable in accordance with their respective terms. The issuance and delivery by HealthStream of shares of HealthStream Common Stock in connection with the Merger and this Agreement have been duly and validly authorized by all necessary corporate action on the part of HealthStream. The shares of HealthStream Common Stock to be issued in connection with the Merger and this Agreement, when issued in accordance with the terms of this Agreement, will be validly issued, fully paid, and nonassessable.

5.3. Capitalization. The authorized capital stock of HealthStream consists of 20,000,000 shares of Common Stock, no par value, 2,245,743 of which are issued and outstanding, and 5,000,000 shares of Preferred Stock, no par value, of which 76,000 shares have been designated as Series A Convertible Preferred Stock, 1,376,360 shares have been designated as Series B Convertible Preferred Stock, no par value, and 650,000 shares have been designated as Series C Convertible Preferred Stock, no par value. The outstanding shares of Common Stock and Convertible Preferred Stock have been duly authorized and validly issued and are fully paid and nonassessable.

5.4. Subsidiaries. The HealthStream Disclosure Letter sets forth the outstanding capital stock of Merger Sub and each corporation, partnership, or other entity of which at least a majority of the voting interest is owned directly or indirectly by HealthStream (a "HealthStream Subsidiary"). Merger Sub has not engaged in any activity other than in connection with the transactions contemplated by this Agreement.

5.5. No Violation. Neither the execution and delivery by HealthStream and Merger Sub of this Agreement, nor the consummation by HealthStream and Merger Sub of the transactions contemplated hereby in accordance with the terms hereof, will: (i) conflict with or result in a breach of any provisions of the charter or bylaws of HealthStream or Merger Sub; (ii) conflict with, result in a breach of any provision of or the modification or termination of, constitute a default under, or result in the creation or imposition of any lien, security interest, charge, or encumbrance upon any of the assets of HealthStream or Merger Sub pursuant to any material commitment, lease, contract, or other material agreement or instrument to which HealthStream or Merger Sub is a party; or (iii) violate or result in a change in any rights or obligations, under any governmental permit or license or any order, arbitration award, judgment, writ, injunction, decree, statute, rule, or regulation applicable to HealthStream or Merger Sub.

5.6. Litigation. As of the date of this Agreement, there is no action, suit, or proceeding pending against HealthStream or any HealthStream Subsidiary or, to the knowledge of HealthStream or any HealthStream Subsidiary, threatened against or affecting HealthStream or any HealthStream Subsidiary, at law or in equity, or before or by any federal or state commission, board, bureau, agency, or instrumentality, that is reasonably likely to have a HealthStream Material Adverse Effect.

5.7. Absence of Certain Changes. Since September 30, 1999, there has not been any material adverse change in the financial condition, results of operations, business, assets or liabilities (contingent or otherwise, whether due or to become due, known or unknown), of HealthStream, except for changes in the ordinary course of business.

5.8. No Brokers. HealthStream has not entered into any contract, arrangement, or understanding with any person or firm that may result in the obligation of HealthStream to pay any finder's fees, brokerage or agent's commissions, or other like payments in connection with the negotiations leading to this Agreement or the consummation of the transactions contemplated hereby. HealthStream is not aware of any claim for payment of any finder's fees, brokerage or agent's commissions, or other like payments in connection with the negotiations leading to this Agreement or the consummation of the transactions contemplated hereby.

ARTICLE 6.
COVENANTS

6.1. Covenants of HealthStream and QS. During the period from the date hereof and continuing until the Effective Time (except as expressly contemplated or permitted hereby, or to the extent that the other parties shall otherwise specifically consent in writing) each of HealthStream and QS covenants with the other that, insofar as the obligations relate to it:

6.1.1. Each of HealthStream and QS shall carry on their respective businesses in the usual, regular, and ordinary course in substantially the same manner as heretofore conducted and shall use all reasonable efforts to preserve intact their present business organizations, maintain their rights and franchises, and preserve their relationships with customers, suppliers, and others having business dealings with them to the end that their goodwill and ongoing businesses shall not be impaired in any material respect.

6.1.2. Each of HealthStream and QS shall allow all designated officers, attorneys, accountants, and other representatives of the other access at all reasonable times during regular

business hours to the records and files, correspondence, audits, and properties, as well as to all information relating to commitments, contracts, titles, and financial position, or otherwise pertaining to the business and affairs, of HealthStream and QS.

6.1.3. Each of HealthStream and QS will promptly file or submit and diligently prosecute any and all applications or notices with public authorities, federal, state, or local, domestic or foreign, and all other requests for approvals of any private persons, the filing or granting of which is necessary or appropriate, or is deemed necessary or appropriate by any party hereto, for the consummation of the transactions contemplated hereby.

6.1.4. Except as and to the extent required by law, each of HealthStream and QS hereby agrees not to disclose or use, and each shall cause its representatives not to disclose or use, any confidential information with respect to any other party hereto furnished, or to be furnished, by such other party or its representatives in connection herewith at any time or in any manner other than in connection with their respective evaluations of the Merger. Neither QS nor any of the QS Shareholders or representatives shall make any public statements regarding the Merger or this Agreement without the prior written approval of HealthStream.

6.2. Covenants of QS and the QS Shareholders. QS and the QS Shareholders covenant and agree as follows:

6.2.1. (i) they shall, and shall direct and use their best efforts to cause QS's directors, officers, employees, advisors, accountants, and attorneys (the "Representatives"), not to, initiate, solicit, or encourage, directly or indirectly, any inquiries or the making or implementation of any proposal or offer with respect to a merger, acquisition, consolidation, or similar transaction involving, or any purchase of all or any significant portion of the assets or any equity securities of QS (any such proposal or offer being hereinafter referred to as an "Acquisition Proposal") or engage in any negotiations concerning, or provide any confidential information or data to, or have any discussions with, any person relating to an Acquisition Proposal, or otherwise facilitate any effort or attempt to make or implement an Acquisition Proposal; (ii) they will immediately cease and cause to be terminated any existing activities, discussions, or negotiations with any parties conducted heretofore with respect to any of the foregoing and will take the necessary steps to inform the individuals or entities referred to above of the obligations undertaken in this Section 6.2.1; and (iii) they will notify HealthStream immediately if any such inquiries or proposals are received by, any such information is requested from, or any such negotiations or discussions are sought to be initiated or continued with, it.

6.2.2. QS will make all normal and customary repairs, replacements, and improvements to its facilities, properties, and equipment and, without limiting the generality of the covenants set forth in Section 6.1.1, will not:

(i) change its articles of incorporation, bylaws, or capitalization or merge or consolidate with or into or otherwise acquire any interest in any entity;

(ii) declare, set aside, or pay any cash dividend or other distribution on or in respect of shares of its capital stock, or any redemption, retirement, or purchase with respect to its capital stock or issue any additional shares or rights or options or agreements to acquire shares of its capital stock;

(iii) discharge or satisfy any lien, charge, encumbrance, or indebtedness outside the ordinary course of business, except those required to be discharged or satisfied;

(iv) authorize, guarantee, or incur any indebtedness;

(v) make any capital expenditures or capital additions or betterments, or commitments therefor, aggregating in excess of ten thousand dollars (US$10,000);

(vi) loan funds to any person;

(vii) institute, settle, or agree to settle any litigation, action, or proceeding before any court or governmental body;

(viii) sell, lease, mortgage, pledge, or subject to any other encumbrance or otherwise dispose of any of its property or assets, tangible or intangible, other than in the ordinary course of business;

(ix) except in the ordinary course of business consistent with past practice, authorize any compensation increases of any kind whatsoever for any employee (provided QS shall pay owing or accrued deferred compensation) or adopt or amend any existing severance plan or other Plan;

(x) make any new elections with respect to Taxes, or any changes in current elections with respect to Taxes; or

(xi) enter into any contract, agreement, commitment, or arrangement to do any of the foregoing.

6.2.3. neither QS nor the QS Shareholders shall take any action that would cause or tend to cause the conditions upon the obligations of the parties hereto to effect the transactions contemplated hereby not to be fulfilled including, without limitation, taking, causing to be taken, or permitting or suffering to be taken or to exist any action, condition, or thing that would cause the representations and warranties made by them herein not to be true, correct, complete, and accurate as of the Closing Date.

6.2.4. QS shall promptly provide to HealthStream monthly and quarterly unaudited financial statements of QS for periods from and after September 30, 1999, prepared in accordance with generally accepted accounting principles consistently applied.

6.2.5. QS shall not (i) knowingly take any action, or knowingly fail to take any action, that would jeopardize qualification of the Merger as a reorganization within the meaning of Section 368(a)(2)(D) of the Code; or (ii) enter into any contract, agreement, commitment, or arrangement with respect to either of the foregoing.

6.2.6. QS shall cooperate with HealthStream's audit firm for any purpose that HealthStream deems reasonably necessary to effectuate the terms of this Agreement, including, but not limited to providing assistance with generating work papers and executing necessary representation letters.

6.3. Covenants of HealthStream. HealthStream covenants and agrees that HealthStream shall not (i) knowingly take any action, or knowingly fail to take any action, that would jeopardize qualification of the Merger as a reorganization within the meaning of Section 368(a)(2)(D) of the Code, or (ii) enter into any contract, agreement, commitment, or arrangement with respect to either of the foregoing.

ARTICLE 7.
CONDITIONS

7.1. Conditions to Each Party's Obligations to Effect the Merger. The respective obligations of each party to effect the Merger shall be subject to the fulfillment at or prior to the Closing Date of the following conditions:

7.1.1. No action or proceeding shall have been instituted before a court or other governmental body by any governmental agency or public authority to restrain or prohibit the transactions contemplated by this Agreement or to obtain an amount of damages or other material relief in connection with the execution of the Agreement or the related agreements or the consummation of the Merger; and no governmental agency shall have given notice to any party hereto to the effect that consummation of the transactions contemplated by this Agreement would constitute a violation of any law or that it intends to commence proceedings to restrain consummation of the Merger.

7.1.2. All consents, authorizations, orders, and approvals of (or filings or registrations with) any governmental commission, board, or other regulatory body required in connection with the execution, delivery, and performance of this Agreement shall have been obtained or made, except for filings in connection with the Merger and any other documents required to be filed after the Effective Time, and except where the failure to have obtained or made any such consent, authorization, order, approval, filing, or registration would not have a material adverse effect on the business of HealthStream and QS, taken as a whole, following the Effective Time.

7.1.3. HealthStream shall have received from QS copies of all resolutions adopted by the Board of Directors and shareholders of QS in connection with this Agreement and the transactions contemplated hereby. QS shall have received from HealthStream and Merger Sub copies of all resolutions adopted by the Board of Directors and shareholders of each respective company in connection with this Agreement and the transactions contemplated hereby.

7.2. Conditions to Obligations of QS and the QS Shareholders to Effect the Merger. The obligations of QS and the QS Shareholders to effect the Merger shall be subject to the fulfillment at or prior to the Closing Date of the following conditions:

7.2.1. HealthStream shall have performed its agreements contained in this Agreement required to be performed on or prior to the Closing Date and the representations and warranties of HealthStream and Merger Sub contained in this Agreement and in any document delivered in connection herewith shall be true and correct as of the Closing Date, and QS shall have received a certificate of the President or the Chief Financial Officer of HealthStream, dated the Closing Date, certifying to such effect.

7.2.2. From the date of this Agreement through the Effective Time, there shall not have occurred any change in the financial condition, business, or operations of HealthStream, that would have or would be reasonably likely to have a HealthStream Material Adverse Effect.

7.2.3. QS and the QS Shareholders shall have received a written opinion, dated as of the Closing Date, from counsel for HealthStream substantially in the form of Exhibit D attached hereto.

7.2.4. HealthStream and Merger Sub shall have executed the Tax Representation Certificate, substantially in the form of Exhibit L attached hereto.

7.3. Conditions to Obligations of HealthStream and Merger Sub to Effect the Merger. The obligations of HealthStream and Merger Sub to effect the Merger shall be subject to the fulfillment at or prior to the Closing Date of the following conditions:

7.3.1. QS and the QS Shareholders shall have performed their respective agreements contained in this Agreement required to be performed on or prior to the Closing Date and the representations and warranties of QS and the QS Shareholders contained in this Agreement and in any document delivered in connection herewith shall be true and correct as of the Closing Date to the same extent as if made on the Closing Date, and HealthStream shall have received a certificate of the President of QS dated the Closing Date, certifying to such effect.

7.3.2. From the date of this Agreement through the Effective Time, there shall not have occurred any change in the financial condition, business, operations, or prospects of QS, that would have or would be reasonably likely to have a QS Material Adverse Effect.

7.3.3. HealthStream shall have received a written opinion, dated as of the Closing Date, from counsel for QS, substantially in the form of Exhibit E attached hereto.

7.3.4. Janet Bostrom shall have executed an Employment Agreement, substantially in the form of Exhibit F attached hereto.

7.3.5. QS shall have complied with all reasonable requests of HealthStream's audit firm and provided all the information required to complete audits for the years ending December 31, 1996, 1997 and 1998.

7.3.6. Thomas Hewett shall have executed a Consulting Agreement, substantially in the form of Exhibit G attached hereto.

7.3.7. The QS Shareholders shall have executed a Shareholders' Agreement, substantially in the form of Exhibit H attached hereto.

7.3.8. The QS Shareholders shall have executed a Co-Sale Agreement, substantially in the form of Exhibit I attached hereto.

7.3.9. The QS Shareholders shall have executed a Voting Agreement, substantially in the form of Exhibit J attached hereto.

7.3.10. QS shall not have more than one hundred twenty thousand dollars (US$120,000) in total debt.

7.3.11. QS Shareholders shall only be Janet Bostrom and Thomas Hewett.

7.3.12. QS shall have executed the Tax Representation Certificate, substantially in the form of Exhibit K attached hereto.

ARTICLE 8.
TERMINATION

8.1. Termination by Mutual Consent. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time, by the mutual written consent of HealthStream and QS.

8.2. Termination by Either HealthStream or QS. This Agreement may be terminated and the Merger may be abandoned by action of the Board of Directors of either HealthStream or QS if (a) the Merger shall not have been consummated by January 15, 2000 or (b) a United States federal or state court of competent jurisdiction or United States federal or state governmental, regulatory, or administrative agency or commission shall have issued an order, decree, or ruling or taken any other action permanently restraining, enjoining, or otherwise prohibiting the transactions contemplated by this Agreement and such order, decree, ruling, or other action shall have become final and non-appealable; provided, that the party seeking to terminate this Agreement pursuant to this clause (b) shall have used all reasonable efforts to remove such injunction, order, or decree.

8.3. Termination by QS. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time by action of the Board of Directors of QS, if (a) there has been a breach by HealthStream or Merger Sub of any representation or warranty contained in this Agreement which would have or would be reasonably likely to have an HealthStream Material Adverse Effect, or (b) there has been a material breach of any of the covenants or agreements set forth in this Agreement on the part of HealthStream, which breach is not curable or, if curable, is not cured within thirty (30) days after written notice of such breach is given by QS to HealthStream.

8.4. Termination by HealthStream. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time, by action of the Board of Directors of HealthStream, if (a) there has been a breach by QS or the QS Shareholders of any representation or warranty contained in this Agreement which would have or would be reasonably likely to have a QS Material Adverse Effect, or (b) there has been a material breach of any of the covenants or agreements set forth in this Agreement on the part of QS or the QS Shareholders, which breach is not curable or, if curable, is not cured within thirty (30) days after written notice of such breach is given by HealthStream to QS.

8.5. Effect of Termination and Abandonment. Upon termination of this Agreement pursuant to this Article 8, this Agreement shall be void and of no other effect, and there shall be no liability by reason of this Agreement or the termination thereof on the part of any party hereto (other than for breach of a covenant contained herein), or on the part of the respective directors, officers, employees, agents, or shareholders of any of them.

8.6. Extension; Waiver. At any time prior to the Effective Time, any party hereto, by action taken by its Board of Directors, may, to the extent legally allowed, (a) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (b) waive any inaccuracies in the representations and warranties made to such party contained herein or in any document delivered pursuant hereto, and (c) waive compliance with any of the agreements or conditions for the benefit of such party contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party.

ARTICLE 9.
SURVIVAL OF REPRESENTATIONS AND WARRANTIES; INDEMNIFICATION

9.1. Survival of Representations and Warranties. The representatives and warranties of the parties contained in Articles 4 and 5 of this Agreement shall survive the Merger for a period expiring on the first anniversary of the Closing Date.

9.2. Indemnity Obligations of the QS Shareholders. Subject to the provisions of this Article 9 and the Escrow Agreement, the QS Shareholders, jointly and severally, in accordance with the Escrow Agreement, agree to indemnify and hold HealthStream and Merger Sub harmless from, and to reimburse HealthStream and Merger Sub for, any losses, costs, expenses, obligations, liabilities, damages, remedies and penalties, including interest, and attorneys' fees and expenses actually incurred (collectively "Losses") arising in connection with or attributable to the inaccuracy or breach of any representation, warranty, or covenant made by QS or the QS Shareholders in this Agreement.

9.3 Limitation on Source and Amount of Payment of Indemnity Claims by QS Shareholders. The parties agree that the sole source for payment of the indemnity obligations of the QS Shareholders under Section 9.2 above will be the Consideration Shares and the Earn Out Shares. For the purposes of this Article 9, the Consideration Shares and the Earn Out Shares will be valued at Fair Market Value, but in no case less than $16.00 per share. In no event will the total aggregate liability of the QS Shareholders under this Article 9 exceed the total aggregate value of the Consideration Shares and the Earn Out Shares, so calculated. "Fair Market Value" of a share of HealthStream Common Stock as of that date shall mean:

(a) If traded on a securities exchange or the Nasdaq National Market, the Fair Market Value shall be deemed to be the average of the closing prices of the Common Stock of the Company on such exchange or market over the 5 business days ending immediately prior to the applicable date of valuation;

(b) If actively traded over-the-counter, the Fair Market Value shall be deemed to be the average of the closing bid prices over the 30-day period ending immediately prior to the applicable date of valuation; and

(c) If there is no active public market, the Fair Market Value shall be the value thereof, as agreed upon by HealthStream and the QS Shareholders; provided, however, that if HealthStream and the QS Shareholders cannot agree on such value, such value shall be determined by an independent valuation firm experienced in valuing businesses such as HealthStream and jointly selected in good faith by HealthStream and the QS Shareholders. Fees and expenses of the valuation firm shall be paid for by HealthStream.

9.4. Indemnification by HealthStream. Subject to the provisions of this Article 9, HealthStream will indemnify, defend, and hold harmless the QS Shareholders from, and reimburse the QS Shareholders for, any Losses arising in connection with or attributable to the inaccuracy or breach of any representation, warranty, or covenant made by HealthStream or Merger Sub in this Agreement.

ARTICLE 10.
GENERAL PROVISIONS

10.1. Notices. Any notice required to be given hereunder shall be sufficient if in writing, by courier service (with proof of service), hand delivery or certified or registered mail (return receipt requested and first-class postage prepaid), addressed as follows:

If to HealthStream or Merger Sub:

Robert H. Laird, Jr.
Vice President and General Counsel
209 10th Ave. South
Suite 450
Nashville, TN 37203

If to QS or QS Shareholders:

Janet Bostrom
Chief Executive Officer
Quick Study, Inc.
30 Buckeye
Portola Valley, CA 94028

or to such other address as any party shall specify by written notice so given, and such notice shall be deemed to have been delivered as of the date so personally delivered or mailed.

10.2. Assignment; Binding Effect; Benefit. Neither this Agreement nor any of the rights, interests, or obligations hereunder shall be assigned by any of the parties hereto (whether by operation of law or otherwise) without the prior written consent of the other parties. Subject to the preceding sentence, this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

10.3. Entire Agreement. This Agreement, the Exhibits, the QS Disclosure Letter, the HealthStream Disclosure Letter, and any documents delivered by the parties in connection herewith constitute the entire agreement among the parties with respect to the subject matter hereof and supersede all prior and contemporaneous agreements and understandings among the parties with respect thereto. No addition to or modification of any provision of this Agreement shall be binding upon any party hereto unless made in writing and signed by all parties hereto.

10.4. Amendment. This Agreement may be amended by the parties hereto by action taken by their respective Boards of Directors, if applicable. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

10.5. Governing Law. The validity of this Agreement, the construction of its terms and the determination of the rights and duties of the parties hereto shall be governed by and construed in accordance with the laws of the State of Tennessee applicable to contracts made and to be performed wholly within such state.

10.6. Counterparts. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument. Each counterpart may consist of a number of copies hereof each signed by less than all, but together signed by all of the parties hereto.

10.7. Waivers. Except as provided in this Agreement, no action taken pursuant to this Agreement, including, without limitation, any investigation by or on behalf of any party, shall be deemed to constitute a waiver by the party taking such action of compliance with any representations, warranties, covenants, or agreements contained in this Agreement. The waiver by any party hereto of a breach of any provision hereunder shall not operate or be construed as a waiver of any prior or subsequent breach of the same or any other provision hereunder.

10.8. Incorporation of Exhibits. The QS Disclosure Letter, the HealthStream Disclosure Letter, and the Exhibits attached hereto and referred to herein are hereby incorporated herein and made a part hereof for all purposes as if fully set forth herein.

10.9. Severability. Any term or provision of this Agreement that is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, the provision shall be interpreted to be only so broad as is enforceable.

10.10. Expenses. Each party to this Agreement shall bear its own expenses in connection with the Merger and the transactions contemplated hereby; provided, however, that all expenses of QS in connection with the negotiation, execution, delivery, and performance of this Agreement (except audit expenses) shall be borne by the QS Shareholders.

10.11. Enforcement of Agreement. The parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement was not performed in accordance with its specific terms or was otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in any court of competent jurisdiction, this being in addition to any other remedy to which they are entitled by contract, at law, or in equity.

IN WITNESS WHEREOF, the parties have executed this Agreement and caused the same to be duly delivered on their behalf to be effective as of the day and year first written above.

HEALTHSTREAM, INC.

By:

Title:

HEALTHSTREAM 1 ACQUISITION, INC.

By:

Title:

QUICK STUDY, INC.

By:

Title:

THE QS SHAREHOLDERS:

- ---
Janet Bostrom

- ---
Thomas Hewett

ATTACHMENTS AND EXHIBITS

QS Disclosure Letter
HealthStream Disclosure Letter
Exhibit A - Articles of Merger
Exhibit B - Fifty Percent Earn out Customers
Exhibit C - Form of Escrow Agreement
Exhibit D - Form of HealthStream Counsel Legal Opinion
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Exhibit F - Form of Employment Agreement
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EXHIBIT 2.3

ASSET PURCHASE AGREEMENT

This ASSET PURCHASE AGREEMENT (this "Agreement") is made and entered into this 15th day of December 1999, among KnowledgeReview LLC, a New Jersey Limited Liability Company ("Seller"), Louis Bucelli and Maksim Repik ("Members"), and HealthStream, Inc., a Tennessee corporation ("Buyer"). Seller and Members are sometimes hereinafter collectively referred to as the "Selling Parties."

RECITAL:

WHEREAS, Seller desires to sell to Buyer at the Closing (as hereinafter defined), and Buyer desires to purchase from Seller substantially all of its assets (the "Business"), as more fully described herein, upon and subject to the terms and conditions contained in this Agreement.

NOW, THEREFORE, IN CONSIDERATION of the premises and of the mutual representations, warranties and covenants that are made and to be performed by the respective parties, it is agreed as follows:

ARTICLE 1. PURCHASE AND SALE OF ASSETS

1.1 PURCHASE AND SALE OF ASSETS. Subject to the terms and conditions of this Agreement, on the Closing Date (as hereinafter defined), Seller shall sell, transfer, convey, assign and deliver to Buyer and Buyer shall purchase, acquire and accept from Seller, effective as of midnight on the Closing Date, all of Seller's right, title and interest in and to the following described assets to the extent used exclusively in the Business, wherever located (collectively, the "Assets"):

(a) all fixed assets, machinery and equipment, software, tools, dies, fixtures, furniture, furnishings, plant and office equipment identified on Schedule 1.1(a);

(b) all engineering and production designs, drawings, formulae, technology, source code, trade secrets, know-how and other similar data of Seller including, but not limited to, any and all technology and source code behind any of its Web commerce Web sites;

(c) all URLs of Seller listed in Schedule 1.1(d);

(d) all trademarks listed in Schedule 1.1(e), trade names, service marks, registered user entries, copyrights and all of Seller's right, title and interest in any application for any of the foregoing, and all claims and causes of action relating to any of the foregoing, including claims and causes of action for past infringement; and all rights under permits, licenses, franchises and similar authorizations used by Seller in its business to the extent transferable; and

(i) the goodwill of the business conducted by Seller.

1.2 EXCLUDED ASSETS. Notwithstanding anything else contained herein, the following assets are excluded from the Assets being acquired by or transferred to Buyer on the Closing Date (collectively, the "Excluded Assets"):

(a) all cash of Seller;

(b) all minute books and corporate records, tax returns and litigation files of Seller; and

(c) any right, title or interest of Seller in any Federal, state, local or foreign tax refunds (and any income with respect thereto) and tax benefits.

1.3 ASSUMPTION OF LIABILITIES. Buyer will not assume any debts, liabilities, obligations, expenses, taxes, contracts or commitments of Seller of any kind, character or description, whether accrued, absolute, contingent or otherwise, no matter whether arising before or after the Closing, and whether or not reflected or reserved against in Seller's financial statements, books of accounts or records. The Selling Parties will indemnify pursuant to Article 10 herein Buyer against and hold it harmless from any such obligations and liabilities not assumed by Buyer.

1.4 ASSIGNMENT OF CONTRACTS. Anything in this Agreement to the contrary notwithstanding, this Agreement shall not constitute an agreement to assign, and the Assets shall not include, any claim, contract, instrument, agreement, license, lease, commitment, sales order, purchase order or any claim or right, or any benefit arising thereunder or resulting therefrom, if an attempted assignment thereof, without the consent of a third party thereto, would constitute a breach thereof or in any way affect the rights of Buyer or Seller thereunder. Seller will use good faith efforts to obtain the consent of any and all third parties to the assignment of any such contract or agreement. Seller shall be responsible for the payment of any transfer or assignment fees required by any third party to effect the assignment of any such contracts or agreements. If such consent is not obtained, or if an attempted assignment thereof would be ineffective or would affect such rights, Seller will cooperate with Buyer (but shall not be obligated to incur any expenses in such efforts) in any arrangement designed to provide for Buyer the benefits under any such claims, contracts, instruments, agreements, licenses, leases, commitments, sales orders or purchase orders, including, without limitation, enforcement for the benefit of Buyer of any and all rights of Buyer or Seller against a third party thereto arising out of a breach or cancellation by such third party or otherwise; and any transfer or assignment to Buyer of any property or property rights or any contract or agreement which shall require the consent or approval of any third party shall be made subject to such consent or approval being obtained.

ARTICLE 2. CONSIDERATION

2.1 PURCHASE PRICE. The purchase price for the Assets shall be $310,000 in the form of cash paid to Seller at Closing and 9,375 shares of Buyer's Common Stock paid into the Escrow Fund described in Section 2.2 herein at Closing ("Escrow Shares"). The cash and Common Stock shall be collectively referred to as the "Purchase Price."

2.2 ESCROW. (a) At the Closing, pursuant to an Indemnity and Escrow Agreement, substantially in the form attached hereto as Exhibit A (the "Escrow Agreement"), the parties shall establish an escrow (the "Escrow Fund") comprised of the Escrow Shares. The Escrow Shares shall be maintained in escrow for the purposes of satisfying any claims by Buyer for indemnification under Article 10 herein, the Escrow Agreement and the Consulting Agreement until January 3, 2001 (the "Escrow Period").

(b) Upon expiration of the Escrow Period, and subject to the terms of Section 2.2(c) herein, Article 10 herein and the Escrow Agreement, the escrow agent under the Escrow Agreement (the "Escrow Agent") shall deliver or cause to be delivered to each Member a certificate representing the number of shares of Buyer's Common Stock comprising such Member's portion of the Escrow Shares determined pro rata in proportion to the Purchase Price received by such Member under this Agreement (the "Pro Rata Portion").

(c) If, upon expiration of the Escrow Period, Buyer shall have asserted a claim for indemnity in accordance with the Escrow Agreement and such claim is pending or unresolved at the time of such expiration, the Escrow Agent shall retain in escrow, and withhold from delivery to each Member, each Member's Pro Rata Portion of the value of the asserted amount of the claim until such matter is finally resolved. If it is finally determined that Buyer is entitled to recover on account of such claim, the Escrow Agent shall deliver or cause to be delivered to Buyer the amount due and payable with respect to such claim (applied against each Shareholder's Pro Rata Portion). The remainder of each Shareholder's Pro Rata Portion, if any, following such delivery to Buyer in accordance with this Section 2.2(c) and the Escrow Agreement, shall be delivered to each Member pursuant to this Agreement, without interest. For purposes of this Section 2.2(c), a claim will be deemed to have been finally resolved only as provided in the Escrow Agreement.

(d) The right to receive the Escrow Shares upon expiration of the Escrow Period is an integral part of the Purchase Price, and shall not be transferable or assignable by, but shall inure to the benefit of the heirs, representatives, or estate of, any Member.

ARTICLE 3. CLOSING; OBLIGATIONS OF THE PARTIES

3.1 CLOSING DATE. The closing (the "Closing") shall take place on January 3, 2000, at the offices of Buyer, 209 10th Avenue South, Suite 450, Nashville, Tennessee 37203, or at such other time and place as the parties hereto mutually agree (the "Closing Date").

3.2 OBLIGATIONS OF THE PARTIES AT THE CLOSING.

(a) At the Closing, Buyer shall deliver to Seller (or Seller's agent):

(i) the consideration as specified in Section 2.1 herein;

(ii) a copy of resolutions of the Board of Directors of Buyer, certified by Buyer's Secretary, authorizing the execution, delivery and performance of this Agreement and the other documents referred to herein to be executed by Buyer, and the consummation of the transactions contemplated hereby;

(iii) a certificate in the form of Exhibit B hereto of Buyer certifying as to the accuracy of Buyer's representations and warranties at and as of the Closing and that Buyer has performed or complied with all of the covenants, agreements, terms, provisions and conditions to be performed or complied with by Buyer at or before the Closing;

(iv) a copy of the Buyer's Charter, certified by the Tennessee Secretary of State;

(v) certificates of existence and good standing for the Buyer, certified by the Secretary of State of Tennessee; and

(vi) such other certificates and documents as Selling Parties or their counsel may reasonably request.

(b) At the Closing, Selling Parties will deliver to Buyer:

(i) such bills of sale, assignments, and other good and sufficient instruments of conveyance and transfer, in form and substance reasonably satisfactory to Buyer, as shall be effective to vest in Buyer all of Seller's and the Members' title to and interest in the Assets, and, simultaneously with such delivery, will take such steps as may be necessary to put Buyer in actual possession and operating control of the Assets;

(ii) a certificate of each of the Selling Parties in the form of Exhibit C hereto certifying as to the accuracy of the Selling Parties representations and warranties at and as of the Closing and that they have performed or complied with all of the covenants, agreements, terms, provisions and conditions to be performed or complied with by each of them at or before the Closing;

(iii) copy of resolutions of the Members of Seller, certified by Seller's Secretary, authorizing the execution, delivery and performance of this Agreement and the other documents referred to herein to be executed by Seller, and the consummation of the transactions contemplated hereby;

(iv) certificates of existence and good standing for the Seller, certified by the Secretary of State of New Jersey, dated December __, 1999;

(v) Selling Parties shall have executed the Non-Competition Agreements in the form of Exhibit D hereto;

(vi) Selling Parties shall have executed the Shareholders' Agreement in the form of Exhibit E hereto;

(vii) Selling Parties shall have executed the Voting Agreement in the form of Exhibit F hereto;

(viii) Selling Parties shall have executed the Co-Sale Agreement in the form of Exhibit G hereto;

(ix) certificates evidencing the transfers of the URLs listed in Schedule 1.1(g) to Seller;

(x) Maksim Repik shall have executed the Consulting Agreement in the form of Exhibit K hereto;

(xi) a lease for 1916 Old Cuthbert Road, Suite B-13, Cherry Hill, NJ 08034, in the form attached as Exhibit J hereto; and

(xii) such other certificates and documents as Buyer or its counsel may reasonably request.

ARTICLE 4. REPRESENTATIONS AND WARRANTIES BY SELLING PARTIES

Selling Parties hereby represent and warrant as follows:

4.1 AUTHORIZATION. Seller has full corporate power and authority (including all necessary approvals

of Seller's Members) to enter into this Agreement and perform its obligations hereunder and carry out the transactions contemplated hereby. The Board of Directors of Seller has taken all action required by law, its Certificate of Formation and its Operating Agreement to authorize the execution and delivery by Seller of this Agreement and the consummation by Seller of the transactions contemplated hereby. This Agreement constitutes the valid and binding agreement of Seller, enforceable against Seller in accordance with its terms.

4.2 ORGANIZATION, GOOD STANDING AND QUALIFICATION. Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of New Jersey. Seller has full corporate power and authority to transfer the Assets to Buyer, to carry on its business as now conducted and possesses all governmental and other permits, licenses and other authorizations to own, lease or operate its assets and properties as now owned, leased and operated and to carry on its business as presently conducted. Seller is not licensed or qualified to do business as a foreign corporation in any jurisdiction and neither the properties owned or leased nor the business transacted by Seller makes such licensing or qualification to do business as a foreign corporation necessary, and no other jurisdiction has demanded, requested or otherwise indicated that (or inquired whether) Seller is required so to qualify.

4.3 SUBSIDIARIES. Seller neither owns nor has an interest in, directly or indirectly, any other corporation, partnership, joint venture or other business organization.

4.4 NO VIOLATION. The execution and delivery of this Agreement by Seller does not, and the consummation of the transactions contemplated hereby will not, (a) violate any provision of, or result in the creation of any lien or security interest under, any agreement, indenture, instrument, lease, security agreement, mortgage or lien to which Seller is a party or by which any of Seller's assets or properties are bound; (b) violate any provision of the Certificate of Formation or Operating Agreement of Seller; (c) violate any order, arbitration award, judgment, writ, injunction, decree, statute, rule or regulation applicable to Seller; or (d) violate any other contractual or legal obligation or restriction to which Seller is subject.

4.5 ASSETS. The Assets constitute substantially all the assets owned by Seller.

4.6 TANGIBLE ASSETS. Schedule 1.1(a) contains an accurate list as of December 1, 1999, of all material fixed and other tangible assets and personal property owned by Seller. Seller does not own or lease any real property.

4.7 TITLE TO PROPERTIES; ENCUMBRANCES. None of the Assets is subject to any mortgage, pledge, lien, security interest, conditional sale agreement, encumbrance or charge of any kind.

4.8 TRADEMARKS, PATENTS, ETC. Schedule 4.8 is an accurate and complete list of all registered patents, trademarks, tradenames, trademark registrations, service names, service marks, copyrights, formulas and applications therefor owned by Seller. Schedule 1.1(e) is the complete list of trademarks, tradenames, service names and service marks owned by Selling Parties or their affiliates used by Seller in the operation of Seller's business, title to each of which is, except as set forth on Schedule 4.9 hereto, to Seller's knowledge, held by Seller free and clear of all adverse claims, liens, security agreements, restrictions or other encumbrances. There is no infringement action, lawsuit, claim or complaint which asserts that Seller's operations violate or infringe the rights or the trade names, trademarks, trademark registration, service name, service mark or copyright of others with respect to any apparatus or method of Seller or any adversely held trademark, trade name, trademark registration, service name, service mark or copyright, and Seller is not in any way making use of any confidential information or trade secrets of any person except with the consent of such person.

4.9 NO UNDISCLOSED LIABILITY. Seller does not have any knowledge of any material liabilities or obligations of any nature, whether or not absolute, accrued, asserted, liquidated, matured, contingent or otherwise and whether due or to become due (including, without limitation, liabilities for taxes and interest, penalties and other charges payable with respect thereto) which alone or in the aggregate may affect Seller's ability to transfer the Assets hereby or, from and after Closing, Buyer's right, title and interest in and to the Assets and Buyer's use and enjoyment thereof.

4.10 TAX MATTERS. Seller has duly filed all Tax reports and returns required to be filed by it and has duly paid all Taxes and other charges (whether or not shown on any Tax return) due or claimed to be due from it by federal, foreign, state or local taxing authorities. The reserves for Taxes contained in the Financial Statements and carried on the books of Seller are adequate to cover all Tax liabilities as of the date of this Agreement. Seller has not incurred any Tax liabilities other than in the ordinary course of business; there are no Tax liens (other than liens for current Taxes not yet due) upon any properties or assets of Seller (whether real, personal or mixed, tangible or intangible), and, except as reflected in the Financial Statements, there are no pending or to its knowledge threatened questions or examinations relating to, or claims asserted for, Taxes or assessments against Seller, and to its knowledge there is no basis for any such question or claim. Seller has not granted or been requested to grant any extension of the limitation period applicable to any claim for Taxes or assessments with respect to Taxes. For purposes of this Agreement, "Tax" means any federal, state, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Section 59A of the Internal Revenue Code of 1986, as amended ("Code")), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

4.11 COMPLIANCE WITH APPLICABLE LAW. To Seller's knowledge, Seller has in the past duly materially complied and is presently duly materially complying, in the conduct of its business and the ownership of its assets with all applicable laws, whether statutory or otherwise, rules, regulations, orders, ordinances, judgments and decrees of all governmental authorities (federal, state, local or otherwise) (collectively, "Laws"). None of the Selling Parties has received any notice of, or notice of any investigation of, a possible violation of any applicable Laws, or any other Law or requirement relating to or affecting the operations or properties of Seller.

4.12 LITIGATION. To the best of the Selling Parties' knowledge, there are no claims, actions, suits, proceedings or investigations pending or threatened by or against, or otherwise affecting the Assets or the Business at law or in equity or before or by any federal, state, municipal or other governmental department, commission, board, agency, instrumentality or authority. The Selling Parties do not know or have any reason to know of any basis for any such claim, action, suit, proceeding or investigation.

4.13 INSURANCE. Seller has not been refused any insurance, nor has its coverage been limited, by any insurance carrier to which it has applied for insurance or with which it has carried insurance during the last five years.

4.14 EMPLOYEES AND FRINGE BENEFIT PLANS. Seller has no employees.

4.15 CONTRACTS AND COMMITMENTS. Seller is not a party to any contracts.

4.16 ACCOUNTS PAYABLE. Seller has no accounts payable or notes payable.

4.17 PROFESSIONAL FEES. Neither Seller nor any of the Selling Parties has done anything to cause or incur any liability or obligation for investment banking, brokerage, finders, agents or other fees, commissions, expenses or charges in connection with the negotiation, preparation, execution or performance of this Agreement or the consummation of the transactions contemplated hereby, and Seller does not know of any claim by anyone for such a fee, commission, expense or charge.

4.18 CONSENTS AND APPROVALS. There are no consents, approvals, authorizations or orders of third parties, including governmental authorities, necessary for the authorization, execution and performance of this Agreement by Seller.

4.19 MEMBERS AUTHORITY. This Agreement constitutes the legal, valid and binding obligation of the Members, enforceable against the Members in accordance with its terms. The Members have the absolute and unrestricted right, power, authority and capacity to execute and deliver this Agreement and to perform his or its obligations under this Agreement.

4.20 CORPORATE RECORDS. Seller has delivered or provided to Buyer for its review true complete and correct copies of the following items, as amended and presently in effect, for Seller: (a) Certificate of Formation, and (b) Operating Agreement, (all hereinafter referred to as the "Corporate Records").

4.21 FULL DISCLOSURE. Neither the information provided by the Selling Parties in this Agreement, nor any Schedule, exhibit, list, certificate or other instrument and document furnished by any Selling Party to Buyer pursuant to this Agreement, contains any untrue statement of a material fact or omits to state any material fact required to be stated herein or therein or necessary to make the statements and information contained herein or therein not misleading. No Selling Party has withheld from Buyer disclosure of any event, condition or fact which such Selling Party knows, or has reasonable grounds to know, may materially adversely affect Seller's assets, prospects or condition (financial or otherwise).

4.22 PURCHASE ENTIRELY FOR OWN ACCOUNT. This Agreement is made with the Selling Parties in reliance upon such Selling Parties' representation to the Buyer, which by such Selling Parties' execution of this Agreement Selling Parties hereby confirm, that the Common Stock to be purchased by Selling Parties (the "Securities") will be acquired for investment for such Selling Parties' own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that Selling Parties have no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Agreement, Selling Parties further represent that Selling Parties do not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person, with respect to any of the Securities.

4.23 RELIANCE UPON SELLING PARTIES' REPRESENTATIONS. Selling Parties understand that the Common Stock is not registered under the Securities Act on the ground that the sale provided for in this Agreement and the issuance of securities hereunder is exempt from registration under the Securities Act pursuant to Section 4(2) thereof, and that the Buyer's reliance on such exemption is predicated on the Selling Parties' representations set forth herein.

4.24 RECEIPT OF INFORMATION. Selling Parties believe they have received all the information Selling Parties consider necessary or appropriate for deciding whether to purchase the Common Stock. Selling Parties further represent that they have had an opportunity to ask questions and receive answers from the Buyer regarding the terms and conditions of the offering of the Common Stock and the business, properties, prospects, and financial condition of the Buyer and to obtain additional information (to the extent the Buyer possessed such information or could acquire it without unreasonable effort or expense) necessary to verify the accuracy of any information furnished to Selling Parties or to which Selling Parties had access. The foregoing, however, does not limit or modify the representations and warranties of the Buyer in Section 5 of this Agreement or the right of the Selling Parties to rely thereon.

4.25 INVESTMENT EXPERIENCE. Selling Parties represent that they are experienced in evaluating and investing in private placement transactions of securities of companies in a similar stage of development and acknowledges that Selling Parties are able to fend for himself, herself or itself, can bear the economic risk of Selling Parties' investment, and has such knowledge and experience in financial and business matters that such investor is capable of evaluating the merits and risks of the investment in the Common Stock. If other than an individual, Selling Parties also represent that the 100% members of each Selling Party (each an "Investor Owner") meets the requirements of the preceding sentence.

4.26 ACCREDITED INVESTORS.

Each Member, severally and not jointly, represents, warrants, and agrees as follows:

(a) Each of the Members is an "accredited investor" as defined under Rule 501 of Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act").

(b) Each of the Members confirms that Buyer has made available to him or her to his or her representatives the opportunity to ask questions of Buyer's officers and directors and to acquire such information about the shares of Buyer's Common Stock and the business and financial condition of Buyer as the Members have requested, which additional information has been received.

(c) In deciding to acquire shares of Buyer's Common Stock pursuant to this Agreement, the Members have consulted with their legal, financial, and tax advisers with respect to this Agreement and the nature of the investment together with additional information concerning Buyer provided under subsection (b) above.

(d) Each Member has adequate means of providing for his or her current needs and personal contingencies and has no need for liquidity in his or her investment in Buyer. Each of the Members, either alone or with his or her representatives, has such knowledge and experience in financial and business matters that he or she is capable of evaluating the merits and risks of an investment in Buyer.

(e) Each Member has discussed with counsel, to the extent such Member felt necessary, the requirements, limitations, and restrictions on his or her ability to sell, transfer, or otherwise dispose of the Buyer Common Stock to be received under this Agreement, and fully understands the requirements, limitations, and restrictions on his or her ability to transfer, sell, or otherwise dispose of Buyer's Common Stock.

4.27 RESTRICTED SECURITIES. Selling Parties understand that the Common Stock may not be sold, transferred, or otherwise disposed of without registration under the Securities Act or an exemption

therefrom, and that in the absence of an effective registration statement covering the Common Stock or an available exemption from registration under the Securities Act, the Common Stock must be held indefinitely. In particular, Selling Parties are aware that the Common Stock may not be sold pursuant to Rule 144 promulgated under the Securities Act unless all of the conditions of that Rule are met. Among the conditions for use of Rule 144 may be the availability of current information to the public about the Buyer. Such information is not now available.

4.28 LEGENDS. To the extent applicable, each certificate or other document evidencing any of the Common Stock shall be endorsed with the legends substantially in the form set forth below:

(a) The following legend under the Securities Act:

"THE SHARES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED, PLEDGED, OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER SUCH ACT, OR UNLESS THE BUYER HAS RECEIVED AN OPINION OF COUNSEL OR OTHER EVIDENCE, SATISFACTORY TO THE BUYER AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED."

(b) Any legend imposed or required by applicable state securities laws.

ARTICLE 5. REPRESENTATIONS AND WARRANTIES BY BUYER

Buyer hereby represents and warrants to Seller as follows:

5.1 ORGANIZATION AND GOOD STANDING. Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Tennessee and has full corporate power and authority to enter into this Agreement and to carry out the transactions contemplated hereby.

5.2 AUTHORIZATION. Buyer has full corporate power and authority (including all necessary approvals of Buyer's shareholders) to carry on its business as now conducted and as proposed to be conducted, to enter into this Agreement, issue the Common Stock to Seller, and perform its obligations hereunder and carry out the transactions contemplated hereby. The Board of Directors of Buyer has taken all action required by law, its Charter, its Bylaws and otherwise to authorize the execution and delivery by Buyer of this Agreement and the consummation by Buyer of the transactions contemplated hereby.

5.3 VALID AND BINDING AGREEMENT. This Agreement constitutes a valid and binding agreement of Buyer, enforceable against Buyer in accordance with its terms.

5.4 NO VIOLATION. The execution and delivery of this Agreement by Buyer does not, and the consummation of the transactions contemplated hereby will not, (a) violate any provision, or result in the creation of any lien or security interest under, any agreement, indenture, instrument, lease, security agreement, mortgage or lien to which Buyer is a party or by which it is bound; (b) violate any provision of Buyer's Charter or Bylaws; (c) violate any order, arbitration award, judgment, writ, injunction, decree, statute, rule or regulation applicable to Buyer; or (d) violate any other contractual or legal obligation or restriction to which Buyer is subject.

5.5 PROFESSIONAL FEES. Buyer has not done anything to cause or incur any liability for investment banking, brokerage, finders, agents or other fees, commissions, expenses or charges in connection with the negotiation, preparation, execution and performance this Agreement or the consummation of the transactions contemplated hereby, and Buyer does not know of any claim by anyone for such a commission or fee.

5.6 CONSENTS AND APPROVALS. Buyer has obtained all consents, approvals, authorizations or orders of third parties, including governmental authorities, necessary for the authorization, execution and performance of this Agreement by Buyer.

5.7 FINANCIAL STATEMENTS. Buyer has delivered to Seller the audited consolidated balance sheet of the Buyer and its subsidiaries as of the end of December 31, 1998, and the related consolidated statements of income, stockholders' equity and changes in financial position for the fiscal year then ended, prepared in accordance with generally accepted accounting principles and accompanied by an opinion of a firm of independent public accountants of recognized national standing selected by the Board of Directors of the, the last fiscal year, and the related consolidated statements of income, stockholders' equity and changes in financial position for the fiscal year then ended, prepared in accordance with generally accepted accounting principles. These financial statements fairly present the assets, liabilities, financial condition and results of operations of Buyer as of December 31, 1998 and for the period therein referred to.

5.8 FULL DISCLOSURE. To the best of Buyer's knowledge, neither the information provided by the Buyer in this Agreement, nor any Schedule, exhibit, list, certificate or other instrument and document furnished by Buyer to the Selling Parties pursuant to this Agreement, contains any untrue statement of a material fact or omits to state any material fact required to be stated herein or therein or necessary to make the statements and information contained herein or therein not misleading. Buyer has not withheld from the Selling Parties disclosure of any event, condition or fact which Buyer knows, or has reasonable grounds to know, may materially adversely affect Buyer's assets, prospects or condition (financial or otherwise).

5.9 LITIGATION. To the best of Buyer's knowledge, there are no claims, actions, suits, proceedings or investigations pending or threatened by or against, or otherwise affecting Buyer at law or in equity or before or by any federal, state, municipal or other governmental department, commission, board, agency, instrumentality or authority. The Buyer does not know or have any reason to know of any basis for any such claim, action, suit, proceeding or investigation.

5.10 AUTHORIZED CAPITAL STOCK. The authorized capital stock of the Buyer consists of (i) 76,000 shares of Series A Convertible Preferred Stock, (ii) 1,436,961 shares of Series B Convertible Preferred Stock, (iii) 650,000 shares Series C Convertible Preferred Stock and (iv) of 20,000,000 shares of Common Stock, in each case with no par value. Immediately prior to the Closing, 76,000 shares of the Series A Convertible Preferred Stock, 1,228,801 shares of the Series B Convertible Preferred Stock, 627,406 shares of Series C Convertible Preferred Stock and 2,249,887 shares of the Common Stock will be validly issued and outstanding, fully paid and nonassessable. The designations, powers, preferences, rights, qualifications limitations and restrictions in respect of each class and series of authorized capital stock of the Buyer are as set forth in the Charter, a copy of which, as certified by the Secretary of State of Tennessee, is attached as Exhibit H, and all such designations, powers, preferences, rights qualifications, limitations and restrictions are valid, binding and enforceable and in accordance with all applicable laws. All of the outstanding securities of the Buyer were issued in compliance with all applicable federal and state securities laws. The Common Stock to be delivered as part of the Purchase Price pursuant to

Section 2.1 above have been duly authorized and, when issued, will be fully paid for and non-assessable and shall be free and clear of all liens and encumbrances, and such issuance will not be in violation of any preemptive or similar rights of any person.

5.11 BY-LAWS. The current by-laws of the Buyer are attached as Exhibit I.

ARTICLE 6. COVENANTS AND AGREEMENTS OF SELLER

Seller agrees that from the date hereof until the Closing, and thereafter if so specified, it will, and the Members will cause Seller to, fulfill the following covenants and agreements unless otherwise consented to by Buyer in writing:

6.1 CONDUCT OF BUSINESS PENDING THE CLOSING.

(a) Seller will not do or omit to do any act, or permit any act or omission to act, which may cause a material breach of any contract, commitment or obligation of Seller, or any breach of any representation, warranty, covenant or agreement made by Seller herein.

(b) Seller will duly comply with all material laws applicable to it and its respective business and operations and all laws, compliance with which is required for the valid consummation of the transactions contemplated by this Agreement.

(c) Seller will not (i) enter into any employment agreement, sales agency or other contract or arrangement with respect to the performance of personal services which is not terminable by it without liability on not more than 30 days notice; (ii) enter into or extend any labor contract with any hourly-paid employees or any union; or (iii) agree to take any such action.

(d) Seller will not mortgage, pledge or subject to lien or any other encumbrance, any of Seller's assets.

(e) Seller will not enter into any transaction involving more than $10,000 or a commitment extending more than three months.

(f) None of the Selling Parties will directly or indirectly (through a representative or otherwise) solicit or furnish information to any prospective acquirers, commence negotiations with any other party or enter into any agreement with any other party concerning the sale of Seller's capital stock or assets or any part thereof, or involving the merger, consolidation or combination of or share exchange with any other entity.

(g) Seller will not enter into any transaction outside the ordinary course of business. For purposes of this Agreement, the term "ordinary course of business" shall mean the conduct of Seller's business as it has historically been conducted since its inception.

(h) Selling Parties will not enter into any agreement to do any of the foregoing.

6.2 ACCESS; FURTHER ASSURANCES.

(a) After the execution of this Agreement and continuing until the Closing, Selling Parties shall cause Seller to permit Buyer and its counsel, accountants, engineers and other representatives full access during normal business hours, upon reasonable notice, to all of the directors, officers, facilities, properties, books, contracts, commitments and records of or relating to Seller (including without limitation, the right to conduct any physical count of inventory of Seller or otherwise be present at or participate in any such occurrence at any time prior to the Closing) and will furnish Buyer and its representatives during such period with all such information concerning Seller's affairs and such copies of such documents relating thereto, as Buyer or its representatives may reasonably request.

(b) At any time and from time to time after the Closing, at Buyer's request and without further consideration, Selling Parties will execute and deliver such other instruments of sale, transfer, conveyance, assignment, and delivery and confirmation and take such action as the Buyer may reasonably deem necessary or desirable in order more effectively to transfer, convey and assign to Buyer and to place Buyer in possession and control of, and to confirm Buyer's title to, the Assets, and to assist Buyer in exercising all rights and enjoying all benefits with respect thereto.

6.3 SCHEDULES. Selling Parties shall have, until the Closing, the continuing obligation to supplement or amend promptly the Schedules being delivered pursuant to this Agreement with respect to any matter hereafter arising or discovered which, if existing or known at the date of this Agreement, would have been required to be set forth or described in these Schedules.

6.4 TAXES. Seller will be responsible for, and hereby agree to assume and pay, all sales and similar taxes that may be due to any jurisdiction or governmental body as a result of the sale and transfer of the Assets.

6.5 CONSENTS AND APPROVALS. Seller shall, in a timely, accurate and complete manner, take all necessary corporate and other action and use all reasonable efforts to obtain all consents, approvals, permits, licenses and amendments of agreements required of Seller to carry out the transactions contemplated in this Agreement and shall provide to Buyer such information as Buyer may reasonably require to make such filings and prepare such applications as may be required for the consummation by Buyer of the transactions contemplated by this Agreement.

6.6 BULK SALES COMPLIANCE. Buyer acknowledges that Seller is not complying with the provisions of the bulk sales or similar laws of any and all states (the "Bulk Sales Laws"), and Seller covenants and agrees to pay and discharge when due all claims, liabilities and related expenses which may be asserted against Buyer by reason of such noncompliance.

ARTICLE 7. COVENANTS AND AGREEMENTS OF BUYER

Buyer agrees that from the date hereof until the Closing, and thereafter if so specified, it will fulfill the following covenants and agreements unless otherwise consented to by Seller in writing:

7.1 CONFIDENTIALITY. In the event the transactions contemplated by this Agreement are not consummated, for any reason, Buyer promptly will return to Seller all records and information provided to Buyer from Selling Parties. Buyer shall not at any time, before or after Closing, disclose the Purchase Price paid hereby unless required to do so by law.

7.2 CONSENTS AND APPROVALS. Buyer shall, in a timely, accurate and complete manner, take all necessary corporate and other action and use all reasonable efforts to obtain all consents, approvals, permits, licenses and amendments of agreements required of Buyer to carry out the transactions contemplated in this Agreement and shall provide to Seller such information as Seller may reasonably require to make such filings and prepare such applications as may be required for the consummation by Seller of the transactions contemplated by this Agreement.

ARTICLE 8. CONDITIONS TO BUYER'S OBLIGATIONS

All obligations of Buyer hereunder are subject to the fulfillment, prior to or at the Closing, of each of the following conditions:

8.1 REPRESENTATIONS AND WARRANTIES. The representations and warranties made by the Selling Parties in this Agreement and the statements contained on the Schedules attached hereto or in any instrument, list, certificate or writing delivered by the Selling Parties pursuant to this Agreement shall be true when made and at and as of the time of the Closing as though such representations and warranties were made at and as of the Closing.

8.2 PERFORMANCE BY SELLING PARTIES. Selling Parties shall have performed and complied in all material respects with all covenants, agreements, obligations and conditions required by this Agreement and the exhibits hereto to be so complied with or performed.

8.3 CERTIFICATES OF SELLING PARTIES. Each of the Selling Parties shall have delivered to Buyer a certificate in the form of Exhibit C hereto, dated the Closing Date, certifying as to the fulfillment of the conditions specified in Sections 8.1 and 8.2.

8.4 LITIGATION. On the date of the Closing, there shall be no lawsuits pending against any of the Selling Parties seeking to enjoin, prohibit, restrain or otherwise prevent the transactions contemplated hereby or which might adversely affect Seller's ability to transfer Assets hereby or, from and after Closing, Buyer's right, title or interest in the Assets or Buyer's use and enjoyment thereof.

ARTICLE 9. CONDITIONS TO SELLING PARTIES' OBLIGATIONS

All obligations of the Selling Parties under this Agreement are subject to the fulfillment, prior to or at the Closing, of each of the following conditions:

9.1 REPRESENTATIONS AND WARRANTIES. The representations and warranties made by the Buyer in this Agreement shall be true when made and at and as of the time of the Closing as though such representations and warranties were made at and as of such date.

9.2 PERFORMANCE. Buyer shall have performed and complied with all agreements, obligations and conditions required by this Agreement and the exhibits hereto to be so complied with or performed including payment of the Purchase Price according to Article 2 herein.

9.3 OFFICER'S CERTIFICATE. Buyer shall have delivered to Selling Parties a Certificate of the

President of Buyer in the form as Exhibit B hereto, in his representative capacity and not individually, dated the Closing Date, certifying as to the fulfillment of and/or the conditions specified in Sections 9.1 and 9.2.

9.4 LITIGATION. On the date of the Closing, there shall be no lawsuits pending against the Buyer seeking to enjoin, prohibit, restrain or otherwise prevent the transactions contemplated hereby.

ARTICLE 10. INDEMNIFICATION

10.1 INDEMNIFICATION BY SELLING PARTIES. Selling Parties, jointly and severally, hereby agree to defend, indemnify and hold harmless Buyer, its subsidiaries, each fiduciary of Buyer's employee benefit plans and each of Buyer's shareholders, affiliates, officers, directors, employees, agents, successors and assigns ("Buyer's Indemnified Persons") and shall reimburse Buyer's Indemnified Persons for, from and against each claim, fine, judgment, oversight cost, assessment, loss, liability, cost and expense (including without limitation, interest, penalties, costs of preparation and investigation, and the reasonable fees, disbursements and expenses of attorneys, accountants and other professional advisors but excluding consequential damages, including without limitation, lost profits) (collectively, "Losses"), directly or indirectly relating to, resulting from or arising out of:

(a) Any untrue representation, misrepresentation, breach of warranty or non-fulfillment of any covenant, agreement or other obligation by or of any Selling Party contained herein, any Schedule hereto or in any certificate, document or instrument delivered to Buyer pursuant hereto.

(b) Any Tax liability of Seller relating to the Assets not previously paid, which is successfully asserted or assessed against it for any event or period prior to the Closing Date (regardless of whether the possibility of the assertion or assessment of any such Tax liability shall have been disclosed to Buyer at or prior to the Closing).

(c) Any obligation or liability of Seller, and any and all loss, liability or damage suffered or incurred by Buyer by reason of the failure by Seller to comply with Bulk Sales Laws.

(d) Any other Losses incidental to any of the foregoing.

10.2 EXPIRATION AND LIMITATION. Notwithstanding the foregoing:

(a) The indemnification obligations under this Article 10, or under any certificate or writing furnished in connection herewith, shall terminate as follows:

(i) with respect to claims relating to, resulting from or arising out of Sections 10.1(b) and (c) or the representations and warranties set forth in Section 4.1 , Section 4.7, Section 4.10, Section 4.22, Section 5.2 or Section 5.10 (A) the date that is six (6) months after the expiration of the longest applicable federal or state statute of limitation (including extensions thereof), or (B) if there is no applicable statute of limitation, five (5) years after the Closing Date for any other claim covered by clause (i) of this Section 10.2(a); or

(ii) with respect to all claims other than those referred to in clause (i) of this Section 10.2(a), on the date that is 12 months following the Closing Date.

(b) The aggregate amount of the Selling Parties' liability under this Article 10 shall not

exceed $230,000. There shall be no liability for indemnification under Section 10.1 unless the aggregate amount of Losses exceeds $10,000, provided, however, that at such time as the aggregate amount of Losses exceeds $10,000, the Selling Parties shall be liable for the full amount of the Losses. The Selling Parties have the right, but not the obligation, to pay its obligations hereunder by transferring to the Buyer that number of shares of Common Stock, which for this purpose only shall have the same value as on the date of issuance.

(c) The Selling Parties' obligations to indemnify hereunder shall not extend to Losses attributable to Buyer's negligence or willful misconduct.

10.3 INDEMNIFICATION BY BUYER. Buyer hereby agrees to defend, indemnify and hold harmless the Selling Parties, their respective subsidiaries, each fiduciary of the Selling Parties' employee benefit plans and each of the Selling Parties' members, affiliates, officers, directors, employees, agents, successors and assigns ("Selling Parties' Indemnified Persons") and shall reimburse the Selling Parties' Indemnified Persons for, from and against each claim, fine, judgment, oversight cost, assessment, loss, liability, cost and expense (including without limitation, interest, penalties, costs of preparation and investigation, and the reasonable fees, disbursements and expenses of attorneys, accountants and other professional advisors but excluding consequential damages, including without limitation, lost profits) (collectively, "Losses"), directly or indirectly relating to, resulting from or arising out of:

(a) Any untrue representation, misrepresentation, breach of warranty or non-fulfillment of any covenant, agreement or other obligation by or of Buyer contained herein or in any certificate, document or instrument delivered to Selling Parties pursuant hereto.

(b) Any Losses with respect to the operations of Seller following Closing, other than (i) those Losses which are determined by a court to arise out of any breach by Seller of any covenant, representation or warranty contained in this Agreement, or (ii) those Losses that are determined by a court to be subject to indemnification by Seller under Section 10.1 herein.

(c) Any other Losses incidental to the foregoing.

The aggregate amount of the Buyer's liability under this Article 10 shall not exceed $230,000. In addition, there shall be no liability for indemnification under this Section 10.3 unless, the aggregate amount of Losses exceeds $10,000, provided, however, that at such time as the aggregate amount of Losses exceeds $10,000, the Buyers shall be liable for the full amount of the Losses.

10.4 PROCEDURE. The indemnified party shall promptly notify the indemnifying party of any claim, demand, action or proceeding for which indemnification will be sought under Sections 10.1 or 10.3, and, if such claim, demand, action or proceeding is a third party claim, demand, action or proceeding, the indemnifying party will have the right at its expense to assume the defense thereof using counsel reasonably acceptable to the indemnified party. The indemnified party shall have the right to participate, at its own expense, with respect to any such third party claim, demand, action or proceeding. In connection with any such third party claim, demand, action or proceeding, Buyer and the Selling Parties shall cooperate with each other and provide each other with access to relevant books and records in their possession. No such third party claim, demand, action or proceeding shall be settled without the prior written consent of the indemnified party. If a firm written offer is made to settle any such third party claim, demand, action or proceeding, which offer does not involve any injunctive or non-monetary relief against the indemnified party, and the indemnifying party proposes to accept such settlement and the indemnified party refuses to consent to such settlement, then: (i) the indemnifying party shall be excused from, and the indemnified party shall be solely responsible for, all further defense of such third party claim, demand, action or proceeding; and (ii) the maximum liability of the indemnifying party relating to such third party claim, demand, action or proceeding shall be the amount of the proposed settlement if the amount thereafter recovered from the indemnified party on such third party claim, demand, action or proceeding is greater than the amount of the proposed settlement.

ARTICLE 11. SURVIVAL OF REPRESENTATIONS

11.1 SURVIVAL OF REPRESENTATIONS. All representations, warranties, covenants and agreements by the parties contained in this Agreement shall survive the Closing and any investigation at any time made by or on behalf of any party hereto for a period to one (1) year from the Closing Date; provided, however, that the representations of Seller contained in Sections 4.1, 4.7, 4.10, 4.22, 5.2 and 5.10 shall survive for the duration of the applicable statute of limitations period.

11.2 REMEDIES CUMULATIVE. The remedies provided herein shall be cumulative and shall not preclude the assertion by any party hereto of any other rights or the seeking of any other remedies against the other party hereto.

ARTICLE 12. TERMINATION OF AGREEMENT

This Agreement may be terminated at any time prior to the Closing:

(a) By mutual agreement of Selling Parties and Buyer.

(b) By either Buyer or Selling Parties if any of the other makes an assignment for the benefit of creditors, files a voluntary petition in bankruptcy or seeks or consents to any reorganization or similar relief under any present or future bankruptcy act or similar law, or is adjudicated a bankrupt or insolvent, or if a third party commences any bankruptcy, insolvency, reorganization or similar proceeding involving the other.

ARTICLE 13. MISCELLANEOUS

13.1 EXPENSES. All fees and expenses incurred by Seller, including without limitation, legal fees and expenses in connection with this Agreement will be borne by Seller or the Members as they may determine and all fees and expenses incurred by Buyer, including without limitation, legal fees and expenses, in connection with this Agreement will be borne by Buyer.

13.2 ASSIGNABILITY; PARTIES IN INTEREST.

(a) Buyer may assign any or all of its rights hereunder to any affiliate or any direct or indirect subsidiary of Buyer, and Buyer shall advise Selling Parties of any such assignment and shall designate such party as the assignee and transferee of the Assets purchased. Any such assignee shall assume all of Buyer's duties, obligations and undertakings hereunder, but the Buyer shall remain liable hereunder.

(b) Seller may not assign, transfer or otherwise dispose of any of its rights hereunder without the prior written consent of Buyer.

(c) All the terms and provisions of this Agreement shall be binding upon, shall inure to the benefit of and shall be enforceable by the respective heirs, successors, assigns and legal or personal representatives of the parties hereto, provided that the rights and obligations under all licenses of trademarks hereunder shall under no circumstances be assignable.

13.3 ALLOCATION OF PURCHASE PRICE. The Purchase Price for the Assets shall be allocated as set forth on Schedule 13.3. The parties agree to follow the allocation for federal and state income tax purposes.

13.4 KNOWLEDGE. An individual will be deemed to have "knowledge" of a particular fact or other matter if: (i) such individual is actually aware of such fact or other matter; or (ii) a prudent individual could be expected to discover or otherwise become aware of such fact or other matter in the course of conducting a reasonably comprehensive investigation concerning the existence of such fact or other matter. A person (other than an individual) will be deemed to have "knowledge" of a particular fact or other matter if any individual who is serving, or who has within the last eight months served, as a director, officer or trustee of such person (or in any similar capacity) has, or at any time had knowledge of such fact or other matter.

13.5 ENTIRE AGREEMENT; AMENDMENTS. This Agreement, including the exhibits, Schedules, lists and other documents and writings referred to herein or delivered pursuant hereto, which form a part hereof, and the Confidentiality Agreement set forth as Exhibit J contain the entire understanding of the parties with respect to its subject matter. There are no restrictions, agreements, promises, warranties, covenants or undertakings other than those expressly set forth herein or therein. This Agreement supersedes all prior agreements and understandings between the parties with respect to its subject matter, except for the Confidentiality Agreement. This Agreement may be amended only by a written instrument duly executed by all parties or their respective heirs, successors, assigns or legal personal representatives. Any condition to a party's obligations hereunder may be waived but only by a written instrument signed by the party entitled to the benefits thereof. The failure or delay of any party at any time or times to require performance of any provision or to exercise its rights with respect to any provision hereof, shall in no manner operate as a waiver of or affect such party's right at a later time to enforce the same.

13.6 HEADINGS. The section and paragraph headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretations of this Agreement.

13.7 REFERENCES. References to a section or subsection when used without further attribution shall refer to the particular section or subsection of this Agreement.

13.8 SEVERABILITY. The invalidity of any term or terms of this Agreement shall not affect any other term of this Agreement, which shall remain in full force and effect.

13.9 NOTICES. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if delivered or mailed (registered or certified mail, postage prepaid, return receipt requested) as follows:

If to Selling Parties:

Louis Bucelli and Maksim Repik
1916 Old Cuthbert Road, Suite B-13
Cherry Hill, NJ 08034

If to Buyer:

Robert H. Laird, Jr.
Vice President and General Counsel
HealthStream, Inc.
209 10th Ave. South
Suite 450
Nashville, TN 37203

or to such other address as any party may have furnished to the others in writing in accordance herewith, except that notices of change of address shall only be effective upon receipt.

13.10 GOVERNING LAW. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Tennessee, without regard to its conflict of laws rules.

13.11 COUNTERPARTS. This Agreement may be executed simultaneously in one or more counterparts, with the same effect as if the signatories executing the several counterparts had executed one counterpart, provided, however, that the several executed counterparts shall together have been signed by all parties to be bound hereby. This Agreement shall be binding upon each signatory hereto when one or more counterparts, as provided above, have been signed by Buyer, Seller and the Members. All such executed counterparts shall together constitute one and the same instrument.

13.12 TIME. Both parties recognize that time is of the essence and will use best efforts to execute the terms of this Agreement and all of the attached exhibits on the Closing Date.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officers of Buyer and by each of the Selling Parties on the date first above written.

BUYER:

HEALTHSTREAM, INC.
209 10th Ave. South
Suite 450
Nashville, TN 37203

By: /s/ Robert A. Frist, Jr.

Title: Chief Executive Officer

SELLER:

KNOWLEDGEREVIEW, LLC
1916 Old Cuthbert Road, Suite B-13
Cherry Hill, NJ 08034

By: /s/ Louis Bucelli

Title: Member

MEMBERS:

Louis Bucelli

/s/ Louis Bucelli

Maksim Repik

/s/ Maksim Repik

EXHIBITS:

EXHIBIT A ESCROW AGREEMENT

EXHIBIT B BUYER'S COMPLIANCE CERTIFICATE

EXHIBIT C SELLING PARTIES' COMPLIANCE CERTIFICATE

EXHIBIT D NON-COMPETITION AGREEMENTS

EXHIBIT E SHAREHOLDERS' AGREEMENT

EXHIBIT F VOTING AGREEMENT

EXHIBIT G CO-SALE AGREEMENT

EXHIBIT H CHARTER OF BUYER

EXHIBIT I BY-LAWS OF BUYER

EXHIBIT J LEASE FOR 1916 OLD CUTHBERT ROAD, SUITE B-13, CHERRY HILL, NJ 08034

EXHIBIT K CONSULTING AGREEMENT

EXHIBIT 2.4

AGREEMENT AND PLAN OF MERGER

This AGREEMENT AND PLAN OF MERGER (the "Agreement"), is executed as of the 25th day of January 2000, by and among HealthStream, Inc., a Tennessee corporation ("HealthStream"), HealthStream Acquisition II, Inc., a newly formed Tennessee corporation and wholly owned subsidiary of HealthStream ("Merger Sub"), Multimedia Marketing, Inc., a Texas corporation d/b/a m3 The Healthcare Learning Company ("M3"), and each of the stockholders of M3 as identified on the signature pages hereto (individually, a "Principal Stockholder," and, collectively, the "Principal Stockholders").

RECITALS

WHEREAS, the Boards of Directors of HealthStream, Merger Sub, and M3 each have determined that a business combination between HealthStream, Merger Sub, and M3 is in the best interests of their respective companies and stockholders and presents an opportunity for their respective companies to achieve long-term strategic and financial benefits, and accordingly have agreed to effect the merger provided for herein upon the terms and subject to the conditions set forth herein.

WHEREAS, for federal income tax purposes, it is intended that the merger provided for herein shall qualify as a reorganization within the meaning of Sections 368(a)(1)(A) and 368(a)(2)(D) of the Internal Revenue Code of 1986, as amended (the "Code").

NOW, THEREFORE, in consideration of the foregoing, and of the representations, warranties, covenants, and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties, intending to be legally bound, hereby agree as follows:

ARTICLE 1.
THE MERGER

1.1. The Merger. Subject to the terms and conditions of this Agreement, at the Effective Time (as defined in Section 1.3), M3 shall be merged with and into Merger Sub in accordance with this Agreement and the separate corporate existence of M3 shall thereupon cease (the "Merger"). Merger Sub shall be the surviving corporation in the Merger (sometimes hereinafter referred to as the "Surviving Corporation") and shall be a wholly owned subsidiary of HealthStream. The Merger shall have the effects specified in Section 48-21-108 of the Tennessee Business Corporation Act ("TBCA") and Section 5.06 of the Texas Business Corporation Act ("Texas Act").

1.2. The Closing. Subject to the terms and conditions of this Agreement, the closing of the Merger (the "Closing") shall take place at the offices of HealthStream, 209 10th Ave. South, Suite 450, Nashville, Tennessee, at 11:00 a.m., local time, on the first business day immediately following the day on which the last to be fulfilled or waived of the conditions set forth in Article 7 herein shall be fulfilled or waived in accordance herewith or at such other time, date, or place as HealthStream and M3 may agree. HealthStream shall provide M3 with 5 days prior notice of the proposed date of Closing. The date on which the Closing occurs is hereinafter referred to as the "Closing Date."

1.3. Effective Time. If all the conditions to the Merger set forth in Article 7 herein shall have been fulfilled or waived in accordance herewith and this Agreement shall not have been terminated as

provided in Article 8 herein, the parties hereto shall cause Articles of Merger, in the forms attached hereto as Exhibits A-1 and A-2, to be properly executed and filed in accordance with the applicable provisions of the TBCA and the Texas Act on the Closing Date. The Merger shall become effective at the time agreed upon and designated in the Articles of Merger filed with the Secretaries of State of Tennessee and Texas as the effective time of the Merger (the "Effective Time").

ARTICLE 2.
CHARTER, BYLAWS,
AND OFFICERS AND DIRECTORS OF THE SURVIVING CORPORATION

2.1. Charter. The Charter of Merger Sub in effect immediately prior to the Effective Time shall, except as amended immediately following the Effective Time in accordance with the Articles of Merger attached as Exhibit A, be the Charter of the Surviving Corporation.

2.2. Bylaws. The Bylaws of Merger Sub in effect immediately prior to the Effective Time shall be the Bylaws of the Surviving Corporation.

2.3. Directors. The directors of Merger Sub immediately prior to the Effective Time shall be the directors of the Surviving Corporation as of the Effective Time.

2.4. Officers. The officers of Merger Sub immediately prior to the Effective Time shall be the officers of the Surviving Corporation as of the Effective Time.

ARTICLE 3.
MERGER CONSIDERATION

3.1. Conversion of M3 Shares in the Merger. At the Effective Time, by virtue of the Merger and without any action on the part of the M3 stockholders ("M3 Stockholders"), the outstanding shares of common stock, $0.01 par value, of M3 (the "M3 Common Stock") shall be converted into, and become exchangeable for, the right to receive 442,182 shares of validly issued, fully paid, and nonassessable common stock, no par value, of HealthStream (the "HealthStream Common Stock"). The 442,182 shares of HealthStream Common Stock issuable in connection with the Merger are sometimes referred to herein as the "Consideration Shares." The Consideration Shares and the Cash Consideration defined in Section 3.5 herein shall be collectively referred to as the "Merger Consideration." 7,162 of the Consideration Shares shall be issued to the Principal Stockholders at the Closing. 36,818 of the Consideration Shares issued to the Principal Stockholders under this Agreement shall be placed in the Escrow Fund described in Section 3.2.1 below. The remaining 131,932 Consideration Shares issued to the Principal Stockholders under this Agreement shall be subject to a Stock Vesting Agreement, substantially in the form of Exhibit I attached hereto. The Merger Consideration shall be issued to the remaining M3 Stockholders according to the schedule attached as Exhibit L hereto.

3.2. Escrow Shares.

3.2.1. At the Closing, pursuant to an Escrow Agreement, substantially in the form attached hereto as Exhibit B (the "Escrow Agreement"), the parties shall establish an escrow (the "Escrow Fund") comprised of 36,818 of the Consideration Shares issuable to the Principal Stockholders pursuant to Section 3.1 (the "Escrow Shares"). The Escrow Shares shall be maintained in escrow for

the purposes of satisfying claims by HealthStream for indemnification under Article 9 herein and the Escrow Agreement until the first anniversary of the Closing Date (the "Escrow Period").

3.2.2. The right to receive Escrow Shares upon expiration of the Escrow Period is an integral part of the Merger Consideration, and shall not be transferable or assignable by, but shall inure to the benefit of the heirs, representatives, or estate of, any Principal Stockholder.

3.4. Fractional Shares. In lieu of the issuance of fractional shares of HealthStream Common Stock, each M3 Stockholder, upon surrender of a certificate which immediately prior to the Effective Time represented M3 Common Stock, shall be entitled to receive a cash payment (without interest) equal to $16.00 per share of any fraction of a share of HealthStream Common Stock to which such holder would be entitled under Section 3.1 herein, but for this provision.

3.5. Adjustments of HealthStream Common Stock. In the event HealthStream changes the number of shares of HealthStream Common Stock issued and outstanding following the date of this Agreement but prior to the Effective Time as a result of a stock split, stock dividend, recapitalization, conversion, reorganization, or any other transaction in which any security of HealthStream or any other entity or cash is issued or paid in respect of the outstanding shares of HealthStream Common Stock and the record date therefor is after the date of this Agreement and prior to the Effective Time, the Consideration Shares shall be proportionately adjusted.

3.6. Cash Consideration. For purposes of this Agreement, the "Cash Consideration" shall be six hundred thousand dollars (US$600,000). The Cash Consideration shall be paid to the M3 Stockholders in accordance with Exhibit L attached hereto in cash at Closing in immediately available funds.

3.7. Merger Sub Shares. Each share of capital stock of Merger Sub issued and outstanding immediately before the Effective Time shall not be converted or exchanged by virtue of the Merger and shall remain outstanding as one share of capital stock of the surviving corporation.

3.8. Reservation of Shares. Simultaneously with the date of this Agreement, the Board of Directors of HealthStream shall reserve for issuance a sufficient number of shares of HealthStream Common Stock for the purpose of issuing its shares to the M3 Stockholders in accordance herewith.

ARTICLE 4.
REPRESENTATIONS AND WARRANTIES OF M3 AND THE PRINCIPAL STOCKHOLDERS

Except as set forth in the disclosure letter delivered prior to the execution hereof to HealthStream (the "M3 Disclosure Letter"), M3 and the Principal Stockholders, severally and not jointly, represent, warrant, and agree as follows:

4.1. Existence; Good Standing; Corporate Power and Authority. M3 is a corporation duly organized, validly existing, and in good standing under the laws of the State of Texas. M3 is qualified to do business as a foreign corporation and is in good standing under the laws of any state of the United States in which the character of the properties owned or leased by them therein or in which the transaction of business makes such qualification necessary, except where the failure to be so qualified would not have a Material Adverse Effect as defined in Section 10.15.3 herein. M3 has all requisite corporate power and authority to own, operate, and lease its respective properties and to carry on its respective business as now conducted.

M3 has provided to HealthStream in the M3 Disclosure Letter complete and correct copies of its articles of incorporation and bylaws each of which is in full force and effect.

4.2. Authorization, Validity, and Effect of Agreements. M3 has the full corporate power and authority to execute and deliver this Agreement and all agreements and documents contemplated hereby. This Agreement and the Merger have been approved by the Board of Directors of M3 and, upon the approval of the M3 Stockholders, the consummation by M3 of the transactions contemplated hereby will have been duly authorized by all requisite corporate action. Subject to the approval of the M3 Stockholders, this Agreement constitutes, and all agreements and documents contemplated hereby (when executed and delivered pursuant hereto) will constitute, the valid and legally binding obligations of M3 and the Principal Stockholders, enforceable in accordance with their respective terms subject to the effect of bankruptcy, insolvency, reorganization, moratorium and other laws of general applicability relating to or affecting creditors' rights and to general equity principles.

4.3. Capitalization. The authorized capital stock of M3 consists of 10,000,000 shares of M3 Common Stock, 5,313,740 shares of which are issued and outstanding as of the date of this Agreement and owned beneficially and of record by the M3 Stockholders as set forth in the M3 Disclosure Letter. M3 has no outstanding capital stock, bonds, debentures, notes, or other obligations the holders of which have the right to vote (or which are convertible into or exercisable for securities having the right to vote) with the stockholders of M3 on any matter. All issued and outstanding shares of M3 Common Stock are duly authorized, validly issued, fully paid, nonassessable, and free of preemptive rights. There are no options, warrants, calls, subscriptions, convertible securities, or other rights, agreements, or commitments that obligate M3 to issue, transfer, or sell any shares of its capital stock. To M3's or the Principal Stockholders' Knowledge, as defined in Section 10.15.2 herein, none of the outstanding shares of M3 Common Stock are subject to any voting trust agreement, lien, encumbrance, security interest, restriction, or claim.

4.4. Other Interests. M3 does not own, directly or indirectly, or have any obligation to acquire any interest or investment in any corporation, partnership, joint venture, business, trust, or other entity.

4.5. No Violation. Subject to the approval of the M3 Stockholders, neither the execution and delivery by M3 and the Principal Stockholders of this Agreement nor the consummation by M3 and the Principal Stockholders of the transactions contemplated hereby in accordance with the terms hereof, will: (i) conflict with or result in a violation of any provisions of the Articles of Incorporation or bylaws of M3; (ii) conflict with, result in a breach of any provision of or the modification or termination of, constitute a default under, or result in the creation or imposition of any lien, security interest, charge, or encumbrance upon any of the assets of M3 or any Principal Stockholder pursuant to any material commitment, lease, contract, or other material agreement or instrument to which M3 or any Principal Stockholder is a party (including, without limitation, "Material Contracts" as defined in Section 4.21 below and which could cause a Material Adverse Effect); or (iii) violate or result in a change in any rights or obligations under any governmental permit or license or any order, arbitration award, judgment, writ, injunction, decree, statute, rule, or regulation applicable to M3 or any Principal Stockholder.

4.6. Regulatory Consents. No consent, approval, order, or authorization of, or registration, declaration, or filing with, any governmental entity, is required by or with respect to M3 or any Principal Stockholder in connection with the execution and delivery of this Agreement by M3 or any Principal Stockholder, or the consummation by M3 or any Principal Stockholder of the transactions contemplated hereby, which the failure to obtain would have a Material Adverse Effect.

4.7. Financial Statements. M3 has delivered to HealthStream in the M3 Disclosure Letter its audited financial statements for the years ended December 31, 1997, 1998 and 1999. Each of the balance sheets provided, or to be provided pursuant to Section 6.6 herein, to HealthStream by M3 (including the related notes and schedules) fairly presents the financial condition of M3 as of their respective dates and each of the statements of income, stockholders' equity, and cash flows provided, or to be provided pursuant to Section 6.6 herein, to HealthStream by M3 (including any related notes and schedules) fairly presents the results of operations, stockholders' equity, and cash flows of M3 for the periods set forth therein (subject, in the case of interim statements, to normal year-end audit adjustments, none of which will constitute a Material Adverse Effect), in each case in accordance with generally accepted accounting principals consistently applied ("GAAP"). Such financial statements have been prepared from the books and records of M3 which accurately and fairly reflect the transactions and the acquisitions and dispositions of the assets of M3 in all material respects. M3 does not have any liabilities, contingent or otherwise, whether due or to become due, known or unknown, other than as reflected in the December 31, 1999 financial statements or the M3 Disclosure Letter, or those liabilities incurred in the ordinary course of business since December 31, 1999.

4.8. No Material Adverse Changes. Since December 31, 1999, there has not been (i) any material adverse change in the financial condition, results of operations, business, assets, or liabilities (contingent or otherwise, whether due or to become due, known or unknown) of M3; (ii) any dividend declared or paid or distribution made on the capital stock of M3, or any capital stock thereof redeemed or repurchased; (iii) any incurrence by M3 of long term debt; (iv) any material salary, bonus, or compensation increases to any officers, employees, or agents of M3 except for annual bonuses or raises which are consistent with past practices of M3; (v) any pending or threatened labor disputes or other labor problems against or potentially affecting M3 that could cause a Material Adverse Effect; or (vi) any other transaction entered into by M3 except in the ordinary course of business and consistent with past practice excluding the incurrence of expenses in connection with this Agreement and the transactions contemplated hereby.

4.9. Tax Matters.

4.9.1. For purposes of this Agreement, (i) "Tax" means any federal, state, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Section 59A of the Code, customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not, and (ii) "Tax Return" means any return, report, information return, or other document (including any related or supporting information) filed or required to be filed with any taxing authority in connection with its determination, assessment, collection, administration, or imposition of any Tax.

4.9.2. M3 has duly and timely filed all Tax Returns and has duly and timely paid all Taxes and other charges (whether or not shown on any Tax Return) due or claimed to be due from any of them by federal, foreign, state, or local taxing authorities or has set up an adequate reserve for all Taxes payable. True and correct copies of all Tax Returns relating to federal taxes and state income and sales taxes and other charges for the period from organization through December 31, 1999 have been heretofore delivered to HealthStream. The accruals and reserves for Taxes contained in the financial statements and carried on the books of M3 (other than any reserve for deferred taxes established to reflect timing differences between book and tax income) are adequate to cover all material Tax liabilities. Since December 31, 1999, M3 has not incurred any Tax liabilities other than in the ordinary course of business. There are no Tax liens (other than liens for current Taxes not yet due) upon any properties or assets of M3 (whether real, personal, or mixed, tangible or intangible), and, except as reflected in the financial statements, there are no pending or, to M3's Knowledge, threatened audits or examinations relating to, or claims asserted for, Taxes or assessments against M3 and M3 has no Knowledge of any basis for any such claims. M3 has not granted or been requested to grant any extension of the limitation period applicable to any claim for Taxes or assessments with respect to Taxes. M3 is not a party to any Tax allocation or sharing agreement. M3 has no liability for the Taxes of any Affiliated Group under Treasury Regulation 1.1502-6 (or any similar provision of state, local, or foreign law). M3 has withheld and paid all material Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, or stockholder.

4.9.3. The M3 Disclosure Letter lists each jurisdiction in which M3 files Tax Returns for each period or portion thereof ending on or before the date of this Agreement. Except as set forth in the M3 Disclosure Letter, to M3's or the Principal Stockholders' Knowledge, there is no claim outstanding against M3 by any taxing authority in a jurisdiction where M3 does not file Tax Returns that it is or may be subject to taxation by that jurisdiction.

4.9.4. All material elections with respect to Taxes affecting M3 as of the date hereof are set forth in the M3 Disclosure Letter.

4.9.5. All joint ventures, partnerships, or other arrangements or contracts to which M3 is a party and that could be treated as a partnership for federal income tax purposes are set forth in the M3 Disclosure Letter.

4.9.6. M3 has not (i) filed a consent pursuant to Section 341(f) of the Code nor agreed to have Section 341(f)(2) apply to any disposition of a subsection (f) asset (as such term is defined in Section 341(f) of the Code) owned by M3; (ii) agreed, or is required to agree, to make any adjustment under Section 481(a) of the Code by reason of a change in accounting method or otherwise that will affect the liability of M3 for Taxes; (iii) made an election, or is required to make an election, to treat any asset of M3 as owned by another person pursuant to the provisions of former Section 168(f)(8) of the Code or as tax-exempt bond financed property or tax-exempt use property within the meaning of Section 168 of the Code; and (iv) made any of the foregoing elections or is required to apply any of the foregoing rules under any comparable state or local tax provision.

4.9.7. As soon as practicable following the Effective Time, the Principal Stockholders shall, on behalf of M3, timely file all Tax Returns for, and pay all Taxes due with respect to, the period ending December 31, 1999 and the short period beginning on January 1, 2000 and ending on the Closing Date. The Principal Stockholders shall close M3's books on the Closing Date and shall report on M3's federal corporate income Tax Return for the short period ending on the Closing Date

all items of income, loss, deduction, and credit arising during the short period under M3's method of accounting.

4.10. Employees and Fringe Benefit Plans.

4.10.1. The M3 Disclosure Letter sets forth the names, ages, and titles of all members of the Board of Directors and officers of M3 and all employees of M3 earning in excess of $30,000 per year, and the annual rate of compensation (including bonuses) being paid to each such officer and employee as of the most recent practicable date.

4.10.2. The M3 Disclosure Letter lists each employment, bonus, deferred compensation, pension, stock option, stock appreciation right, profit-sharing or retirement plan, arrangement, or practice, each medical, vacation, retiree medical, severance pay plan, and each other agreement or fringe benefit plan, arrangement, or practice, of M3, whether legally binding or not, that affects one or more of M3's employees, including all "employee benefit plans" as defined by Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (collectively, the "Plans"). M3 neither has nor sponsors, nor participates in any Plan that is subject to Title IV of ERISA or the minimum funding standards of Section 412 of the Code.

4.10.3. For each Plan that is an "employee benefit plan" under Section 3(3) of ERISA, M3 has delivered to HealthStream correct and complete copies of the plan documents and summary plan descriptions, the most recent determination letter received from the Internal Revenue Service, the most recent Form 5500 Annual Report, and all related trust agreements, insurance contracts, and funding agreements that implement each such Plan.

4.10.4. M3 does not have any commitment, whether formal or informal and whether legally binding or not, (i) to create any additional Plan; (ii) to modify or change any Plan; or (iii) to maintain for any period of time any Plan. The M3 Disclosure Letter contains an accurate and complete description of the funding policies (and commitments, if any) with respect to each existing Plan.

4.10.5. Except where failure to do so would not have a Material Adverse Effect, M3 does not have any unfunded past service liability in respect of any Plans; M3, nor any Plan nor any trustee, administrator, fiduciary, or sponsor of any Plan has engaged in any prohibited transaction as defined in Section 406 of ERISA or Section 4975 of the Code for which there is no statutory exemption in Section 408 of ERISA or Section 4975 of the Code; all filings, reports, and descriptions as to such Plans (including Form 5500 Annual Reports, summary plan descriptions, and summary annual reports) required to have been made or distributed to participants, the Internal Revenue Service, the United States Department of Labor, and other governmental agencies have been made in a timely manner or will be made on or prior to the Closing Date; there is no material litigation, disputed claim, governmental proceeding, or investigation pending or to the best of M3's or the Principal Stockholders' Knowledge, threatened with respect to any of the Plans, the related trusts, or any fiduciary, trustee, administrator, or sponsor of the Plans; the Plans have been established, maintained, and administered in all material respects in accordance with their governing documents and applicable provisions of ERISA and the Code and Treasury Regulations promulgated thereunder; and each Plan that is intended to be a qualified plan under Section 401(a) of the Code has received a favorable determination letter from the Internal Revenue Service with respect to the current terms of the Plan.

4.10.6. Except where failure to do so would not have a Material Adverse Effect, M3 has to M3's or the Principal Stockholders' Knowledge, complied in all respects with all applicable federal,

state, and local laws, rules, and regulations relating to employees' employment and employment relationships, including, without limitation, wage related laws, anti-discrimination laws, employee safety laws, and COBRA (defined herein to mean the requirements of Code Section 4980B, Proposed Treasury Regulation Section 1.162-26 and Part 6 of Subtitle B of Title I of ERISA).

4.10.7. The consummation of the transactions contemplated by this Agreement will not (i) result in the payment or series of payments by M3 to any employee or other person of an "excess parachute payment" within the meaning of Section 280G of the Code; (ii) entitle any employee or former employee of M3 to severance pay, unemployment compensation, or any other payment; or (iii) accelerate the time of payment or vesting of any stock option, stock appreciation right, deferred compensation, or other employee benefits under any Plan (including vacation and sick pay).

4.10.8. None of the Plans that are "welfare benefit plans," within the meaning of Section 3(1) of ERISA, provide for continuing benefits or coverage after termination or retirement from employment, except for COBRA rights under a "group health plan" as defined in Code Section 4980B(g) and ERISA Section 607.

4.10.9. Neither M3 nor any member in a "controlled group" with M3 (as defined in ERISA) has ever contributed to, participated in, or withdrawn from a multi-employer plan as defined in Section 4001(a)(3) of Title IV of ERISA, and M3 has not incurred or owes any liability as a result of any partial or complete withdrawal by any employer from such a multi-employer plan as described under Section 4201, 4203, or 4205 of ERISA.

4.11. Assets. M3 owns the assets reflected in the December 31, 1999 balance sheet, including the leasehold estates, with good and indefeasible title, free and clear of any and all claims, liens, mortgages, security interests, or encumbrances whatsoever, and free and clear of any rights or privileges capable of becoming claims, liens, mortgages, securities interests, or encumbrances. The buildings, plants, structures, and equipment owned or leased by M3 are in good operating condition and repair, and are adequate for the uses for which they are being put, and none of such buildings, plants, structures, or equipment is in need of maintenance or repairs except for ordinary and routine maintenance and repairs that are not material in nature or cost. The assets of the business of M3 reflected in the December 31, 1999 balance sheet are sufficient for the continued conduct of the business of M3 after the Closing Date in substantially the same manner as conducted prior to the Closing Date.

4.12. Accounts Receivable. All accounts receivable of M3 that are reflected on the balance sheet dated December 31, 1999 and on the accounting records of M3 as of the Closing Date (collectively, the "Accounts Receivable") represent or will represent valid obligations arising from sales actually made or services actually performed in the ordinary course of business. Unless paid prior to the Closing Date, the Accounts Receivable are or will be as of the Closing Date current and collectible net of the respective reserves shown on the balance sheet dated December 31, 1999, or on the accounting records of M3 as of the Closing Date (which reserves are adequate and calculated consistent with past practice and, in the case of the reserve as of the Closing Date, will not represent a greater percentage of the Accounts Receivable as of the Closing Date than the reserve reflected in the balance sheet dated December 31, 1999, and will not represent a material adverse change in the composition of such Accounts Receivable in terms of aging). Subject to such reserves, each of the Accounts Receivable either has been or will be collected in full, without any set-off, on or before the first anniversary of the Closing Date. There is no contest, claim, or right of set-off with any maker of an Accounts Receivable relating to the amount or validity of such Accounts Receivable.

4.13. Lawful Operations. To M3's or the Principal Stockholders' Knowledge, M3 has been and currently is conducting its respective business, and each of the premises leased or owned by M3 have been

and now are being used and operated, in compliance with all statutes, regulations, orders, covenants, restrictions, and plans of federal, state, regional, county, or municipal authorities, agencies, or boards applicable to the same, except where the failure to so comply would not have a Material Adverse Effect.

4.14. Litigation. There is no suit, action, or proceeding pending or, to the Knowledge of M3 or any of the Principal Stockholders, threatened against or affecting M3. M3 is not subject to any currently existing order, writ, injunction, or decree relating to its respective operations.

4.15. Corporate Records; Other Information. The minute books of M3, copies of which have been provided to HealthStream, reflect all meetings of the boards of directors, committees of the boards of directors, and the stockholders thereof.

4.16. Intellectual Property Rights. M3 owns or possesses the right to use all trademarks, service marks, trade names, slogans, copyrights in published and unpublished works, patents, patent applications, rights in mask works, and all trade secrets, it currently uses without any material conflict or alleged conflict with the rights of others, except where any such conflict would not have a Material Adverse Effect. All copyrights are valid and enforceable, and are not subject to any maintenance fees, taxes, or actions falling due within ninety days after the date of this Agreement. No copyright is infringed or has been challenged or threatened in any way. None of the subject matter of any copyright infringes or is alleged to infringe any copyright of any third party or is a derivative work based on the work of a third party. All works encompassed by a copyright from a third party have been marked with the proper copyright notice.

4.17. Certain Business Practices and Regulations. Since 1996, neither M3, nor to M3's Knowledge, any of its executive officers, directors, or employees, has (i) made or agreed to make any contribution, payment, or gift to any customer, supplier, landlord, political candidate, governmental official, employee, or agent where either the contribution, payment, or gift or the purpose thereof was illegal under any law or regulation; (ii) established or maintained any unrecorded fund or asset for any purpose or made any false entries on its respective books and records for any reason; (iii) made or agreed to make any contribution, or reimbursed any political gift or contribution made by any other person, to any candidate for federal, state, or local public office in violation of any law or regulation; or (iv) submitted any claim for services rendered or reimbursement for expenses to any person where the services were not actually rendered or the expenses were not actually incurred.

4.18. Insurance. All policies and binders of insurance for professional liability, directors and officers, fire, liability, workers' compensation, and other customary matters held by or on behalf of M3 ("Insurance Policies") are described in the M3 Disclosure Letter and copies of which have been made available to HealthStream. The Insurance Policies (which term shall include any insurance policy entered into after the date of this Agreement in replacement of an Insurance Policy provided that such replacement policy shall insure against risks and liabilities, and in amounts and under terms and conditions, substantially the same as those provided in such replaced policy or binder) are in full force and effect. M3 is not in default with respect to any material provision contained in any Insurance Policy. M3 has not failed to give any notice of any claim under any Insurance Policy in due and timely fashion, nor has any coverage for current claims been denied which failure or denial could cause a Material Adverse Effect.

4.19. No Brokers. M3 has not entered into any contract, arrangement, or understanding with any person or firm that may result in the obligation of M3 or HealthStream to pay any finder's fees, brokerage or agent's commissions, or other like payments in connection with the negotiations leading to this Agreement or the consummation of the transactions contemplated hereby.

4.20. HealthStream Stock Ownership; Investment Intent. The Principal Stockholders and M3 shall, at the Closing, cause the all of the M3 Stockholders to, jointly and severally, represent, warrant, and agree as follows:

4.20.1. The shares of HealthStream Common Stock issuable in the Merger are being acquired by the M3 Stockholders for investment and not with a view to the distribution thereof, and each of the M3 Stockholders acknowledges and understands that the certificate(s) representing such shares of HealthStream Common Stock will bear a legend in substantially the following form:

THE SHARES OF STOCK REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES ACT AND CANNOT BE SOLD, TRANSFERRED, OR OTHERWISE DISPOSED OF UNLESS REGISTERED UNDER SUCH ACTS OR UNLESS EXEMPTIONS FROM REGISTRATION ARE AVAILABLE.

THE TRANSFERABILITY OF THE SHARES EVIDENCED BY THIS CERTIFICATE IS RESTRICTED BY THE PROVISIONS OF A STOCKHOLDERS' AGREEMENT ENTERED INTO BETWEEN THE HOLDER OF THIS CERTIFICATE AND THE COMPANY. A COPY OF THE STOCKHOLDERS' AGREEMENT IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY AND MAY BE REVIEWED AT SUCH OFFICE UPON REQUEST.

4.20.2. (i) Each of the M3 Stockholders is an "accredited investor" as defined under Rule 501 of Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act") or each of the M3 Stockholders has such knowledge and experience in financial and business matters that they will be able to understand information concerning HealthStream and to evaluate the risks in any investment in HealthStream Common Stock.

(ii) Each of the M3 Stockholders confirms that HealthStream has made available to him or her to his or her representatives the opportunity to ask questions of HealthStream's officers and directors and to acquire such information about the shares of HealthStream Common Stock and the business and financial condition of HealthStream as the M3 Stockholders have requested, which additional information has been received.

(iii) In deciding to acquire shares of HealthStream Common Stock pursuant to the Merger, the M3 Stockholders have consulted with their legal, financial, and tax advisers with respect to the Merger and the nature of the investment together with additional information concerning HealthStream provided under subsection (ii) above.

(iv) Each M3 Stockholder has adequate means of providing for his or her current needs and personal contingencies and has no need for liquidity in his or her investment in HealthStream. Each of the M3 Stockholders, either alone or with his or her representatives, has such knowledge and experience in financial and business matters that he or she is capable of evaluating the merits and risks of an investment in HealthStream.

(v) Each M3 Stockholder has discussed with counsel, to the extent such M3 Stockholder felt necessary, the requirements, limitations, and restrictions on his or her ability to sell, transfer, or otherwise dispose of the HealthStream Common Stock to be received in the Merger, and fully understands the requirements, limitations, and restrictions on his or her ability to transfer, sell, or otherwise dispose of the HealthStream Common Stock.

(vi) Until the earlier of (i) the Effective Time or (ii) the termination of this Agreement, each M3 Stockholder will not sell, transfer, or otherwise dispose of, or reduce such person's interest in or risk relating to, any M3 Common Stock or any instrument exercisable for or convertible into M3 Common Stock currently owned by the M3 Stockholder.

4.21. Contracts; No Defaults. The M3 Disclosure Letter contains a complete and accurate list, and M3 has previously delivered to HealthStream complete copies of, all contracts and agreements for the performance of services or the purchase or leasing of property by M3 of an amount or value in excess of ten thousand dollars (US$10,000) ("Material Contracts"). To the extent it applies to M3, each of the Material Contracts is in full force and effect and is valid and enforceable in accordance with its terms subject to the effect of bankruptcy, insolvency, reorganization, moratorium and other laws of general applicability relating to or affecting creditors' rights and to general equity principles, and M3 is in full compliance with all applicable terms and requirements thereof. No event has occurred or circumstance exists that (with or without notice or lapse of time) may contravene, conflict with, or result in a violation or breach of, or give any person the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate, or modify, any Material Contract. There are no renegotiations of, attempts to renegotiate, or outstanding rights to renegotiate any material amounts paid or payable to M3 under any Material Contract with any person, including any governmental authority, having the contractual or statutory right to demand or require such renegotiation.

4.22. Affiliate Transactions. None of the M3 Stockholders has any interest in any property (whether real, personal, or mixed, tangible or intangible) used in or pertaining to M3 business. No M3 Stockholder owns, of record or beneficially, any equity or other financial or profit interest in any entity that has had business dealings with M3 (other than business dealings of transactions conducted in the ordinary course of business with M3 at substantially prevailing market prices and on substantially prevailing market terms) or that has engaged in competition with M3.

4.23. Full Disclosure. All of the information provided by M3 and its representatives herein or in the M3 Disclosure Letter is true, correct, and complete in all material respects, and no representation, warranty, or statement made by M3 or the Principal Stockholders in or pursuant to this Agreement or the M3 Disclosure Letter contains any untrue statement of a material fact or omits to state any material fact necessary to make such representation, warranty, or statement, in light of the circumstances in which they were made, not misleading.

4.24 Section 368 Representations.

4.24.1. The fair market value of the HealthStream Common Stock and other consideration received by each M3 Stockholder will be approximately equal to the fair market value of the M3 Common Stock surrenders in the Merger.

4.24.2. There is no plan or intention by the M3 Stockholders to sell, exchange or otherwise dispose of a number of shares of HealthStream Common Stock received in the transaction that would reduce the M3 Stockholders' ownership of HealthStream Common Stock to a number of shares having a value, as of the date of the transaction, of less than 50 percent (50%) of the value of all of the formerly outstanding stock of M3 as of the same date. For purposes of this representation, shares of M3 Common Stock exchanged for cash or other property, surrendered by dissenters or exchanged for cash in lieu of fractional shares of HealthStream Common Stock will be treated as outstanding HealthStream Common Stock on the date of the transaction, moreover, shares of HealthStream

Common Stock and shares of HealthStream Common Stock held by the M3 Stockholders and otherwise sold, redeemed or disposed of prior or subsequent to the transaction will be considered in making this representation.

4.24.3. M3 has provided to HealthStream true and correct copies of statements ("Section 368 Certificates") received from each M3 Stockholder with respect to his plan or intention to sell or otherwise dispose of the HealthStream Common Stock to be received pursuant to the Merger.

4.24.4. Merger Sub will acquire at least 90 percent (90%) of the fair market value of the net assets and at least 70 percent (70%) of the fair market value of the gross assets held by M3 immediately prior to the transaction. For purposes of this representation, amounts paid by M3 to dissenters, amounts paid by M3 to M3 Stockholders who receive cash or other property, M3 assets used to pay its reorganization expenses, and all redemptions and distributions (except for regular, normal dividends) made by M3 immediately preceding the transfer, will be included as assets of M3 held immediately prior to the transaction.

4.24.5. Neither HealthStream nor Merger Sub will assume any debts or obligations of the holders of the M3 Common Stock as part of the Merger.

4.24.6. Except as set forth in the M3 Disclosure Letter, there have not been any sales or redemptions of M3's capital stock in contemplation of the Merger. The M3 Disclosure Letter sets forth all transactions in the capital stock of M3 Stockholders since January 1, 1999.

4.24.7. The liabilities of M3 assumed by Merger Sub and the liabilities to which the transferred assets of M3 are subject were incurred by M3 in the ordinary course of its business.

4.24.8. M3 and the M3 Stockholders will pay their respective expenses, if any, which are incurred in connection with the Merger.

4.24.9. M3 has not disposed of any assets (either as a dividend or otherwise) constituting more than ten percent (10%) of the fair market value of all of its assets (ignoring any liabilities) at any time either during the past twelve months or in contemplation of the Merger.

4.24.10. M3 is not an investment company as defined in Section 368(a)(2)(F)(iii) and (iv) of the Code.

4.24.11. M3 is not under the jurisdiction of a court in a Title 11 or similar case within the meaning of Section 368(a)(3)(A) of the Code.

4.24.12. The fair market value of the assets of M3 transferred to Merger Sub will equal or exceed the sum of the liabilities assumed by Merger Sub, plus the amount of liabilities, if any, to which the transferred assets are subject.

4.24.13. M3 has a valid business purpose for entering into the Merger.

4.24.14. Any compensation paid or to be paid to any M3 Stockholder who will be an employee of, or perform advisory services for, HealthStream or any affiliate thereof after the Merger will be in consideration for services rendered or to be rendered, and such compensation will be commensurate with amounts paid to third parties bargaining at arm's length for similar services and has been bargained for independently of negotiations regarding consideration to be paid for M3

shares outstanding. None of the shares of HealthStream Common Stock received by any M3 Stockholder is or will be separate consideration for, or allocable to, any employment, consulting or other arrangement which may be entered into between HealthStream or any affiliate thereof and such shareholder for services rendered or to be rendered by any shareholder.

4.24.15. No indebtedness between HealthStream or any of its subsidiaries, on the one hand, and M3 or any of its subsidiaries, on the other hand, exists or will exist prior to the Merger that (a) was issued or acquired at a discount, or (b) will be settled, as a result of the Merger, at a discount. No "installment obligation" (as the quoted term is defined for purposes of Section 453B of the Code) between HealthStream or any of its subsidiaries, on the one hand, and M3 or any of its subsidiaries, on the other hand, exists or will exist prior to the Merger that will be extinguished as a result of the Merger.

4.25 NO WARRANTY OF CONDITION. The assets and properties of M3 are to be taken as a part of the Merger AS IS, WHERE IS, AND WITH ALL FAULTS, AND WITHOUT ANY REPRESENTATIONS OR WARRANTIES WHATSOEVER, EXPRESS OR IMPLIED, WRITTEN OR ORAL, EXCEPT SOLELY AS EXPRESSLY SET FORTH IN THIS AGREEMENT; IT BEING THE INTENTION OF HEALTHSTREAM, M3 AND THE PRINCIPAL STOCKHOLDERS TO EXPRESSLY REVOKE, RELEASE, NEGATE AND EXCLUDE ALL EXPRESS AND IMPLIED REPRESENTATIONS AND WARRANTIES (EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT) AS TO (I) THE CONDITION OF M3'S ASSETS OR ANY ASPECT THEREOF, INCLUDING, WITHOUT LIMITATION, ANY AND ALL EXPRESS OR IMPLIED REPRESENTATIONS AND WARRANTIES RELATED TO MERCHANTABILITY OR FITNESS FOR A PARTICULAR USE OR PURPOSE; (II) THE NATURE OR QUALITY OF CONSTRUCTION, STRUCTURAL DESIGN OR ENGINEERING OF THE PROPERTIES OR ASSETS, INCLUDING ANY LATENT OR PATENT DEFECTS, IF ANY; (III) THE QUALITY OF THE LABOR OR MATERIALS INCLUDED IN THE PROPERTIES OR ASSETS, INCLUDING ANY LATENT OR PATENT DEFECTS; (IV) ANY FEATURES OR CONDITIONS, INCLUDING ANY LATENT OR PATENT DEFECTS, AT OR WHICH AFFECT THE PROPERTIES OR ASSETS WITH RESPECT TO ANY PARTICULAR PURPOSE, USE, POTENTIAL OR OTHERWISE; (V) THE SIZE, SHAPE, CONFIGURATION, CAPACITY, QUANTITY, QUALITY, CASH FLOW, EXPENSES, VALUE, MAKE, MODEL OR CONDITION OF THE PROPERTIES OR ASSETS; (VI) ALL EXPRESS OR IMPLIED REPRESENTATIONS OR WARRANTIES CREATED BY ANY AFFIRMATION OF FACT OR PROMISE OR BY ANY DESCRIPTION OF THE PROPERTIES OR ASSETS; (VII) ANY ENVIRONMENTAL, STRUCTURAL OR OTHER CONDITION OR HAZARD OR THE ABSENCE THEREOF HERETOFORE, NOW, OR HEREAFTER AFFECTING IN ANY MANNER ANY OF THE PROPERTIES OR ASSETS; AND (VIII) ALL OTHER EXPRESS OR IMPLIED WARRANTIES AND REPRESENTATIONS BY M3 OR THE PRINCIPAL STOCKHOLDERS WHATSOEVER, EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT. FURTHERMORE, NEITHER M3 NOR THE PRINCIPAL STOCKHOLDERS MAKE ANY REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, AS TO THE FUTURE PROFITABILITY, FUTURE CASH FLOW OR VIABILITY OF M3, ALL OF WHICH HEALTHSTREAM MUST DETERMINE FROM ITS INVESTIGATION OF THE BOOKS AND RECORDS OF M3 AND HEALTHSTREAM'S OWN BUSINESS ACUMEN. HEALTHSTREAM ACKNOWLEDGES AND AGREES THAT THE DOCUMENTATION AND INFORMATION PROVIDED BY M3 OR THE PRINCIPAL STOCKHOLDERS TO HEALTHSTREAM ARE NOT THE SOLE SOURCE OF INFORMATION UPON WHICH ITS DECISION TO ENTER INTO THIS AGREEMENT WAS BASED.

ARTICLE 5.
REPRESENTATIONS AND WARRANTIES OF HEALTHSTREAM AND MERGER SUB

Except as set forth in the disclosure letter delivered at or prior to the execution hereof to M3 and the Principal Stockholders (the "HealthStream Disclosure Letter"), HealthStream and Merger Sub, jointly and severally, represent, warrant, and agree as follows:

5.1. Existence; Good Standing; Corporate Authority. HealthStream is duly incorporated, validly existing, and in good standing under the laws of the State of Tennessee. Merger Sub is duly incorporated, validly existing, and in good standing under the laws of the State of Tennessee. HealthStream is duly licensed or qualified to do business as a foreign corporation and is in good standing under the laws of any other state of the United States in which the character of the properties owned or leased by it therein or in which the transaction of its business makes such qualification necessary, except where the failure to be so qualified would not have a Material Adverse Effect. HealthStream and Merger Sub each have all requisite corporate power and authority to own, operate, and lease their respective properties and carry on their businesses as now conducted.

5.2. Authorization, Validity, and Effect of Agreements. Each of HealthStream and Merger Sub has the requisite corporate power and authority to execute and deliver this Agreement and all agreements and documents contemplated hereby. This Agreement, the Merger and the transactions contemplated herein have been approved by the Boards of Directors of HealthStream and Merger Sub and by the shareholder of Merger Sub. The consummation by HealthStream and Merger Sub of the transactions contemplated hereby has been duly authorized by all requisite corporate action. This Agreement constitutes, and all agreements and documents contemplated hereby (when executed and delivered pursuant hereto) will constitute, the valid and legally binding obligations of HealthStream and Merger Sub, enforceable in accordance with their respective terms. The issuance and delivery by HealthStream of shares of HealthStream Common Stock in connection with the Merger and this Agreement have been duly and validly authorized by all necessary corporate action on the part of HealthStream. The shares of HealthStream Common Stock to be issued in connection with the Merger and this Agreement, when issued in accordance with the terms of this Agreement, will be validly issued, fully paid, and nonassessable. Upon delivery of the HealthStream Common Stock in exchange for the M3 Common Stock in accordance with the terms of this Agreement, the holders of the HealthStream Common Stock will be the owners of the HealthStream Common Stock.

5.3. Capitalization. The authorized capital stock of HealthStream consists of 20,000,000 shares of Common Stock, no par value, 2,294,163 of which are issued and outstanding, and 5,000,000 shares of Preferred Stock, no par value, of which 76,000 shares have been designated as Series A Convertible Preferred Stock, 1,376,360 shares have been designated as Series B Convertible Preferred Stock, no par value, and 650,000 shares have been designated as Series C Convertible Preferred Stock, no par value. The outstanding shares of Common Stock and Convertible Preferred Stock have been duly authorized and validly issued and are fully paid and nonassessable. All of the shareholders of the capital stock of HealthStream are a party to the Shareholders' Agreement attached as Exhibit F, the Co-Sale Agreement attached as Exhibit G, the Voting Agreement attached as Exhibit H (collectively referred to herein as the "Investor Agreements"). A true and complete copy of each of the Investor Agreements with their amendments have been provided to M3 and the Principal Stockholders. Each of the Investor Agreements is in full force and effect and is valid and enforceable in accordance with its terms and HealthStream and each stockholder or other person that has or had any obligation or liability under the Investor Agreements are in full compliance with all applicable terms and requirements thereof. No event has occurred or circumstance exists that (with or without notice or lapse of time) may contravene, conflict with or result in a violation or breach of, or give any person the right to declare a breach or default or exercise any remedy under, or to cancel, terminate, or modify any Investor

Agreement. Except for the Investor Agreements, none of the outstanding shares of capital stock are subject to any voting agreement, stockholder agreement, co-sale agreement, registration rights agreement (except those registration rights granted pursuant to the Investor Rights Agreement dated April 21, 1999 and amended August 11, 1999), voting trust agreement, buy-sell agreement or any lien encumbrance, security interest, restriction, or claim.

5.4. Subsidiaries. The HealthStream Disclosure Letter sets forth the outstanding capital stock of Merger Sub and each corporation, partnership, or other entity of which at least a majority of the voting interest is owned directly or indirectly by HealthStream (a "HealthStream Subsidiary"). Merger Sub has not engaged in any activity other than in connection with the transactions contemplated by this Agreement.

5.5. No Violation. Neither the execution and delivery by HealthStream and Merger Sub of this Agreement, nor the consummation by HealthStream and Merger Sub of the transactions contemplated hereby in accordance with the terms hereof, will: (i) conflict with or result in a breach of any provisions of the charter or bylaws of HealthStream or Merger Sub; (ii) conflict with, result in a breach of any provision of or the modification or termination of, constitute a default under, or result in the creation or imposition of any lien, security interest, charge, or encumbrance upon any of the assets of HealthStream or Merger Sub pursuant to any material commitment, lease, contract, or other material agreement or instrument to which HealthStream or Merger Sub is a party; or (iii) violate or result in a change in any rights or obligations, under any governmental permit or license or any order, arbitration award, judgment, writ, injunction, decree, statute, rule, or regulation applicable to HealthStream or Merger Sub.

5.6. Litigation. There is no action, suit, or proceeding pending against HealthStream or any HealthStream subsidiary (including, but not limited to, Merger Sub) or, to the Knowledge of HealthStream or any HealthStream subsidiary, threatened against or affecting HealthStream or any HealthStream subsidiary, at law or in equity, or before or by any federal or state commission, board, bureau, agency, or instrumentality, that is reasonably likely to have a Material Adverse Effect. HealthStream is not subject to any currently existing order, writ, injunction or decree relating to its operations or those of its subsidiaries.

5.7. Absence of Certain Changes. Since December 31, 1999, there has not been any material adverse change in the financial condition, results of operations, business, assets or liabilities (contingent or otherwise, whether due or to become due, known or unknown), of HealthStream, except for changes in the ordinary course of business.

5.8. No Brokers. HealthStream has not entered into any contract, arrangement, or understanding with any person or firm that may result in the obligation of HealthStream to pay any finder's fees, brokerage or agent's commissions, or other like payments in connection with the negotiations leading to this Agreement or the consummation of the transactions contemplated hereby. HealthStream is not aware of any claim for payment of any finder's fees, brokerage or agent's commissions, or other like payments in connection with the negotiations leading to this Agreement or the consummation of the transactions contemplated hereby.

5.9. Regulatory Consents. No consent, approval, order, or authorization of, or registration, declaration, or filing with, any governmental entity, is required by or with respect to HealthStream or Merger Sub in connection with the execution and delivery of this Agreement by HealthStream or Merger Sub, or the consummation by HealthStream or Merger Sub of the transactions contemplated hereby, which the failure to obtain would have a Material Adverse Effect.

5.10. Full Disclosure. All of the information provided by HealthStream and its representatives herein or in the HealthStream Disclosure Letter is true, correct, and complete in all material respects, and no representation, warranty, or statement made by HealthStream or Merger Sub in or pursuant to this Agreement

or the HealthStream Disclosure Letter contains any untrue statement of a material fact or omits to state any material fact necessary to make such representation, warranty, or statement, in light of the circumstances in which they were made, not misleading.

5.11. Securities Documents. HealthStream has previously delivered to M3 an accurate and complete copy of HealthStream's Registration Statement on Form S-1 and related exhibits that it filed with the Securities and Exchange Commission ("SEC") and a copy of Amendment No. 1 to such Form S-1 that it intends to file. The information contained in that Form S-1 was true, complete and correct in all material respects on the date it was filed and the information contained in the Amendment No. 1 to such Form S-1 is true, complete and correct in all material respects. HealthStream has timely filed with the SEC and the National Association of Securities Dealers all Securities Documents as defined in Section 10.15.4 herein required by the Securities Laws as defined in Section 10.15.5 herein and such Securities Documents complied in all material respects with the Securities Laws and, as of their respective dates, did not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

5.12. Financial Statements.

5.12.1. HealthStream has previously delivered or made available to M3 accurate and complete copies of HealthStream's financial statements, which are accompanied by the audit reports of Ernst & Young LLP, independent certified public accountants with respect to HealthStream. The HealthStream financial statements fairly present the consolidated financial condition of HealthStream as of the respective dates set forth therein, and the consolidated income, changes in stockholders equity and cash flows of HealthStream for the respective periods or as of the respective dates set forth therein.

5.12.2. Each of HealthStream's financial statements referred to in Section 5.12(a) has been prepared in accordance with GAAP during the periods involved, except as stated therein. The audits of HealthStream have been conducted in all material respects in accordance with GAAP. The books and records of HealthStream and it subsidiaries are being maintained in material compliance with applicable legal and accounting requirements, and all such books and records accurately reflect in all material respects all dealings and transactions in respect of the business, assets, liabilities and affairs of HealthStream and its subsidiaries.

5.12.3. Except to the extent (i) reflected, disclosed or provided for in the consolidated balance sheets of HealthStream as of December 31, 1999 (including related notes), (ii) of liabilities incurred since December 31, 1999 in the ordinary course of business and (iii) of liabilities incurred in connection with consummation of the transactions contemplated by this Agreement, neither HealthStream nor its subsidiaries have any liabilities, whether absolute, accrued, contingent or otherwise, material to the financial condition, results of operations or business of HealthStream on a consolidated basis.

5.13. Financial Resources. HealthStream has the financial wherewithal and has, or will have prior to the Effective Time, sufficient funds to perform its obligations under this Agreement.

5.14. Section 368 Representations.

5.14.1. Prior to the Merger, HealthStream will be in control of Merger Sub within the meaning of Section 368(c)(1) of the Code.

5.14.2. Following the Merger, Merger Sub will not issue additional shares of its stock that would result in HealthStream losing control of Merger Sub within the meaning of Section 368(c)(1) of the Code.

5.14.3. HealthStream has no plan or intention to reacquire any of the HealthStream Common Stock issued in the Merger.

5.14.4. HealthStream has no plan or intention to liquidate Merger Sub; to merge Merger Sub with and into another corporation; to sell or otherwise dispose of the stock of Merger Sub; or to cause Merger Sub to sell or otherwise dispose of any of the assets of the M3 acquired in the transaction, except for dispositions made in the ordinary course of business or transfers described in Section 368(a)(2)(C) of the Code.

5.14.5. Following the Merger, Merger Sub will continue the historic business of M3 or use a significant portion of the M3 business assets in a business.

5.14.6. HealthStream and Merger Sub will pay their respective expenses, if any, incurred in connection with the Merger.

5.14.7. HealthStream and Merger Sub are not investment companies as defined in Section 368(a)(2)(F)(iii) and (iv) of the Code.

5.14.8. No stock of Merger Sub will be issued in the Merger.

5.14.9. HealthStream has a valid business purpose for entering into the Merger.

5.14.10. Any compensation paid or to be paid to any M3 Stockholder who will be an employee of, or perform advisory services for, HealthStream or any affiliate thereof after the Merger and such compensation will be commensurate with amounts paid to third parties bargaining at arm's length for similar services and consideration to be paid for M3 shares outstanding. None of the shares of HealthStream Common Stock received by any M3 Stockholder is or will be separate consideration for, or allocable to, any employment, consulting or other arrangement which may be entered into between HealthStream or any affiliate thereof and such shareholder for services rendered or to be rendered by any shareholder.

5.14.11. No indebtedness between HealthStream or any of its subsidiaries, on the one hand, and M3 or any of its subsidiaries, on the other hand, exists or will exist prior to the Merger that (a) was issued or acquired at a discount, or (b) will be settled, as a result of the Merger, at a discount. No "installment obligation" (as the quoted term is defined for purposes of Section 453B of the Code) between HealthStream or any of its subsidiaries, on the one hand, and M3 or any of its subsidiaries, on the other hand, exists or will exist prior to the Merger that will be extinguished as a result of the Merger.

ARTICLE 6.
COVENANTS

6.1. Covenants of HealthStream and M3. During the period from the date hereof and continuing until the Effective Time (except as expressly contemplated or permitted hereby, or to the extent that the other parties shall otherwise specifically consent in writing) each of HealthStream and M3 covenants with the other that, insofar as the obligations relate to it:

6.1.1. Each of HealthStream and M3 shall carry on their respective businesses in the usual, regular, and ordinary course in substantially the same manner as heretofore conducted and shall use all reasonable efforts to preserve intact their present business organizations, maintain their rights and franchises, and preserve their relationships with customers, suppliers, and others having business dealings with them to the end that their goodwill and ongoing businesses shall not be impaired in any material respect.

6.1.2. Each of HealthStream and M3 shall allow all designated officers, attorneys, accountants, and other representatives of the other access at all reasonable times during regular business hours to the records and files, correspondence, audits, and properties, as well as to all information relating to commitments, contracts, titles, and financial position, or otherwise pertaining to the business and affairs, of HealthStream and M3.

6.1.3. Each of HealthStream and M3 will promptly file or submit and diligently prosecute any and all applications or notices with public authorities, federal, state, or local, domestic or foreign, and all other requests for approvals of any private persons, the filing or granting of which is necessary or appropriate, or is deemed necessary or appropriate by any party hereto, for the consummation of the transactions contemplated hereby.

6.1.4. Except as and to the extent required by law, each of HealthStream and M3 hereby agrees not to disclose or use, and each shall cause its representatives not to disclose or use, any confidential information with respect to any other party hereto furnished, or to be furnished, by such other party or its representatives in connection herewith at any time or in any manner other than in connection with their respective evaluations of the Merger.

6.2. Covenants of M3 and the Principal Stockholders. M3 and the Principal Stockholders covenant and agree as follows:

6.2.1. (i) they shall, and shall direct and use their Best Efforts to cause M3's directors, officers, employees, advisors, accountants, and attorneys (the "Representatives"), not to, initiate, solicit, or encourage, directly or indirectly, any inquiries or the making or implementation of any proposal or offer with respect to a merger, acquisition, consolidation, or similar transaction involving, or any purchase of all or any significant portion of the assets or any equity securities of M3 (any such proposal or offer being hereinafter referred to as an "Acquisition Proposal") or engage in any negotiations concerning, or provide any confidential information or data to, or have any discussions with, any person relating to an Acquisition Proposal, or otherwise facilitate any effort or attempt to make or implement an Acquisition Proposal; provided, however, that the Board of Directors of M3 may furnish such information or participate in such negotiations or discussions if such Board of Directors, after having consulted with and considered the advice of outside counsel, has determined that the failure to do the same may cause the members of such Board of Directors to breach their fiduciary duties under applicable law; (ii) they will immediately cease and discontinue any existing activities, discussions, or negotiations with any parties conducted heretofore with

respect to any of the foregoing and will take the necessary steps to inform the individuals or entities referred to above of the obligations undertaken in this Section 6.2.1; and (iii) they will notify HealthStream immediately if any such inquiries or proposals are received by, any such information is requested from, or any such negotiations or discussions are sought to be initiated or continued with, it.

6.2.2. M3 will make all normal and customary repairs, replacements, and improvements to its facilities, properties, and equipment and, without limiting the generality of the covenants set forth in Section 6.1.1, will not:

(i) change its certificate of incorporation, bylaws, or capitalization or merge or consolidate with or into or otherwise acquire any interest in any entity except as provided herein;

(ii) declare, set aside, or pay any cash dividend or other distribution on or in respect of shares of its capital stock, or any redemption, retirement, or purchase with respect to its capital stock or issue any additional shares or rights or options or agreements to acquire shares of its capital stock, or reprice any outstanding stock options;

(iii) discharge or satisfy any lien, charge, encumbrance, or indebtedness outside the ordinary course of business, except those required to be discharged or satisfied;

(iv) authorize, guarantee, or incur any indebtedness;

(v) make any capital expenditures or capital additions or betterments, or commitments therefor, aggregating in excess of ten thousand dollars (US$10,000);

(vi) loan funds to any person;

(vii) institute, settle, or agree to settle any litigation, action, or proceeding before any court or governmental body in an amount in excess of $10,000 in the aggregate;

(viii) sell, lease, mortgage, pledge, or subject to any other encumbrance or otherwise dispose of any of its property or assets, tangible or intangible, other than in the ordinary course of business;

(ix) except in the ordinary course of business consistent with past practice, authorize any compensation increases of any kind whatsoever for any employee (provided M3 shall pay owing or accrued deferred compensation) or adopt or amend any existing severance plan or other Plan;

(x) make any new elections with respect to Taxes, or any changes in current elections with respect to Taxes; or

(xi) enter into any contract, agreement, commitment, or arrangement to do any of the foregoing.

6.2.3. neither M3 nor the Principal Stockholders shall take any action that would cause or tend to cause the conditions upon the obligations of the parties hereto to effect the transactions contemplated hereby not to be fulfilled including, without limitation, taking, causing to be taken, or

permitting or suffering to be taken or to exist any action, condition, or thing that would cause the representations and warranties made by them herein not to be true, correct, complete, and accurate as of the Closing Date.

6.2.4. M3 shall not (i) knowingly take any action, or knowingly fail to take any action, that would jeopardize qualification of the Merger as a reorganization within the meaning of Section 368(a)(2)(D) of the Code; or (ii) enter into any contract, agreement, commitment, or arrangement with respect to either of the foregoing.

6.2.5. M3 shall cooperate with HealthStream's audit firm for any purpose that HealthStream deems reasonably necessary to effectuate the terms of this Agreement, including, but not limited to providing assistance with generating work papers and executing necessary representation letters.

6.2.6. M3 shall comply with all reasonable requests of HealthStream's audit firm and provide all the information required to complete an audit for the year ending December 31, 1999 as soon as possible.

6.3. Covenants of HealthStream. HealthStream covenants and agrees that:

6.3.1. HealthStream shall not (i) knowingly take any action, or knowingly fail to take any action, that would jeopardize qualification of the Merger as a reorganization within the meaning of Section 368(a)(2)(D) of the Code, or (ii) enter into any contract, agreement, commitment, or arrangement with respect to either of the foregoing.

6.3.2. HealthStream shall not take any action that would cause or tend to cause the conditions upon the obligations of the parties hereto to effect the transactions contemplated hereby not to be fulfilled including, without limitation, taking, causing to be taken, or permitting or suffering to be taken or to exist any action, condition, or thing that would cause the representations and warranties made by them herein not to be true, correct, complete, and accurate as of the Closing Date.

6.3.3. It is the intention of HealthStream that within a reasonable period of time following the Effective Time (a) it will provide former full time employees of M3 who remain employed by Merger Sub following the Effective Time with employee benefit plans substantially similar in the aggregate to those provided to similarly situated employees of HealthStream (b) any such employees will receive credit for years of service with M3 prior to the Effective Time for the purpose of eligibility to the extent applicable (but not for the purpose of accrual of benefits or allocation of employer contributions) and (c) HealthStream shall cause any and all pre-existing condition limitations and eligibility waiting periods under group health plans to be waived with respect to participants and their eligible dependents who have been continuously insured (either through M3 or a prior employer) for twelve (12) months prior to the Closing Date.

6.3.4. Subject to the advice of underwriters, counsel and accountants as well as then existing market conditions and alternative means of raising capital that may better suit its needs, HealthStream shall use all commercially reasonable efforts to cause its common stock to be registered under the Securities Laws as promptly as possible and to have such common stock to be approved for listing on the NASDAQ Stock Market (or such other national securities exchange or stock market on which such securities shall then be traded).

6.3.5. HealthStream shall grant employees of M3 an option to purchase the number of shares of HealthStream Common Stock designated on Exhibit K attached hereto and an additional number of shares to make the total grant to each such employee commensurate with similarly situated current HealthStream employees.

6.3.6. HealthStream agrees to permit M3 to obtain a director's and officer's liability policy and extended reporting period (otherwise known as "tail coverage"); provided, however, that the premium expense for such coverages shall not exceed $15,000.

ARTICLE 7.
CONDITIONS

7.1. Conditions to Each Party's Obligations to Effect the Merger. The respective obligations of each party to effect the Merger shall be subject to the fulfillment at or prior to the Closing Date of the following conditions:

7.1.1. No action or proceeding shall have been instituted before a court or other governmental body by any governmental agency or public authority to restrain or prohibit the transactions contemplated by this Agreement or to obtain an amount of damages or other material relief in connection with the execution of the Agreement or the related agreements or the consummation of the Merger; and no governmental agency shall have given notice to any party hereto to the effect that consummation of the transactions contemplated by this Agreement would constitute a violation of any law or that it intends to commence proceedings to restrain consummation of the Merger.

7.1.2. All consents, authorizations, orders, and approvals of (or filings or registrations with) any governmental commission, board, or other regulatory body required in connection with the execution, delivery, and performance of this Agreement shall have been obtained or made, except for filings in connection with the Merger and any other documents required to be filed after the Effective Time, and except where the failure to have obtained or made any such consent, authorization, order, approval, filing, or registration would not have a Material Adverse Effect on the business of HealthStream or M3 following the Effective Time.

7.1.3. HealthStream shall have received from M3 copies of all resolutions adopted by the Board of Directors and stockholders of M3 in connection with this Agreement and the transactions contemplated hereby. M3 shall have received from HealthStream and Merger Sub copies of all resolutions adopted by the Board of Directors and stockholders of each respective company in connection with this Agreement and the transactions contemplated hereby.

7.1.4. Each M3 Stockholder shall have signed a form of consent which (a) consents to the terms of the Merger and to the taking of stockholder action to approve the Merger without a meeting, (b) acknowledges that he or she is aware of his or her rights to dissent to the Merger and demand payment for his or her shares of M3 Common Stock in accordance with the Texas Act, and (c) waives such rights to dissent and demand payment.

7.2. Conditions to Obligations of M3 and the Principal Stockholders to Effect the Merger. The obligations of M3 and the Principal Stockholders to effect the Merger shall be subject to the fulfillment at or prior to the Closing Date of the following conditions:

7.2.1. HealthStream shall have performed its agreements contained in this Agreement required to be performed on or prior to the Closing Date and the representations and warranties of HealthStream and Merger Sub contained in this Agreement and in any document delivered in connection herewith shall be true and correct as of the Closing Date, and M3 shall have received a certificate of the President or the Chief Financial Officer of HealthStream, dated the Closing Date, certifying to such effect.

7.2.2. From the date of this Agreement through the Effective Time, there shall not have occurred any change in the financial condition, business, or operations of HealthStream, that would have or would be reasonably likely to have a HealthStream Material Adverse Effect.

7.2.3. M3 and the Principal Stockholders shall have received a written opinion, dated as of the Closing Date, from counsel for HealthStream substantially in the form of Exhibit C attached hereto.

7.2.4. HealthStream shall have executed Employment Agreements with Robert Smith and William Hyche, substantially in the form of Exhibit E attached hereto.

7.2.5. M3 shall have received an opinion of counsel satisfactory to it that the Merger will qualify as a reorganization under Section 368(a) of the Code.

7.2.6. HealthStream shall have executed Stock Vesting Agreements with Robert Smith and William Hyche, substantially in the form of Exhibit I attached hereto.

7.2.7. HealthStream shall have granted either Robert Smith or William Hyche visitation rights to its Board of Directors and shall have executed the Visitation Rights Letter substantially in the form of Exhibit J attached hereto.

7.3. Conditions to Obligations of HealthStream and Merger Sub to Effect the Merger. The obligations of HealthStream and Merger Sub to effect the Merger shall be subject to the fulfillment at or prior to the Closing Date of the following conditions:

7.3.1. M3 and the Principal Stockholders shall have performed their respective agreements contained in this Agreement required to be performed on or prior to the Closing Date and the representations and warranties of M3 and the Principal Stockholders contained in this Agreement and in any document delivered in connection herewith shall be true and correct as of the Closing Date to the same extent as if made on the Closing Date, and HealthStream shall have received a certificate of the Chief Executive Officer of M3 and each of the Principal Stockholders dated the Closing Date, certifying to such effect.

7.3.2. From the date of this Agreement through the Effective Time, there shall not have occurred any change in the financial condition, business, operations, or prospects of M3, that would have or would be reasonably likely to have a M3 Material Adverse Effect.

7.3.3 HealthStream shall have received a written opinion, dated as of the Closing Date, from counsel for M3, substantially in the form of Exhibit D attached hereto.

7.3.4. Robert Smith and William Hyche shall have executed Employment Agreements, substantially in the form of Exhibit E attached hereto.

7.3.5. M3 Stockholders shall have executed a Shareholders' Agreement, substantially in the form of Exhibit F attached hereto.

7.3.6. M3 Stockholders shall have executed a Co-Sale Agreement, substantially in the form of Exhibit G attached hereto.

7.3.7. M3 Stockholders shall have executed a Voting Agreement, substantially in the form of Exhibit H attached hereto.

7.3.8. Robert Smith and William Hyche shall have executed Stock Vesting Agreements, substantially in the form of Exhibit I attached hereto.

7.3.9. M3 shall not have more than one million two hundred thousand dollars (US$1,200,000) in total debt excluding accounts payable and other short term indebtedness incurred in the ordinary course of business.

7.3.10. M3 Stockholders shall have approved the execution of this Agreement.

7.4. Failure to Fulfill Conditions. In the event that either of the parties hereto determines that a condition to its respective obligations to consummate the transactions contemplated may not be fulfilled on or prior to the termination of this Agreement, it will promptly notify the other party. Each party will promptly inform the other party of any facts applicable to it that would be likely to prevent or materially delay approval of the Merger or any of the other transactions contemplated hereby by any Governmental Entity or third party or which would otherwise prevent or materially delay consummation of such transactions. Each party will promptly give notice to the other party of the occurrence of any event or the failure of any event to occur that results in a breach of any representation or warranty by that party contained herein or a failure by that party to comply with any covenant, condition or agreement contained herein.

ARTICLE 8.
TERMINATION

8.1. Termination by Mutual Consent. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time, by the mutual written consent of HealthStream and M3.

8.2. Termination by Either HealthStream or M3. This Agreement may be terminated and the Merger may be abandoned by action of the Board of Directors of either HealthStream or M3 if (a) the Merger shall not have been consummated by January 31, 2000 or (b) a United States federal or state court of competent jurisdiction or United States federal or state governmental, regulatory, or administrative agency or commission shall have issued an order, decree, or ruling or taken any other action permanently restraining, enjoining, or otherwise prohibiting the transactions contemplated by this Agreement and such order, decree, ruling, or other action shall have become final and non-appealable; provided, that the party seeking to terminate this Agreement pursuant to this clause (b) shall have used all reasonable efforts to remove such injunction, order, or decree.

8.3. Termination by M3. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time by action of the Board of Directors of M3, if (a) there has been a breach by HealthStream or Merger Sub of any representation or warranty contained in this Agreement which would have or would be reasonably likely to have an HealthStream Material Adverse Effect, or (b) there has

been a material breach of any of the covenants or agreements set forth in this Agreement on the part of HealthStream, which breach is not curable or, if curable, is not cured within thirty (30) days after written notice of such breach is given by M3 to HealthStream.

8.4. Termination by HealthStream. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time, by action of the Board of Directors of HealthStream, if (a) there has been a breach by M3 or the Principal Stockholders of any representation or warranty contained in this Agreement which would have or would be reasonably likely to have a M3 Material Adverse Effect, or (b) there has been a material breach of any of the covenants or agreements set forth in this Agreement on the part of M3 or the Principal Stockholders, which breach is not curable or, if curable, is not cured within thirty (30) days after written notice of such breach is given by HealthStream to M3.

8.5. Effect of Termination and Abandonment. Upon termination of this Agreement pursuant to this Article 8, other than the provisions of Sections 10.10 and 10.12, this Agreement shall be void and of no other effect, and there shall be no liability by reason of this Agreement or the termination thereof on the part of any party hereto (other than for breach of a covenant contained herein), or on the part of the respective directors, officers, employees, agents, or stockholders of any of them.

8.6. Extension; Waiver. At any time prior to the Effective Time, any party hereto, by action taken by its Board of Directors, may, to the extent legally allowed, (a) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (b) waive any inaccuracies in the representations and warranties made to such party contained herein or in any document delivered pursuant hereto, and (c) waive compliance with any of the agreements or conditions for the benefit of such party contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party.

ARTICLE 9.
SURVIVAL OF REPRESENTATIONS AND WARRANTIES; INDEMNIFICATION

9.1. Survival of Representations and Warranties. The representatives and warranties of the parties contained in Articles 4 and 5 of this Agreement shall survive the Merger for a period expiring on the first anniversary of the Closing Date. Except as and to the extent set forth in Article 4 hereof, neither M3 nor the Principal Stockholders makes any representations or warranties whatsoever and disclaims all liability and responsibility for any other representation, warranty, statement or information made or communicated (orally or in writing) to HealthStream and Merger Sub (including, but not limited to, any opinion, information or advice which may have been provided to HealthStream or Merger Sub by any officer, stockholder, director, employee, agent, consultant, attorney or representative of M3, its Principal Stockholders or any of their affiliates). HealthStream and Merger Sub acknowledge and affirm that they have had full access to the audited financial statements and other information regarding M3 and that HealthStream and Merger Sub have made their own independent investigation, analysis, evaluation and verification of M3, its business, assets, properties, operations and its financial condition.

9.2. Indemnity Obligations of the Principal Stockholders. Subject to the provisions of this Article 9 and the Escrow Agreement, the Principal Stockholders, severally and not jointly, in accordance with the Escrow Agreement, agree to indemnify and hold HealthStream and Merger Sub harmless from, and to reimburse HealthStream and Merger Sub for, any losses, costs, expenses, obligations, liabilities, damages, remedies and penalties, including interest, and reasonable attorneys' fees and expenses actually incurred (collectively "Losses") arising in connection with or attributable to the inaccuracy or breach of any

representation, warranty, or covenant made by M3 or the Principal Stockholders in this Agreement as of the date of this Agreement and as of the Closing Date. With regard to the representation and warranty regarding Accounts Receivable in Section 4.12 herein, any Accounts Receivable that exists as of the Closing Date that has not been collected in full, without any set-off, at the end of the Escrow Period shall be included in the Retained Portion under the Escrow Agreement and such accounts receivable shall be assigned to the Principal Stockholders.

9.3. Indemnification by HealthStream. Subject to the provisions of this Article 9, HealthStream and Merger Sub, jointly and severally, will indemnify, defend, and hold harmless the Principal Stockholders and the other M3 Stockholders from, and reimburse the Principal Stockholders and the other M3 Stockholders for, any Losses arising in connection with or attributable to the inaccuracy or breach of any representation, warranty, or covenant made by HealthStream or Merger Sub in this Agreement as of the date of this Agreement and as of the Closing Date.

9.4 Limitation on Liability. Notwithstanding the provisions of this Agreement, neither M3, the Principal Stockholders nor any M3 Stockholder shall be liable to HealthStream or any person under this Agreement or otherwise for any Losses which are less than $10,000 in the aggregate. The maximum liability of M3 for any Losses under this Agreement or any related document or instrument shall not exceed $250,000. The maximum liability of each of the Principal Stockholders for any Losses under this Agreement or any related document or instrument shall not exceed $1,250,000. The parties agree that the sole source for payment of the indemnity obligations of the Principal Stockholders under this Agreement or otherwise will be the Merger Consideration paid to the Principal Stockholders under this Agreement. For the purposes of this Article 9, the Consideration Shares will be valued at $16.00 per share.

9.5 Notice; Procedure. If a claim in respect to this Article 9 is to be made against an indemnifying party under this Section, the party to be indemnified shall promptly notify the indemnifying party in writing of such claim on or before the first anniversary of the Closing Date. In no case shall an indemnifying party be liable under this Agreement with respect to any Loss or settlement unless the indemnifying party shall have been notified in writing by the indemnified party seeking indemnification, of the assertion or filing of the claim or action giving rise to such Loss or settlement promptly after such indemnified party shall have been advised of, or otherwise shall have received information as to, the assertion or filing of such claim or action. In case any action is brought against any indemnified party, and such indemnified party notifies an indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate in, and, to the extent that it or he may wish, jointly with all other indemnifying parties, similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party; provided, however, if the defendants in any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded, based upon advice of its counsel, that there may be legal defenses available to it or he and/or any other indemnified party which are different from or additional to those available to the indemnifying party, the indemnified party shall have the right to select separate counsel to assume such legal defenses and to otherwise participate in the defense of such action on behalf of such indemnified party. Upon receipt of notice from the indemnifying party to such Indemnified Party of its election to assume the defense of such action and approval by the Indemnified Party of counsel, the indemnifying party will not be liable to such Indemnified Party under this Section for any legal or other expenses subsequently incurred by such Indemnified Party in connection with defense thereof unless:

(i) the Indemnified Party shall have employed such counsel in connection with the assumption of legal defenses in accordance with the proviso to the next preceding sentence (it being understood, however, that the indemnifying party shall not be liable for the expenses of more than one separate counsel);

(ii) the indemnifying party shall not have employed counsel reasonably satisfactory to the Indemnified Party to represent the Indemnified Party within a reasonable time after notice or commencement of the action; or

(iii) the indemnifying party has authorized the employment of counsel at the expense of the indemnifying party.

ARTICLE 10.
GENERAL PROVISIONS

10.1. Notices. Any notice required to be given hereunder shall be sufficient if in writing, by courier service (with proof of service), hand delivery or certified or registered mail (return receipt requested and first-class postage prepaid), addressed as follows:

If to HealthStream or Merger Sub:

Robert H. Laird, Jr.
Vice President and General Counsel
209 10th Ave. South
Suite 450
Nashville, TN 37203

If to M3 or Principal Stockholders:

Robert Smith
Chief Executive Officer
Multimedia Marketing, Inc.
1230 Riverbend, Suite 218
Dallas, TX 75247

and

William Hyche
801 Ranch Road 6205
Suite 100B
Austin, TX 78738

or to such other address as any party shall specify by written notice so given, and such notice shall be deemed to have been delivered as of the date so personally delivered or mailed.

10.2. Assignment; Binding Effect; Benefit. Neither this Agreement nor any of the rights, interests, or obligations hereunder shall be assigned by any of the parties hereto (whether by operation of law or otherwise) without the prior written consent of the other parties. Subject to the preceding sentence, this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

10.3. Entire Agreement. This Agreement, the Exhibits, the M3 Disclosure Letter, the HealthStream Disclosure Letter, and any documents delivered by the parties in connection herewith

constitute the entire agreement among the parties with respect to the subject matter hereof and supersede all prior and contemporaneous term sheets, agreements and understandings among the parties with respect thereto. No addition to or modification of any provision of this Agreement shall be binding upon any party hereto unless made in writing and signed by all parties hereto.

10.4. Amendment. This Agreement may be amended by the parties hereto by action taken by their respective Boards of Directors, if applicable. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

10.5. Governing Law. THE VALIDITY OF THIS AGREEMENT, THE CONSTRUCTION OF ITS TERMS AND THE DETERMINATION OF THE RIGHTS AND DUTIES OF THE PARTIES HERETO SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TENNESSEE APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED WHOLLY WITHIN SUCH STATE.

10.6. Counterparts. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument. Each counterpart may consist of a number of copies hereof each signed by less than all, but together signed by all of the parties hereto.

10.7. Waivers. Except as provided in this Agreement, no action taken pursuant to this Agreement, including, without limitation, any investigation by or on behalf of any party, shall be deemed to constitute a waiver by the party taking such action of compliance with any representations, warranties, covenants, or agreements contained in this Agreement. The waiver by any party hereto of a breach of any provision hereunder shall not operate or be construed as a waiver of any prior or subsequent breach of the same or any other provision hereunder.

10.8. Incorporation of Exhibits. The M3 Disclosure Letter, the HealthStream Disclosure Letter, and the Exhibits attached hereto and referred to herein are hereby incorporated herein and made a part hereof for all purposes as if fully set forth herein.

10.9. Severability. Any term or provision of this Agreement that is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, the provision shall be interpreted to be only so broad as is enforceable.

10.10. Expenses. Each party to this Agreement shall bear its own expenses in connection with the Merger and the transactions contemplated hereby.

10.11. Enforcement of Agreement. The parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement was not performed in accordance with its specific terms or was otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in any court of competent jurisdiction, this being in addition to any other remedy to which they are entitled by contract, at law, or in equity.

10.12 Arbitration. Any controversy or claim arising out of this Agreement, or the breach thereof, shall be settled by arbitration in accordance with the rules of the American Arbitration Association, and

judgment upon the award rendered by the arbitration may be entered in any court having jurisdiction thereof. The arbitration agreement set forth herein shall not limit a court from granting a temporary restraining order or preliminary injunction in order to preserve the status quo of the parties pending arbitration. Further, the arbitrator(s) shall have power to enter such orders by way of interim award, and they shall be enforceable in court. The place of such arbitration shall be in Davidson County, Tennessee.

10.13 Delivery by Facsimile. This Agreement shall become effective upon execution and delivery hereof by all the parties hereto; delivery of this Agreement may be made by facsimile to the parties with original copies promptly to follow by overnight courier.

10.14 Guarantee. HealthStream guarantees all of the obligations of Merger Sub under this Agreement.

10.15 Certain Definitions. The following terms shall have the meanings ascribed to them for all purposes of this Agreement:

10.15.1. "Best Efforts" shall mean the taking of all reasonable steps to cause or prevent any event or condition which would have been taken in similar circumstances by a reasonably prudent business person engaged in a similar business for the advancement or protection of his own economic interest in light of the consequences of failure to cause or prevent the occurrence of such event or condition.

10.15.2. "Knowledge" or "known" shall mean that an individual shall be deemed to have "knowledge" of or to have "known" a particular fact or other matter if (i) such individual is actually aware of such fact or other matter or (ii) a prudent individual possessing the requisite knowledge and experience could be expected to discover or otherwise become aware of such fact or other matter in the course of conducting a reasonably comprehensive investigation concerning the truth or existence of such fact or other matter. A corporation shall be deemed to have "knowledge" of or to have "known" a particular fact or other matter if any individual who is serving, or who has at any time served, as a director or officer (or in any similar capacity) of the corporation, has, or at any time had, knowledge of such fact or other matter. Neither party is understood to have undertaken a separate investigation in connection with the transactions contemplated hereby to determine the existence or absence of facts or other matters in the statement qualified as "known" by, or the "knowledge" of such party.

10.15.3. "Material Adverse Effect" shall mean, with respect to any party, any effect that is material and adverse to the financial condition, results of operations or business of that party and its subsidiaries taken as whole, or that materially impairs the ability of any party to consummate the Merger, or any of the other transactions contemplated by this Agreement. Material Adverse Effect shall not, however, be deemed to include the impact of (a) changes in laws and regulations or interpretations thereof that are generally applicable to the healthcare industry, (b) changes in GAAP that are generally applicable to the healthcare industry, (c) expenses incurred in connection with the transactions contemplated hereby, (d) actions or omissions of a party (or any of its subsidiaries) taken with the prior informed written consent of the other party or parties in contemplation of the transactions contemplated hereby, or (e) changes attributable to or resulting from changes in general economic conditions.

10.15.4. "Securities Documents" shall mean all reports, offering circulars, proxy statements, registration statements and all similar documents filed, or required to be filed, pursuant to the Securities Laws.

10.15.5. "Securities Laws" shall mean the Securities Act; the Exchange Act; the Investment Company Act of 1940, as amended; the Investment Advisers Act of 1940, as amended; the Trust Indenture Act of 1939, as amended, and the rules and regulations of the SEC promulgated thereunder.

THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK.

IN WITNESS WHEREOF, the parties have executed this Agreement and caused the same to be duly delivered on their behalf to be effective as of the day and year first written above.

HEALTHSTREAM, INC.

By:

Title:

HEALTHSTREAM ACQUISITION II, INC.

By:

Title:

MULTIMEDIA MARKETING, INC.

By:

Title:

THE PRINCIPAL STOCKHOLDERS:

- ---
Robert Smith

- ---
William Hyche

ATTACHMENTS AND EXHIBITS

M3 Disclosure Letter
HealthStream Disclosure Letter
Exhibit A - Articles of Merger
Exhibit B - Form of Escrow Agreement
Exhibit C - Form of HealthStream Counsel Legal Opinion
Exhibit D - Form of M3 Counsel Legal Opinion
Exhibit E - Form of Employment Agreement
Exhibit F - HealthStream Shareholders' Agreement
Exhibit G - HealthStream Co-Sale Agreement
Exhibit H - HealthStream Voting Agreement
Exhibit I - Stock Vesting Agreement
Exhibit J - Visitation Rights Letter
Exhibit K - M3 Employee Stock Options
Exhibit L - Merger Consideration Allocation

M3 OFFICER CERTIFICATE

The undersigned hereby certifies that Multimedia Marketing, Inc. ("M3") and its Principal Stockholders have performed their respective agreements contained in the Merger Agreement and the representations and warranties of M3 and the Principal Stockholders contained in the Merger Agreement and in any document delivered in connection therewith are true and correct to the same extent as if made on this date.

IN WITNESS WHEREOF, the undersigned has set his hand this the ___ day of January 2000.

MULTIMEDIA MARKETING, INC.

By: ----------

Title: ----------

HEALTHSTREAM DISCLOSURE LETTER

5.4 HEALTHSTREAM SUBSIDIARIES.

1. Merger Sub. The outstanding capital stock of Merger Sub is 1,000 shares, all of which are owned by HealthStream.
2. HealthStream Acquisition I, Inc. d/b/a Quick Study, Inc. The outstanding capital stock of Quick Study is 1,000 shares, all of which are owned by HealthStream.

EXHIBIT A

ARTICLES OF MERGER

In accordance with the provisions of Sections 48-21-107 and 48-21-109 of the Tennessee Business Corporation Act ("TBCA") and Section 5.04 of the Texas Business Corporation Act ("Texas Act"), Multimedia Marketing, Inc., a Texas corporation d/b/a m3 The Healthcare Learning Company ("M3"), and HealthStream Acquisition II, Inc., a Tennessee corporation ("Merger Sub"), collectively referred to as the "Merging Corporations," adopt the following Articles of Merger for the purpose of merging M3 with and into Merger Sub.

1. The Plan of Merger that has been approved by each of the Merging Corporations in the manner prescribed by TBCA and the Texas Act is set forth in Appendix A attached hereto and is incorporated for all purposes into these Articles of Merger.

2. Approval of the Plan of Merger by the shareholders of M3 and Merger Sub is required by TBCA and the Texas Act.

3. The Plan of Merger was approved upon action by written consent of the shareholders of M3 on January __, 2000 and upon action by written consent of the shareholders of Merger Sub on January __, 2000.

4. The Plan of Merger was approved upon action by written consent of the Board of Directors of M3 on January __, 2000, and by all action required by the Board of Directors of Merger Sub on January __, 2000.

5. The effective time of the Merger shall be 12:00 a.m. Central Standard Time on January __, 2000.

Dated as of January __, 2000.

HEALTHSTREAM ACQUISITION II, INC.
a Tennessee corporation

By: ----------

Title: ----------

MULTIMEDIA MARKETING, INC.
a Texas corporation

By: ----------

Title: ----------

EXHIBIT B

FORM OF ESCROW AGREEMENT

EXHIBIT C

FORM OF HEALTHSTREAM COUNSEL LEGAL OPINION

EXHIBIT D

FORM OF M3 COUNSEL LEGAL OPINION

EXHIBIT E

FORM OF EMPLOYMENT AGREEMENT

EXHIBIT F

HEALTHSTREAM SHAREHOLDERS' AGREEMENT

EXHIBIT G

HEALTHSTREAM CO-SALE AGREEMENT

EXHIBIT H

HEALTHSTREAM VOTING AGREEMENT

EXHIBIT I

STOCK VESTING AGREEMENT

EXHIBIT J

VISITATION RIGHTS LETTER

EXHIBIT K

M3 EMPLOYEE STOCK OPTIONS

EMPLOYEE	HEALTHSTREAM OPTION SHARES
Ralph Westbrook	4,143
Mike Embry	12,643
Mike Dewey	12,643
Steve Price	2,071
John Haugen	829
Ernest Burger	829
Kathy Smith	414
Meloney Tucker	414
Thomas Sumners	166
Steve Gordan	166
Mike Brumley	166
Martha Smith	166
Karen Stewart	166
Evan Esnard	166
Eric Gray	166
Eddie Kim	166
Judy Bettes	166
Chris Alderman	166
TOTAL	18,643

The shares under the above options shall have a strike price of $16.00 per share and shall vest and become exercisable on the first anniversary of the Closing Date except that 8,500 of the shares issued to each of Mike Embry and Mike Dewey under the above options shall vest and become exercisable upon the Closing. In the event any of the above employees are terminated without cause during the twelve (12) month period following the Closing Date, any portion of the terminated employee's option granted under this Exhibit K not previously exercisable and vested shall become fully exercisable and vested.

EXHIBIT L

MERGER CONSIDERATION ALLOCATION

	TRANSACTION CONSIDERATION		
	M3 SHARES	CASH	HS SHARES
M3 STOCKHOLDERS			
Paul Johnson	702,034	77,093	56,833
Rhodes Partnership	647,737	22,171	55,497
VHA	400,000	43,926	32,382
Bert Rawald	201,231	22,098	16,291
Joe Hinton	187,500	20,590	15,179
JKTS Corp.	184,500	63,461	12,236
Steve Price	150,000	16,472	12,143
Commerce Capital	148,373	16,293	12,011
Joseph C. Sparks	102,500	3,576	8,778
Justin S. Sparks Trust	102,500	3,576	8,778
Jason C. Sparks Trust	102,500	3,576	8,778
Charles Wise	62,500	6,863	5,060
Joanne H. Morton	56,136	6,165	4,544
Gail H. Tarlow	56,136	6,165	4,544
W. Jeffrey Sparks	41,000	14,102	2,719
Kevin D. Sparks	41,000	14,102	2,719
C. Todd Sparks	41,000	14,102	2,719
Laurie Platt Cromwell	15,625	1,716	1,265
Linda Allen Platt	15,625	1,716	1,265
Coley R. Platt, Jr	15,625	1,716	1,265
Jordan Mark Etier Trust	7,813	858	632
Corinthian Platt Trust	7,812	858	632

This table does not reflect the HealthStream Common Stock issued to the Principal Stockholders nor the $238,805 in cash paid to the Principal Stockholders.

EXHIBIT 2.5

ASSET PURCHASE AGREEMENT

BY AND BETWEEN

EMERGENCY MEDICINE INTERNETWORK, INC.

AND

HEALTHSTREAM, INC.

TABLE OF CONTENTS

ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement (this "Agreement") is made and entered into this 27th day of January, 2000 between Emergency Medicine Internetwork, Inc., a Texas corporation ("Seller") and HealthStream, Inc., a Tennessee corporation ("Buyer").

RECITALS

WHEREAS, Seller desires to sell to Buyer at the Closing, as hereinafter defined, and Buyer desires to purchase from Seller substantially all of its assets, as more fully described herein, upon and subject to the terms and conditions contained in this Agreement.

NOW, THEREFORE, IN CONSIDERATION of the premises and of the mutual representations, warranties and covenants which are made and to be performed by the respective parties, it is agreed as follows:

ARTICLE 1.
CERTAIN DEFINITIONS

Unless otherwise defined herein, terms used herein shall have the meanings set forth below:

"Accounts Payable" means accounts payable, trade accounts payable and other payables of the Business.

"Acquired Assets" means the assets sold, assigned, transferred and delivered to Buyer hereunder as set forth in Sections 2.1 and 2.2 hereof.

"Affiliate" of any person shall mean any corporation, proprietorship, partnership or business entity which, directly or indirectly, owns or controls, is under common ownership or control with, or is owned or controlled by, such person and directors, officers or any 5% or more owners of such person.

"Agreement" means this Asset Purchase Agreement (including the exhibits and schedules hereto and the Disclosure Letter).

"Bulk Sales Laws" shall mean the Uniform Commercial Code Bulk Transfer provisions of any jurisdiction relating to bulk sales which are applicable to the sale of the Acquired Assets by Seller hereunder.

"Business" means the business and operations conducted by Seller at the date of this Agreement and/or the Closing Date and such business and operations relating to the Acquired Assets.

"Buyer" as defined in the first paragraph of this Agreement means HealthStream, Inc.

"Claim" means any claim, lawsuit, demand, suit, inquiry made, hearing, investigation, notice of violation, litigation, proceeding, arbitration, or other dispute, whether civil, criminal, administrative or otherwise.

"Code" means the United States Internal Revenue Code of 1986, as amended.

"Contract" means any agreement, contract, commitment, or other binding arrangement or understanding, whether written or oral.

"Disclosure Letter" means the disclosure letter delivered by Seller to Buyer prior to the execution and delivery of this Agreement.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, or any successor law. Any reference to this Agreement to a particular section or provision of ERISA shall be deemed to refer to the corresponding section or provision of any successor law.

"GAAP" means generally accepted United States accounting principles, applied on a basis consistent with the accounting principles used in the preparation of the Audited Financial Statements.

"Governmental Authority" means any local, state, provincial, federal, or international governmental authority or agency which has had or now has jurisdiction over any portion of the subject of this Agreement or the Business.

"Material" means any Claim, circumstance or state of facts which results in, or would reasonably be expected to result in, Losses or the expenditure or commitment of $25,000 or more, or which results in any material limitation or restriction on the ability of Seller to conduct the Business prior to Closing, or Buyer to conduct the Business after Closing.

"Material Adverse Effect" means any circumstances, developments, occurrences, states of fact or matters which have, or would reasonably be expected to have, a material adverse effect in respect of the operations, financial condition or results, or prospects in respect of the Business or the Acquired Assets.

"Order" means any decree, order, injunction, rule, judgment, consent of or by a Governmental Authority.

"PBGC" means the Pension Benefit Guaranty Corporation, or any successor thereto.

"Permits" means any licenses, permits, variances, interim permits, permit applications, approvals or other authorizations under any Regulation applicable to the Business.

"Person" means any individual, firm, corporation, partnership, limited liability company, trust, joint venture, governmental entity or other entity.

"Plan" means any "employee benefit plan," as defined in Section 3(3) of ERISA, that covers any employee or former employee of Seller.

"Proceeding" means any action, suit, litigation, arbitration, proceeding (including any civil, criminal, administrative, investigative or appellate proceeding and any informal proceeding), prosecution, contest, hearing, inquiry, inquest, audit, examination, investigation, challenge, controversy or dispute commenced, brought, conducted or heard by or before, or otherwise involving, any Governmental Body or any arbitrator.

"Regulation" means any law, statute, regulation, ruling, rule, Order or Permit, of, administered or enforced by or on behalf of any Governmental Authority.

"Seller" as defined in the first paragraph of this Agreement means Emergency Medicine Internetwork, Inc. and each corporation, partnership, joint venture or other business organization in which Seller owns directly, any capital stock or other equity interest, or with respect to which Seller or a subsidiary thereof, alone or in combination with others, is in a control position.

"Taxes" mean all taxes, charges, fees, duties, levies or other assessments, including, without limitation, income, gross receipts, net proceeds, ad valorem, turnover, real and personal property (tangible and intangible), sales, use, franchise, excise, valued added, license, payroll, unemployment, environmental, customs duties, capital stock, disability, stamp, leasing, lease, user, transfer, fuel, excess profits, occupational and interest equalization, windfall profits, severance and employees' income withholding and social security taxes imposed by the United States or any foreign country or by any state, municipality, subdivision or instrumentality of the United States or of any foreign country or by any other tax authority, including all applicable penalties and interest, and such term shall include any interest, penalties or additions to tax attributable to such Taxes.

"Tax Return" means any report, return or other information required to be supplied to a taxing authority in connection with Taxes.

ARTICLE 2.
PURCHASE AND SALE OF ASSETS

2.1. PURCHASE AND SALE OF ASSETS. Subject to the terms and conditions of this Agreement and except as set forth in Section 2.3 hereof, at the Closing, Seller shall sell, transfer, convey, assign and deliver to Buyer and Buyer shall purchase, acquire and accept from Seller all of the assets owned by Seller (wherever located) related to, or used in conjunction with, the Business and all of Seller's right, title and interest therein and thereto. All of the assets sold, assigned, transferred and delivered to Buyer hereunder are referred to collectively herein as the "Acquired

Assets." The Acquired Assets include, but not by way of limitation, any and all of Seller's right, title and interest in and to the following assets:

(a) Fixed Assets. Any and all of the machinery, equipment, installations, furniture, furnishings, office equipment, maintenance equipment and supplies, materials and other items of leasehold improvements or personal property of every kind and description, including those items described in Section 2.1(a) of the Disclosure Letter (the "Fixed Assets");

(b) Cash. Any cash or cash equivalents in excess of the $25,000 to be retained by Seller;

(c) URLs. Any and all of the URLs of Seller, as described in Section 2.1(b) of the Disclosure Letter (the "URLs");

(d) Inventories. Any and all of the inventories, including all raw materials, work in process, supplies and finished goods inventories, wherever located (the "Inventories");

(e) Prepaid Assets. All prepaid rent, prepaid property taxes, prepaid supplies, advances and other prepaid expenses and all deposits and deferred charges attributable to any contracts, commitments, understandings, leases or agreements of the Business (the "Prepaid Assets");

(f) Information and Records. Any and all computer software, production records, product files, technical information, confidential information, price lists, marketing plans and strategies, sales records, advertising materials, product development techniques or plans, supplier lists, customer lists and files (including customer credit and collection information), details of client or consultant contracts, and other proprietary information, together with the following papers and records in Seller's care, custody or control or otherwise available to it: all personnel and labor relations records and all worker's compensation loss records and insurance claims (the "Information and Records");

(g) Intellectual Property. Any and all United States and foreign patents, patent applications, patent licenses, service names, service marks, trade names, trademarks, trade name and trademark registrations (and applications therefor), copyrights and copyright registrations (and applications therefor), drawings, trade secrets, inventions, processes, engineering and production designs, formulae, technology, source code, developmental products, processes and applications, and all derivatives thereof, including but not limited to all rights in respect of the names "EMINet" and "Emergency Medicine Internetwork," and all predecessor names, including those items described in Sections 2.1(f) of the Disclosure Letter (the "Intellectual Property");

(h) Accounts Receivable. Any and all accounts receivable, trade receivables and other receivables (the "Receivables");

(i) Other Rights. Any and all claims, deposits to third parties, prepayments, refunds, causes of action, causes in action, rights of recovery, rights of set-off, and rights of recoupment (including any such item relating to the payment of taxes in connection with the Business) and permits and licenses used in the operation of the Business; and

(j) Other Assets. Any and all other tangible or intangible property, including goodwill, located at or used in connection with the Business (the "Other Assets").

2.2. ASSIGNMENT OF LEASES, CONTRACTS AND OTHER ACQUIRED ASSETS. Subject to the terms and conditions set forth in this Agreement, Seller will assign and transfer to Buyer, effective as of the Closing, all of Seller's right, title and interest in and to, and Buyer will take assignment of and assume, the following rights, interests and obligations that are used or arise in connection with or relate to the operation of the Business (and all of the following shall be deemed included in the term "Acquired Assets" as used herein):

(a) Real Property Leases. Leases of real property listed in Section 2.2(a) of the Disclosure Letter (the "Real Property Leases");

(b) Fixed Assets and Other Personal Property Leases. Leases of equipment, machinery, installations and other personal property listed in Section 2.2(b) of the Disclosure Letter (the "Fixed Assets and Other Personal Property Leases");

(c) Other Contracts. (i) All other contracts listed in Sections 2.2(c) of the Disclosure Letter and (ii) such other contracts or agreements as shall be (A) entered into between the date hereof and the Closing in the ordinary course of business and in accordance with the provisions of this Agreement, (B) expressly accepted and approved in writing by Buyer prior to the Closing and (C) listed in Section 2.2(c) of the Disclosure Letter as of the Closing (collectively, the "Other Contracts"); and

(d) Permits and Licenses. Permits and licenses used in the operation of the Business listed in Section 2.2(d) of the Disclosure Letter.

2.3. EXCLUDED ASSETS. The following assets of Seller shall be retained by Seller and are not being sold or assigned to Buyer hereunder (all of the following are referred to collectively as the "Excluded Assets"):

(a) $25,000 worth of cash, bank balances, monies in possession of any banks and similar cash equivalents;

(b) any asset or property associated with an pension plan of Seller;

(c) all minute books and corporate records, tax returns and litigation files of Seller; and

(d) any of the rights of Seller under this Agreement.

2.4. NO ASSUMPTION OF LIABILITIES. Buyer shall not assume, and shall not be deemed to have assumed, any debt, claim, obligation, liability, expenses or Taxes of Seller of any kind, character or description, whether accrued, absolute, contingent or otherwise, no matter whether arising before or after the Closing, and whether or not reflected or reserved against in Seller's financial statements, books of accounts or records, including but not by way of limitation the following (collectively, the "Excluded Liabilities"):

(a) any debt, claim, obligation or liability relating to employees or former employees of Seller (or its predecessors) relating to incidents or causes of action that accrue prior to Closing;

(b) any debt, claim, obligation or liability relating to any Plan;

(c) any debt, claim, obligation or liability relating to any Taxes of Seller;

(d) any debt, claim, obligation or liability relating to any lawsuits or insurance claims of Seller in respect of the Business which arise out of or are based on facts in existence prior to the Closing.

2.5. ASSIGNMENT OF CONTRACTS. Anything in this Agreement to the contrary notwithstanding, this Agreement shall not constitute an agreement to assign, and the Acquired Assets shall not include, any claim, contract, instrument, agreement, license, lease, commitment, sales order, purchase order or any claim or right, or any benefit arising thereunder or resulting therefrom, if an attempted assignment thereof, without the consent of a third party thereto, would constitute a breach thereof or in any way affect the rights of Buyer or Seller thereunder. Seller shall be responsible for the payment of any transfer or assignment fees required by any third party to effect the assignment of any such contracts or agreements. If such consent is not obtained, or if an attempted assignment thereof would be ineffective or would affect such rights, Seller will cooperate with Buyer, at no cost to Buyer, in any arrangement designed to provide for Buyer the benefits under any such claims, contracts, instruments, agreements, licenses, leases, commitments, sales orders or purchase orders, including, without limitation, enforcement for the benefit of Buyer of any and all rights of Buyer or Seller against a third party thereto arising out of a breach or cancellation by such third party or otherwise; and any transfer or assignment to Buyer of any property or property rights or any contract or agreement which shall require the consent or approval of any third party shall be made subject to such consent or approval being obtained.

ARTICLE 3.
CONSIDERATION

3.1. PURCHASE PRICE. The purchase price ("Purchase Price") for the Acquired Assets shall be:

(a) $640,000 in cash paid Seller at Closing by certified or cashier's check or wire transfer of Federal or other immediately available funds as follows:

(i) $125,000 of this shall be held by Buyer until the exact amount owed to the Internal Revenue Service for past due payroll taxes and interest and penalties thereon is known and then shall be paid directly to the Internal Revenue Service, with any remainder paid to Seller;

(ii) $124,000 shall be paid directly to Polaris Group; and

(iii) $391,000 of this shall be paid directly to Seller.

(b) 145,893 shares of Buyer's common stock (the "Consideration Shares") (83,393 of which will be delivered to Seller at Closing, and 62,500 of which will be paid to the Escrow Fund described in Section 3.3 herein at Closing).

3.2. EARN OUT SHARES. Seller shall also be eligible to receive (up to an aggregate of 14,107 shares of Buyer's common stock) as additional consideration, one (1) share of Buyer's common stock for each sixteen dollars ($16) of contract value from contracts signed by Seller between January 1, 2000 and March 31, 2000 with the organizations listed on Schedule 3.2 attached hereto (the "Earn Out Shares"). Any Earn Out shares earned pursuant to this Section 3.2 hereof shall be distributed to Seller no later than June 30, 2000.

3.3. ESCROW. (a) At the Closing, pursuant to an Escrow Agreement, substantially in the form attached hereto as Exhibit A (the "Escrow Agreement"), the parties shall establish an escrow (the "Escrow Fund") comprised of 62,500 of the Consideration Shares (the "Escrow Shares"). The Escrow Shares shall be maintained in escrow for the purposes of satisfying any claims by Buyer for indemnification under Article 10 and the Escrow Agreement until the expiration of one year from the Closing Date (the "Escrow Period").

(b) Upon expiration of the Escrow Period, and subject to the terms of Section 3.3(c) herein, Article 10 herein and the Escrow Agreement, the escrow agent under the Escrow Agreement (the "Escrow Agent") shall deliver or cause to be delivered to Seller a certificate representing the number of shares of Buyer's Common Stock comprising the Escrow Shares.

(c) If upon expiration of the Escrow Period, Buyer shall have asserted a claim for indemnity in accordance with the Escrow Agreement and such claim is pending or unresolved at the time of such expiration, the Escrow Agent shall retain in escrow, and withhold from delivery to Seller the value of the asserted amount of the claim until such matter is finally resolved. If it is finally determined that Buyer is entitled to recover on account of such claim, the Escrow Agent shall deliver or cause to be delivered to Buyer Escrow Shares in the amount due and payable with respect to such claim. The remainder of the Escrow Shares, if any, following such delivery to Buyer in accordance with this Section 3.3(c) and the Escrow Agreement, shall be delivered to Seller pursuant

to this Agreement. For purposes of this Section 3.3(c), a claim will be deemed to have been finally resolved only as provided in the Escrow Agreement.

(d) The right to receive the Escrow Shares upon expiration of the Escrow Period is an integral part of the Purchase Price, and shall not be transferable or assignable by, but shall inure to the benefit of the successors, representatives, or estate of, Seller.

3.4. ALLOCATION OF PURCHASE PRICE. The parties hereto will agree to an allocation of the Purchase Price among the Acquired Assets for Federal and State income tax purposes.

ARTICLE 4.
CLOSING; OBLIGATIONS OF THE PARTIES

4.1. CLOSING DATE. The closing (the "Closing") shall take place and be effective for all purposes immediately after all of the conditions to Closing in Articles 8 and 9 hereof have been met at the offices of Bass, Berry & Sims PLC, 2700 First American Center, Nashville, Tennessee 37238, or at such other time and place as the parties hereto mutually agree (the "Closing Date").

4.2. OBLIGATIONS OF THE PARTIES AT THE CLOSING.

(a) At the Closing, Buyer shall deliver to Seller (or Seller's agent):

(i) the consideration as specified in Section 3.1;

(ii) copy of resolutions of the Board of Directors of Buyer, certified by Buyer's Secretary, authorizing the execution, delivery and performance of this Agreement and the other documents referred to herein to be executed by Buyer, and the consummation of the transactions contemplated hereby;

(iii) a certificate of Buyer certifying as to the accuracy of Buyer's representations and warranties at and as of the Closing and that Buyer has performed or complied with all of the covenants, agreements, terms, provisions and conditions to be performed or complied with by Buyer at or before the Closing;

(iv) the opinion of Bass, Berry & Sims PLC, legal counsel for Buyer, the terms of which are substantially as set forth in Exhibit D;

(v) an executed copy of the Escrow Agreement, in the form attached as Exhibit A; and

(vi) such other certificates and documents as Seller or its counsel may reasonably request.

(b) At the Closing, Seller will deliver to Buyer:

(i) such bills of sale, endorsements, assignments, and other good and sufficient instruments of conveyance and transfer, in form and substance reasonably satisfactory to Buyer, as shall be effective to vest in Buyer all of Seller's title to and interest in the Acquired Assets, all of Seller's contracts and commitments, books, records and other data relating to the Acquired Assets and the Business (except minute and stock books and similar corporate records and any other documents and records which Seller is required by law to retain in its possession), and, simultaneously with such delivery, will take such steps as may be necessary to put Buyer in actual possession and operating control of the Acquired Assets and the Business;

(ii) copy of resolutions of the Board of Directors and Shareholders of Seller, certified by Seller's Secretary, authorizing the execution, delivery and performance of this Agreement and the other documents referred to herein to be executed by Seller, and the consummation of the transactions contemplated hereby;

(iii) a certificate of Seller certifying as to the accuracy of its representations and warranties at and as of the Closing and that Seller has performed or complied with all of the covenants, agreements, terms, provisions and conditions to be performed or complied with by it at or before the Closing;

(iv) the opinion of Bill Zweifel, legal counsel for Seller, the terms of which are substantially as set forth in Exhibit C;

(v) executed copies of the Non-Competition Agreement by the employees of Seller, in substantially the form of Exhibit B hereto;

(vi) an executed copy of the Shareholders' Agreement in the form of Exhibit E hereto;

(vii) an executed copy of the Voting Agreement in form of Exhibit F hereto;

(viii) an executed copy of the Co-Sale Agreement in the form of Exhibit G hereto;

(ix) certificates evidencing the transfers of the URLs listed in Section 2.1(b) of the Disclosure Letter; and

(x) such other certificates and documents as Buyer or its counsel may reasonably request.

ARTICLE 5.
REPRESENTATIONS AND WARRANTIES BY SELLER

Seller hereby represents and warrants as follows:

5.1. AUTHORIZATION. Seller has full corporate power and authority to enter into this Agreement and perform its obligations hereunder and carry out the transactions contemplated hereby. The Board of Directors and Shareholders of Seller have taken all action required by law, its Articles of Incorporation and Bylaws and otherwise to authorize the execution and delivery by Seller of this Agreement and the consummation by Seller of the transactions contemplated hereby. This Agreement constitutes the valid and binding agreement of Seller, enforceable against it in accordance with its terms.

5.2. ORGANIZATION, GOOD STANDING AND QUALIFICATION. Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Texas. Seller has full corporate power and authority to carry on its business as now conducted and possesses all governmental and other permits, licenses and other authorizations to own, lease or operate its assets and properties as now owned, leased and operated and to carry on its business as presently conducted. Seller is not licensed or qualified to do business as a foreign corporation in any jurisdiction and neither the properties owned or leased nor the business transacted by it makes such licensing or qualification to do business as a foreign corporation necessary, and no other jurisdiction has demanded, requested or otherwise indicated that (or inquired whether) Seller is required so to qualify.

5.3. SUBSIDIARIES. Seller neither owns nor has an interest in, directly or indirectly, any other corporation, partnership, joint venture or other business organization.

5.4. NO VIOLATION. The execution and delivery of this Agreement by Seller does not, and the consummation of the transactions contemplated hereby will not, (a) violate any provision of, or result in the creation of any lien or security interest under, any agreement, indenture, instrument, lease, security agreement, mortgage or lien to which it is a party or by which its assets or properties bound; (b) violate any provision of its Articles of Incorporation or Bylaws; (c) violate any order, arbitration award, judgment, writ, injunction, decree, statute, rule or regulation applicable to it; or (d) violate any other contractual or legal obligation or restriction to which it is subject.

5.5. FINANCIAL STATEMENTS. Seller has delivered to Buyer: (a) balance sheets of Seller as at December 31 in each of the years 1997, 1998 and 1999 (the "Balance Sheet"), and the related

statements of income and cash flows for the fiscal year ended December 31, 1999, including the notes thereto (the "Financial Statements"). The Financial Statements fairly present the assets, liabilities, financial condition and results of operations of Seller as at the respective dates thereof and for the periods therein referred to, all in accordance with GAAP ; the Financial Statements reflect the consistent application of such accounting principles throughout the periods involved.

5.6. ACQUIRED ASSETS. The Acquired Assets comprise all the properties and assets employed by Seller in connection with the Business and which are necessary for the conduct of such Business, as currently conducted.

5.7. TITLE TO PROPERTIES; ENCUMBRANCES. Seller has good, valid and marketable title to, or valid leasehold interests in, all of the Acquired Assets constituting real property or tangible or intangible personal property and Seller has full right to sell, convey, transfer, assign and deliver any and all of its right, title and interest in and to such Acquired Assets, free and clear of any mortgage, pledge, lien, security interest, conditional sale agreement, encumbrance or charge of any kind.

5.8. REAL PROPERTY OWNED OR LEASED. Section 5.8 of the Disclosure Letter sets forth a complete and accurate list and legal description of all real property included in the Acquired Assets (including a specific identification of any such fixtures not owned by Seller) which Seller owns or leases, to the extent related to the Business. True copies of all such leases for real property have been delivered to Buyer prior to the date hereof. Except as set forth in Section 5.8 of the Disclosure Letter, no consent to the consummation of the transactions contemplated by this Agreement is required from the lessor of any such real property. Seller holds valid leasehold interests in and to the leases listed in Section 5.8 of the Disclosure Letter, free and clear of any mortgage, pledge, lien, security interest, lease, encumbrances or charge of any kind, other than mortgages, pledges, liens, security interests, leases, encumbrances and charges granted by or in respect of the interests of lessors or other third parties, which do not Materially impact the rights of Seller.

5.9. FIXED ASSETS AND OTHER PERSONAL PROPERTY LEASES. Section 5.9 of the Disclosure Letter sets forth a correct and complete list of all of the Fixed Assets other than items acquired by Seller in the ordinary course of business from the date hereof through the Closing Date (which Seller will identify in writing to Buyer, prior to the Closing, in the Disclosure Letter). The Fixed Assets and Other Personal Property Leases listed in Section 2.2(b) of the Disclosure Letter hereto include all leases by Seller of any item of personal property used by Seller in connection with the operation of the Business. Except as disclosed in Section 5.9 of the Disclosure Letter, all of the equipment and personal property leased by Seller under the Fixed Assets and Other Personal Property Leases is currently used by Seller in the ordinary course of the Business. Seller has delivered to Buyer correct and complete copies of all Fixed Assets and Other Personal Property Leases.

5.10. INTELLECTUAL PROPERTY. Section 5.10 of the Disclosure Letter is an accurate and complete list of all patents, patent licenses, trademarks, trade names, trademark registrations, service names, service marks, copyrights, website domain names, formulas and applications therefor owned

by Seller or used or required by Seller in the operation of the Business, title to all of which is held by Seller free and clear of all adverse claims, liens, security agreements, restrictions or other encumbrances. There is no infringement action, lawsuit, claim or complaint which asserts that Seller's operations violate or infringe the patent rights or the trademarks, trade names, trademark registration, service names, service marks or copyrights of others with respect to any apparatus or method of Seller used in the operation of the Business or any adversely held patent, trademark, trade name, trademark registration, service names, service marks or copyrights, and, Seller is not in any way making use of any confidential information or trade secrets of any person except with the consent of such person.

5.11. NO UNDISCLOSED LIABILITY. Seller does not have any liabilities or obligations of any nature, whether absolute, accrued, contingent or otherwise and whether due or to become due (including, without limitation, liabilities for Taxes and interest, penalties and other charges payable with respect thereto) which alone or in the aggregate may affect Seller's ability to transfer the Acquired Assets hereby or, from and after Closing, Buyer's right, title and interest in and to the Acquired Assets and Buyer's use and enjoyment thereof. The reserves reflected in the Financial Statements are adequate, appropriate and reasonable in accordance with GAAP. Furthermore, Seller does not know or have reason to know of any basis for the assertion against Seller of any such liability or obligation of any nature not fully reflected or reserved against in the Financial Statements.

5.12. ABSENCE OF CERTAIN CHANGES. Except as and to the extent set forth in Section 5.12 of the Disclosure Letter, since December 31, 1999, Seller has not:

(a) suffered any Material change in its working capital, financial condition, assets, liabilities, business or prospects, experienced any labor difficulty, or suffered any Material casualty loss (whether or not insured);

(b) made any change in the Business or operations or in the manner of conducting the Business other than changes in the ordinary course of business;

(c) incurred any obligations or liabilities (whether absolute, accrued, contingent or otherwise and whether due or to become due), except items incurred in the ordinary course of business and consistent with past practice, or experienced any change in any assumptions underlying or methods of calculating any bad debt, contingency or other reserves;

(d) paid, discharged or satisfied any claim, lien, encumbrance or liability (whether absolute, accrued, contingent or otherwise and whether due or to become due), other than claims, encumbrances or liabilities (i) which are reflected or reserved against in the Financial Statements and which were paid, discharged or satisfied since the date thereof in the ordinary course of business and consistent with past practice, or (ii) which were incurred and paid, discharged or satisfied since December 31, 1999 in the ordinary course of business and consistent with past practice;

(e) written off as uncollectible any Receivables or any portion thereof, except for immaterial write-offs made in the ordinary course of business, consistent with past practice and at a rate no greater than during the twelve (12) months ended December 31, 1999;

(f) canceled any other debts or claims, or waived any rights, of substantial value;

(g) sold, transferred or conveyed any of its properties or assets (whether real, personal or moved, tangible or intangible), except in the ordinary course of business and consistent with past practice;

(h) disposed of or permitted to lapse, or otherwise failed to preserve the exclusive rights of the Business to use any patent, trademark, trade name, logo or copyright or any such application, or disposed of or permitted to lapse any license, permit or other form of authorization, or disposed of or disclosed to any person any trade secret, formula, process or know-how;

(i) granted any increase in the compensation of any officer, director, employee or agent (including, without limitation, any increase pursuant to any bonus, pension, profit sharing or other plan or commitment), or adopted any such plan or other arrangements; and no such increase, or the adoption of any such plan or arrangement, is planned or required;

(j) made any change in any method of accounting or accounting practice;

(k) made any capital expenditures or commitments in excess of $10,000 in the aggregate for replacements or additions to property, plant, equipment or intangible capital assets;

(l) paid, loaned or advanced any amount to or in respect of, or sold, transferred or leased any properties or assets (real, personal or mixed, tangible or intangible) to, or entered into any agreement, arrangement or transaction with, any of the officers or directors of Seller, any affiliates or associates of Seller or any of their respective officers or directors, or any business or entity in which any of such persons has any direct or Material indirect interest, except for compensation to the officers and employees of Seller at rates not exceeding the rates of compensation in effect at December 31, 1999 and advances to employees in the ordinary course of business for travel and expense disbursements in accordance with past practice, but not in excess of $1,000 at any one time outstanding; or

(m) agreed, whether in writing or otherwise, to take any action described in this Section 5.12.

5.13. TAX MATTERS. Seller has duly filed all Tax Returns required to be filed by it and has duly paid all Taxes and other charges due or claimed to be due by Governmental Authorities. The reserves for Taxes contained in the Financial Statements and carried on the books of Seller are adequate to cover all tax liabilities as of the date of this Agreement. Seller has not incurred any Taxes other than in the ordinary course of business; there are no tax liens (other than liens for current

Taxes not yet due) upon any properties or assets of Seller (whether real, personal or mixed, tangible or intangible), and, except as reflected in the Financial Statements, there are no pending or threatened questions or examinations relating to, or claims asserted for, Taxes or assessments against Seller, and there is no basis for any such question or claim. Seller has not granted or been requested to grant any extension of the limitation period applicable to any claim for Taxes or assessments of the Business with respect to Taxes.

5.14. COMPLIANCE WITH APPLICABLE LAW. Seller has in the past duly complied and is presently duly complying, in the conduct of its business and the ownership of the Acquired Assets with all applicable laws, whether statutory or otherwise, rules, regulations, orders, ordinances, judgments and decrees of all Governmental Authorities (collectively, "Laws"). Seller has not received any notice of, or notice of any investigation of, a possible violation of any applicable Laws, or any other Law or requirement relating to or affecting the operations or properties of Seller.

5.15. LITIGATION. Except as set forth in Section 5.15 of the Disclosure Letter, there are no Claims pending or threatened by or against, or otherwise affecting the Business at law or in equity or before or by any Governmental Authority. Seller does not know or have any reason to know of any basis for any such Claim. No Claim set forth in Section 5.14 of the Disclosure Letter, could, if adversely decided, have a Material Adverse Effect on the condition (financial or otherwise), liabilities, earnings or prospects of Seller.

5.16. INSURANCE. Section 5.16 of the Disclosure Letter hereto sets forth a complete and accurate list and brief description (including policy numbers, deductibles, carriers and effective and termination dates) of all policies of fire, liability, workmen's compensation, health, title and other forms of insurance presently in effect with respect to Seller. All such policies are valid, outstanding and enforceable policies; and will remain in full force and effect at least through the respective dates set forth in Section 5.16 of the Disclosure Letter without the payment of additional premiums; and will not in any way be affected by, or terminate or lapse by reason of, the transactions contemplated by this Agreement. Seller has not been refused any insurance nor has its coverage been limited, by any insurance carrier to which it has applied for insurance or with which it has carried insurance during the last five years.

5.17. EMPLOYEE BENEFIT PLANS.

(a) Except as disclosed in Section 5.17 of the Disclosure Letter hereto and made a part hereof, Seller does not maintain any retirement or deferred compensation plan, savings, incentive, stock option or stock purchase plan, unemployment compensation plan, vacation pay, severance pay, bonus or benefit arrangement, group medical plan, insurance or hospitalization program or any other fringe benefit arrangements, including all Plans for any employee, consultant or agent of Seller, whether pursuant to contract, arrangement, custom or informal understanding in the operation of the Business.

(b) Except as disclosed in Section 5.17 of the Disclosure Letter, Seller does not have any commitment, whether formal or informal and whether legally binding or not, (i) to create any additional such Plan; (ii) to modify or change any such Plan; or (iii) to maintain for any period of time any such Plan. Section 5.17 of the Disclosure Letter contains an accurate and complete description of the funding policies (and commitments, if any) of Seller with respect to each such existing Plan.

(c) None of the Plans listed in Section 5.17 of the Disclosure Letter provide for continuing benefits or coverage after termination or retirement from employment, except with respect to any "group health plan" as defined in Code Section 4980B(g) and ERISA Section 607. With respect to any Plan which is a "group health plan," as so defined, Seller warrants that in all "qualified events" (including those resulting from the transaction contemplated by this Agreement) occurring prior to or on the Closing Date, Seller has or will cause to be offered to Seller's eligible employees and their "qualified beneficiaries" the opportunity to elect continuation coverage under ERISA Section 602 to the extent required by ERISA Sections 601-607 and will provide that coverage, if elected, at no expense to Buyer or Seller.

(d) Neither Seller nor any "affiliate" of Seller (as defined in ERISA) has ever participated in or withdrawn from a multi-employer plan as defined in Section 4001(a)(3) of Title IV of ERISA, and Seller has not incurred and does not owe any liability as a result of any partial or complete withdrawal by any employer from such a multi-employer plan as described under Sections 4201, 4203, or 4205 of ERISA.

(e) Except as disclosed in Section 5.17 of the Disclosure Letter, (i) Seller has no unfunded past service liability in respect of any of its Plans; (ii) the actuarially computed value of vested benefits under any such Plan does not exceed the fair market value of the fund assets relating to such Plan; (iii) neither Seller nor any Plan nor any trustee, administrator, fiduciary or sponsor of any Plan has engaged in any prohibited transactions as defined in ERISA, or the Code; (iv) all filings and reports as to such Plans required to have been made on or prior to the Closing Date to the Internal Revenue Service, the United States Department of Labor or other governmental agencies have been or will be made on or prior to the Closing Date; (v) there is no Material litigation, disputed Claim or Proceeding pending or threatened with respect to any of such Plans, the related trusts, or any fiduciary, trustee, administrator or sponsor of such Plans; (vi) such Plans have been established, maintained and administered in all Material respects in accordance with their governing documents and applicable provisions of ERISA and the Code and Treasury Regulations promulgated thereunder; and (vii) there has been no "Reportable Event" as defined in Section 4043 of ERISA with respect to any Employee Benefit Plan subject to Subtitle B of Title IV of ERISA that has not been waived by the PBGC.

(f) Seller has complied in all Material respects with all applicable federal, state and local laws, rules and regulations relating to employees' employment and/or employment relationships, including, without limitation, wage related laws, anti-discrimination laws and employee safety laws in the operation of the Business.

(g) Except as disclosed in Section 5.17 of the Disclosure Letter or otherwise set forth in the Agreement, Seller is not a party to any contract or agreement or requirement of law which would require Buyer to hire, or subject Buyer to liability if it did not hire, any employee of the Business or which would require Buyer to pay or provide, or subject Buyer to liability if it did not pay or provide, any employee benefits to any employee of the Business for periods prior to or after the Closing Date (including any and all employee benefits and any compensatory, over-time, vacation, sick or holiday pay).

5.18. CONTRACTS AND COMMITMENTS. Section 5.18 of the Disclosure Letter is a list of contracts relating to the Business and the Acquired Assets. Seller has delivered to Buyer correct and complete copies of each listed document. Section 5.18 and Sections 2.2(a)-(d) of the Disclosure Letter together include all the contracts to which Seller is a party or by which it is bound and which relate to the Business or the operation thereof and the Acquired Assets.

5.19. ACCOUNTS RECEIVABLE. All Receivables, whether reflected in the Financial Statements or otherwise, represent sales actually made in the ordinary course of business; none of such Receivables is subject to any counterclaim or set-off other than normal sales adjustments or allowances consistent with past practice; and all such Receivables are current and collectible in accordance with their respective terms, net of any reserve reflected in the Financial Statements.

5.20. ACCOUNTS PAYABLE. All accounts and notes payable of Seller, whether reflected in the Financial Statements, or otherwise, with an invoice date prior to Closing shall be paid by Seller.

5.21. CUSTOMERS AND SUPPLIERS. Seller has not received any indication from any customer or supplier (or otherwise has any reason to believe) that such customer or supplier will not continue as a customer or supplier of Buyer after the Closing.

5.22. LABOR MATTERS. There are no collective bargaining agreements in effect between Seller and labor unions or organizations representing any employees of Seller. During the past seven years, there has been no request for collective bargaining or for an employee election from any employee, union or the National Labor Relations Board. Seller is in compliance with all federal, state and local laws respecting employment and employment practices, terms and conditions of employment and wages and hours, and is not engaged in any unfair labor practice. There is no unfair labor practice complaint against Seller pending or threatened before the National Labor Relations Board or the United States Department of Labor. There is no labor strike, dispute, slowdown or stoppage in progress or threatened against or involving Seller. No question concerning representation has been raised or is threatened respecting the employees of Seller. No grievance or arbitration proceeding is pending and no claim therefor exists. No private agreement restricts Seller from relocating, closing or terminating any of its operations or facilities. Seller has not in the past five years experienced any labor strike, dispute, slowdown, stoppage or other labor difficulty.

5.23. NO BREACH. Each arrangement (whether evidenced by a written document or otherwise and of whatever type) referred to in this Agreement, the Disclosure Letter or in any Schedule hereto under which Seller has any right, interest or obligation is in full force and effect; there have been no threatened cancellations thereof nor outstanding disputes thereunder, and Seller has not breached any provision of, nor does there exist any default in any Material respect under, or event (including the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby) which is, or with the giving of notice or the passage of time or both would become, a breach or default in any Material respect under the terms of any such arrangement.

5.24. PROFESSIONAL FEES. Except as set forth in Section 5.24 of the Disclosure Letter, Seller has not done anything to cause or incur any liability or obligation for investment banking, brokerage, finders, agents or other fees, commissions, expenses or charges in connection with the negotiation, preparation, execution or performance of this Agreement or the consummation of the transactions contemplated hereby, and Seller does not know of any claim by anyone for such a fee, commission, expense or charge.

5.25. CONSENTS AND APPROVALS. Seller has obtained or will have obtained on or before the Closing all consents, approvals, authorizations or orders of third parties, including Governmental Authorities, necessary for the authorization, execution and performance of this Agreement by Seller.

5.26. PURCHASE ENTIRELY FOR OWN ACCOUNT. This Agreement is made with Seller in reliance upon Seller's representation to Buyer, which by Seller's execution of this Agreement Seller hereby confirms, that the Common Stock to be purchased by Seller (the "Securities") will be acquired for investment for Seller's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that Seller has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Agreement, Seller further represents that it does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person, with respect to any of the Securities. Seller has had the opportunity to ask questions of Buyer's officers and directors and to acquire such information about shares of Buyer's common stock and its business and financial condition as it has requested.

5.27. RELIANCE UPON SELLER'S REPRESENTATION. Seller understands that the Common Stock is not registered under the Securities Act on the ground that the sale provided for in this Agreement and the issuance of securities hereunder is exempt from registration under the Securities Act pursuant to Section 4(2) thereof, and that the Buyer's reliance on such exemption is predicated on the Seller's representations.

5.28. RESTRICTED SECURITIES. Seller understands that the Common Stock may not be sold, transferred, or otherwise disposed of without registration under the Securities Act and any applicable state securities laws or any exemptions therefrom, and that in the absence of an effective registration statement covering the Common Stock or an available exemption from registration under

the Securities Act and any applicable state securities laws, the Common Stock must be held indefinitely. In particular, Seller is aware that the Common Stock may not be sold pursuant to Rule 144 promulgated under the Securities Act unless all of the conditions of that Rule are met and Seller receives an opinion of counsel that such conditions have been met. Among the conditions for use of Rule 144 may be the availability of current information to the public about the Buyer. Such information is not now available. Further any stock that is transferred pursuant to the restrictions in this Section 5.28, and distributed to Kevin Rittger, M.D., or other key employees of Seller, shall be subject to restrictions from sale for two years from the date of Closing. These restrictions shall lift after one year from Closing on 75% of the shares held by these people, and on the remaining 25% of the shares two years from Closing.

5.29. LEGENDS. To the extent applicable, each certificate or other document evidencing any of the Common Stock shall be endorsed with the legends substantially in the form set forth below:

(a) The following legend under the Securities Act:

"THE SHARES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED, PLEDGED, OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER SUCH ACT, OR UNLESS THE BUYER HAS RECEIVED AN OPINION OF COUNSEL OR OTHER EVIDENCE, SATISFACTORY TO THE BUYER AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED."

and the following legend:

THE TRANSFERABILITY OF THE SHARES EVIDENCED BY THIS CERTIFICATE IS RESTRICTED BY THE PROVISIONS OF A SHAREHOLDERS' AGREEMENT ENTERED INTO BETWEEN THE HOLDER OF THIS CERTIFICATE AND THE COMPANY. A COPY OF THE SHAREHOLDERS' AGREEMENT IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY AND MAY BE REVIEWED AT SUCH OFFICE UPON REQUEST.

(b) Any legend imposed or required by applicable state securities laws.

ARTICLE 6.
REPRESENTATIONS AND WARRANTIES BY BUYER

Buyer hereby represents and warrants to Seller as follows:

6.1. ORGANIZATION AND GOOD STANDING. Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Tennessee and has full corporate

power and authority to enter into this Agreement and to carry out the transactions contemplated hereby.

6.2. AUTHORIZATION. The Board of Directors of Buyer has taken, or will take prior to Closing, all action required by law, its Charter, its Bylaws and otherwise to authorize the execution and delivery by Buyer of this Agreement and the consummation by Buyer of the transactions contemplated hereby.

6.3. VALID AND BINDING AGREEMENT. This Agreement constitutes a valid and binding agreement of Buyer, enforceable against Buyer in accordance with its terms.

6.4. NO VIOLATION. The execution and delivery of this Agreement by Buyer does not, and the consummation of the transactions contemplated hereby will not, (a) violate any provision, or result in the creation of any lien or security interest under, any agreement, indenture, instrument, lease, security agreement, mortgage or lien to which Buyer is a party or by which it is bound; (b) violate any provision of Buyer's Charter or Bylaws; (c) violate any order, arbitration award, judgment, writ, injunction, decree, statute, rule or regulation applicable to Buyer; or (d) violate any other contractual or legal obligation or restriction to which Buyer is subject.

6.5. PROFESSIONAL FEES. Buyer has not done anything to cause or incur any liability for investment banking, brokerage, finders, agents or other fees, commissions, expenses or charges in connection with the negotiation, preparation, execution and performance of this Agreement or the consummation of the transactions contemplated hereby, and Buyer does not know of any claim by anyone for such a commission or fee.

6.6. CONSENTS AND APPROVALS. Buyer has obtained or will have obtained prior to the Closing all consents, approvals, authorizations or orders of third parties, including Governmental Authorities, necessary for the authorization, execution and performance of this Agreement by Buyer.

ARTICLE 7.
COVENANTS AND AGREEMENTS OF THE PARTIES

7.1. CONDUCT OF BUSINESS PENDING THE CLOSING.

(a) Seller will take such action as may be necessary to maintain, preserve, renew and keep in full force and effect the existence, rights and franchises of Seller, to preserve the business organizations of Seller intact, to keep available to Buyer Seller's officers and employees, and to preserve for Buyer the present relationships of Seller with its suppliers and customers and others having business relationships with respect to the Business.

(b) Seller will not do or omit to do any act, or permit any act or omission to act, which may cause a breach of any Contract of Seller, or any breach of any representation, warranty, covenant or agreement made by Seller herein.

(c) Seller will duly comply with all laws applicable to it and its business and operations and all Laws, compliance with which is required for the valid consummation of the transactions contemplated by this Agreement.

(d) Seller will not (i) grant any increase in the wages or salary of any officer, employee or agent of Seller, except normal wage or salary increases for employees (other than officers and other management employees) in the ordinary course of business and consistent with past practice; (ii) by means of any bonus or pursuant to any plan or arrangement or otherwise, increase by any amount or to any extent the benefits or compensation of any such officer, employee or agent; (iii) enter into any employment agreement, sales agency or other contract or arrangement with respect to the performance of personal services which is not terminable by it without liability on not more than 30 days notice; (iv) enter into or extend any labor contract with any hourly-paid employees or any union; or (v) agree to take any such action.

(e) Seller will not terminate or modify any lease, license, permit, contract or other agreement to which it is a party.

(f) Seller will not mortgage, pledge or subject to lien or any other encumbrance, any of the Acquired Assets.

(g) Seller will not enter into any transaction involving more than $10,000 or a commitment extending more than six months.

(h) Seller will not directly or indirectly (through a representative or otherwise) solicit or furnish information to any prospective acquirers, commence negotiations with any other party or enter into any agreement with any other party concerning the sale of Seller's capital stock or assets or any part thereof, or involving the merger, consolidation, liquidation, dissolution, acquisition or combination of or share exchange with any other entity.

(i) Seller will not make any cash distributions to its Shareholders.

(j) Seller will not enter into any transaction outside the ordinary course of business.

(k) Seller will not enter into any agreement to do any of the foregoing.

7.2. ACCESS; FURTHER ASSURANCES.

(a) After the execution of this Agreement and continuing until the Closing, Seller shall permit Buyer and its counsel, accountants, engineers and other representatives full access during normal business hours to all of the directors, officers, facilities, properties, books, contracts, commitments and records of or relating to Seller and will furnish Buyer and its representatives during such period with all such information concerning the affairs of Seller and such copies of such documents relating thereto, as Buyer or its representatives may request.

(b) At any time and from time to time after the Closing, at Buyer's request and without further consideration, Seller will execute and deliver such other instruments of sale, transfer, conveyance, assignment, and delivery and confirmation and take such action as the Buyer may reasonably deem necessary or desirable in order more effectively to transfer, convey and assign to Buyer and to place Buyer in possession and control of, and to confirm Buyer's title to, the Acquired Assets, and to assist Buyer in exercising all rights and enjoying all benefits with respect thereto.

7.3. DISCLOSURE LETTER. Seller shall have the continuing obligation to supplement or amend promptly the Disclosure Letter being delivered pursuant to this Agreement with respect to any matter hereafter arising or discovered which, if existing or known at the date of this Agreement, would have been required to be set forth or described in the Disclosure Letter.

7.4. CONFIDENTIALITY. Subject to Section 7.5, whether or not the Closing occurs, each of the parties will treat in confidence all documents, materials and other information (including without limitation information relating to supply and sales agreements and relationships with third parties) disclosed by any other party, whether during the course of the negotiations leading to the execution of this Agreement or thereafter, in its investigation of the other parties and in the preparation of agreements, schedules and other documents relating to the consummation of the transactions contemplated hereby. If this Agreement is terminated, each of the parties will use its best efforts to return to the other party all originals and copies of nonpublic documents and materials, including summaries and compilations thereof, of the type provided for in this Section 7.4 which have been furnished in connection with this Agreement.

7.5. PUBLIC STATEMENTS AND PRESS RELEASES. Prior to the Closing, no party will issue or cause the publication of any press release, public announcement, statement, acknowledgment or other public revelation (including any announcement to employees or customers of, or others having business dealings with, Seller, Buyer or any of them) with respect to this Agreement or the transactions contemplated hereby (a "Public Statement") without the prior consent of the other party to such Public Statement and its contents, which consent will not be unreasonably withheld; provided, however, that nothing herein will prohibit:

(a) any party from issuing or causing publication of any Public Statement to the extent that such party determines such action to be required by applicable law, in which event the party making such determination will use reasonable efforts to allow the other party reasonable time to comment on such Public Statement in advance of its issuance, or

(b) Buyer from engaging in discussions with customers, suppliers, employees, distributors and others engaging in business with Seller, provided that such discussions relate to Buyer's due diligence review or Buyer's conduct of the Business after Closing, and are not intended to result in general public statements or disclosures (or are not reasonably likely to have such effect).

7.6. TAXES. Seller will be responsible for, and hereby agrees to assume and pay, all sales and similar Taxes which may be due to any jurisdiction or governmental body as a result of the sale and transfer of the Acquired Assets.

7.7. CONSENTS AND APPROVALS. The parties shall, in a timely, accurate and complete manner, take all necessary corporate and other action and use all reasonable efforts to obtain all consents, approvals, permits, licenses and amendments of agreements required by such party to carry out the transactions contemplated in this Agreement.

7.8. BULK SALES COMPLIANCE. Buyer hereby waives compliance by Seller with the provisions of the Bulk Sales Laws of any and all states, and Seller covenants and agrees to pay and discharge when due all claims, liabilities and related expenses which may be asserted against Buyer by reason of such noncompliance.

ARTICLE 8.
CONDITIONS TO BUYER'S OBLIGATIONS

All obligations of Buyer hereunder are subject to the fulfillment, prior to or at the Closing, of each of the following conditions:

8.1. REPRESENTATIONS AND WARRANTIES. The representations and warranties made by Seller in this Agreement and the statements contained in the Disclosure Letter or in any instrument, list, certificate or writing delivered by Seller pursuant to this Agreement shall be true when made and at and as of the time of the Closing as though such representations and warranties were made at and as of the Closing.

8.2. PERFORMANCE BY SELLER. Seller shall have performed and complied with all covenants, agreements, obligations and conditions required by this Agreement to be so complied with or performed.

8.3. CERTIFICATES OF SELLER. Seller shall have delivered to Buyer a certificate, dated the Closing Date, certifying as to the fulfillment of the conditions specified in Sections 8.1 and 8.2 hereof.

8.4. OPINION OF COUNSEL FOR SELLER. Buyer shall have received an opinion of the Seller's counsel, Bill Zweifel, dated the Closing Date, in form and substance satisfactory to Buyer's counsel, Bass, Berry & Sims PLC, to the effect set forth in Exhibit C hereto.

8.5. CONSENTS AND APPROVALS. Buyer shall have received from Seller executed counterparts of the consents referred to in Section 5.25 hereof, and all other consents required, for the consummation of the transactions contemplated hereby, all of which consents shall be in form and substance satisfactory to Buyer.

8.6. RESOLUTIONS. Buyer shall have received from Seller copies of the resolutions of the Board of Directors and Shareholders of Seller authorizing the execution, delivery and performance of this Agreement and the other documents referred to herein to be executed by Seller, and the consummation of the transactions contemplated hereby.

8.7. LITIGATION. On the date of the Closing, Seller shall not be a party to, nor will there otherwise be pending or threatened, any judicial, administrative, or other action, proceeding or investigation which, if adversely determined might, in the opinion of Buyer, have a Material Adverse Effect upon the Business, the Acquired Assets, Buyer or the transactions contemplated hereby; and there shall be no Claim pending against Seller or Buyer seeking to enjoin, prohibit, restrain or otherwise prevent the transactions contemplated hereby.

8.8. NO MATERIAL ADVERSE CHANGE; DUE DILIGENCE REVIEW. Since the date of this Agreement, there shall not have been any Material Adverse Effect. Because Buyer has not had an opportunity to review fully the Business as at the date of this Agreement, Buyer shall have a period of five (5) days from the date hereof in which to conduct a business financial and legal due diligence review of the properties, assets, results, operations, condition, suppliers, customers and prospects of Seller. In the event during such review, Buyer in good faith reasonably determines that such review has revealed information which either had not been previously fully disclosed to or known by Buyer (whether or not such disclosure was required by this Agreement), and would, if known to Seller as of the date of this Agreement, constitute a breach of this Agreement, or would otherwise have a Material Adverse Effect, then Buyer may terminate this Agreement by written notice thereof to Seller, in which case, no party will have any further obligations or liabilities in respect of this Agreement.

8.9. NON-COMPETITION AGREEMENT. Key employees of Seller, including Kevin Rittger, M.D., shall have entered into a non-competition agreement with Buyer on substantially the terms and conditions set forth on Exhibit B hereto (the "Non-Competition Agreement").

8.10. AUDIT. Seller's financial statement for the past three (3) fiscal years shall have been audited by a certified public accountant and to the satisfaction of Buyer and its auditors.

8.11. AGREEMENT. Seller shall have entered into the Shareholders' Agreement, Voting Agreement and Co-Sale Agreement attached hereto as Exhibits E, F and G, respectively.

8.12. PAYROLL TAXES. Seller shall have received notification from the Internal Revenue Service stating the exact amount owed by Seller for past due payroll taxes and interest and penalties thereon.

ARTICLE 9.
CONDITIONS TO SELLER'S OBLIGATIONS

All obligations of Seller under this Agreement are subject to the fulfillment, prior to or at the Closing, of each of the following conditions:

9.1. REPRESENTATIONS AND WARRANTIES. The representations and warranties made by the Buyer in this Agreement shall be true when made and at and as of the time of the Closing as though such representations and warranties were made at and as of such date.

9.2. PERFORMANCE. Buyer shall have performed and complied with all agreements, obligations and conditions required by this Agreement to be so complied with or performed.

9.3. OFFICER'S CERTIFICATE. Buyer shall have delivered to Seller a Certificate of the Chief Executive Officer of Buyer, dated the Closing Date, certifying as to the fulfillment of the conditions specified in Sections 9.1 and 9.2 hereof.

9.4. OPINION OF COUNSEL FOR BUYER. Seller shall have received an opinion of Buyer's counsel, Bass, Berry & Sims PLC, dated the Closing Date, in form and substance satisfactory to Seller's counsel, Bill Zweifel, to the effect set forth on Exhibit D hereto.

9.5. RESOLUTIONS. Seller shall have received from Buyer a copy of the resolutions of the Board of Directors of Buyer authorizing the execution, delivery and performance of this Agreement and the other documents referred to herein to be executed by Buyer, and the consummation of the transactions contemplated hereby.

ARTICLE 10.
INDEMNIFICATION

10.1. INDEMNIFICATION BY SELLER. Seller hereby agrees to defend, indemnify and hold harmless Buyer, each fiduciary of Buyer's employee benefit plans and each of Buyer's shareholders, affiliates, officers, directors, employees, agents, successors and assigns ("Buyer's Indemnified Persons") and shall reimburse Buyer's Indemnified Persons for, from and against each claim, loss, liability, cost and reasonable expense (including interest, penalties, costs of preparation and investigation, and the reasonable fees, disbursements and expenses of attorneys, accountants and other professional advisors) (collectively, "Losses"), directly or indirectly relating to, resulting from or arising out of:

(a) Any untrue representation, misrepresentation, breach of warranty or nonfulfillment of any covenant, agreement or other obligation by or of Seller contained herein, any Schedule hereto, the Disclosure Letter or in any certificate, document or instrument delivered to Buyer pursuant hereto.

(b) Any Tax liability of Seller relating to the Assets, the Business or employees of Seller, not previously paid, which is successfully asserted or assessed against it for any event or period prior to the Closing Date (regardless of whether the possibility of the assertion or assessment of any such Tax liability shall have been disclosed to Buyer at or prior to the Closing).

(c) Any Losses suffered or incurred by Buyer by reason of the failure by Seller to comply with Bulk Sales Laws.

(d) Any other Loss related to any of the foregoing.

10.2. INDEMNIFICATION BY BUYER. Buyer hereby agrees to defend, indemnify and hold harmless Seller, and shall reimburse Seller for, from and against Losses directly or indirectly relating to, resulting from or arising out of:

(a) Any untrue representation, misrepresentation, breach of warranty or nonfulfillment of any covenant, agreement or other obligation by Buyer contained herein or in any certificate, document or instrument delivered to Seller pursuant hereto.

(b) Any other Loss related to the foregoing.

10.3. PROCEDURE.

(a) The indemnified party shall promptly notify the indemnifying party of any Claim, demand, action or Proceeding for which indemnification will be sought under Sections 10.1 or 10.2 of this Agreement, and, if such Claim, demand, action or Proceeding is a third party Claim, demand, action or Proceeding, the indemnifying party will have the right at its expense to assume the defense thereof using counsel reasonably acceptable to the indemnified party. The failure to provide such prompt notice shall not affect the indemnification provided hereunder except to the extent, if any, the indemnifying party shall have been actually prejudiced as a result of such delay or failure. Should the indemnifying party assume the defense of such a third party Claim, demand, action or Proceeding or should the indemnified party unreasonably withhold its consent to the assumption by the indemnifying party of the defense of any Claim, the indemnifying party shall not be liable to the indemnified party for legal expenses subsequently incurred by the indemnified party in connection with the defense thereof. The indemnified party shall have the right to participate, at its own expense, with respect to any such third party Claim, demand, action or Proceeding, it being understood that the indemnifying party shall control any defense assumed by the indemnifying party. In connection with any such third party Claim, demand, action or Proceeding, Buyer and Seller shall cooperate with each other and provide each other with access to and retain all relevant books and records in their possession. No such third party Claim, demand, action or Proceeding shall be settled without the prior written consent of the indemnified party. If a firm written offer is made to settle any such third party Claim, demand, action or Proceeding and the indemnifying party proposes to accept such settlement and the indemnified party refuses to consent to such settlement, then: (i) the indemnifying party shall be excused from, and the indemnified party shall be solely responsible for,

all further defense of such third party Claim, demand, action or Proceeding; and (ii) the maximum liability of the indemnifying party relating to such third party Claim, demand, action or Proceeding shall be the amount of the proposed settlement if the amount thereafter recovered from the indemnified party on such third party Claim, demand, action or Proceeding is greater than the amount of the proposed settlement. Whether or not the indemnifying party shall have assumed the defense of any such third party Claim, action, demand or Proceeding, no indemnified party shall admit any liability with respect to, or settle, compromise or discharge any such Claim, demand, action or Proceeding without the indemnifying party's prior written consent, which shall not be unreasonably withheld.

Buyer and Seller shall cooperate with each other with respect to resolving any claim or liability with respect to which one party is obligated to indemnify any other person hereunder, including by making commercially reasonable efforts to mitigate or resolve any such claim or liability. In the event that Buyer or Seller shall fail to make such commercially reasonable efforts to mitigate or resolve any claim or liability, then notwithstanding anything else to the contrary herein, the other party shall not be required to indemnify any person for any Losses that could reasonably be expected to have been avoided if Buyer or Seller, as the case may be, had made such efforts.

(b) Except as hereafter set forth, (i) neither Seller nor Buyer shall have any liability under this Article 10 unless the aggregate of all Losses to which the party who shall be entitled to indemnification exceeds, on a per claim or per liability basis, an amount equal to $10,000 (exclusive of legal and other expenses) in which event the indemnifying party shall be liable for all Losses in excess of $10,000; (ii) in no event shall the aggregate liability of Seller or Buyer under this Article 10 exceed $1,000,000, except for Losses incurred by Buyer resulting from a breach by Seller of its representations made pursuant to Section 5.13 or from any Claim made by a Governmental Authority or other third party relating to Seller's operation of the Business prior to the Closing Date.

(c) Indemnification claims shall be reduced by and to the extent (i) that an indemnitee shall actually receive proceeds under insurance policies, risk sharing pools, or similar arrangements specifically as a result of, and in compensation for, the subject matter of an indemnification claim by such indemnitee, and (ii) indemnitee's available net tax benefits directly attributable to Losses incurred in connection with any such claim.

(d) Entitlement to indemnification pursuant to this Article 10 shall be conditioned upon claims in respect thereof being submitted, if at all, to the party from whom indemnification is sought within 12 months from and after the Closing Date, except that Buyer may give notice of and may make a claim relating to (i) a breach by Seller of its representations made pursuant to Section 5.13 hereof at any time prior to 90 days after the expiration of the appropriate statute of limitations with respect thereto, (ii) any Claim made by a Governmental Authority or other third party relating to Seller's operation of the Business prior to the Closing Date at any time, and (iii) Seller's ownership of the Acquired Assets at any time.

ARTICLE 11.
SURVIVAL OF REPRESENTATIONS

11.1. SURVIVAL OF REPRESENTATIONS. All representations, warranties, covenants and agreements by the parties contained in this Agreement shall survive the Closing for a period of two years.

11.2. STATEMENTS AS REPRESENTATIONS. All statements contained in the Disclosure Letter or in any certificate, Schedule, list, document or other writing delivered pursuant hereto or in connection with the transactions contemplated hereby shall be deemed representations and warranties for all purposes of this Agreement.

11.3. REMEDIES CUMULATIVE. The remedies provided herein shall be cumulative and shall not preclude the assertion by any party hereto of any other rights or the seeking of any other remedies against the other party hereto.

ARTICLE 12.
TERMINATION OF AGREEMENT

This Agreement may be terminated at any time prior to the Closing:

(a) By mutual agreement of Seller and Buyer.

(b) By Buyer, upon ten (10) days' prior written notice to Seller if there has been a Material violation or breach by the Seller of any of the agreements, representations or warranties contained in this Agreement which has not been waived in writing, or if any of the conditions set forth in Article 8 hereof have not been satisfied by the Closing or have not been waived in writing by Buyer.

(c) By Seller, upon ten (10) days' prior written notice to Buyer if there has been a Material violation or breach by the Buyer of any of the agreements, representations or warranties contained in this Agreement which has not been waived in writing, or if any of the conditions set forth in Article 9 hereof have not been satisfied by the Closing or have not been waived in writing by Seller.

(d) By Buyer pursuant to Section 8.7 hereto.

(e) By either Buyer or Seller if the transactions contemplated by this Agreement shall not have been consummated on or before February 29, 2000.

(f) By either Buyer or Seller if the other makes an assignment for the benefit of creditors, files a voluntary petition in bankruptcy or seeks or consents to any reorganization or similar relief under any present or future bankruptcy act or similar law, or is adjudicated a bankrupt

or insolvent, or if a third party commences any bankruptcy, insolvency, reorganization or similar proceeding involving the other.

ARTICLE 13.
MISCELLANEOUS

13.1. EXPENSES. All fees and expenses incurred by Seller, including without limitation legal fees and expenses, in connection with this Agreement will be borne by Seller and all fees and expenses incurred by Buyer, including without limitation, legal fees and expenses, in connection with this Agreement will be borne by Buyer. If this transaction is not consummated, all expenses relating to the audit of Seller shall be borne by Seller.

13.2. ASSIGNABILITY; PARTIES IN INTEREST.

(a) Buyer may assign any or all of its rights hereunder to any affiliate or any direct or indirect subsidiary of Buyer, and Buyer shall advise Seller of any such assignment and shall designate such party as the assignee and transferee of the Assets purchased. Any such assignee shall assume all of Buyer's duties, obligations and undertakings hereunder, but the assignor shall remain liable hereunder.

(b) Seller may not assign, transfer or otherwise dispose of any of its rights hereunder without the prior written consent of Buyer.

(c) All the terms and provisions of this Agreement shall be binding upon, shall inure to the benefit of and shall be enforceable by the respective heirs, successors, assigns and legal or personal representatives of the parties hereto, provided that the rights and obligations under all licenses and trademarks hereunder shall under no circumstances be assignable.

13.3. ENTIRE AGREEMENT; AMENDMENTS. This Agreement, including the Disclosure Letter, exhibits, Schedules, lists and other documents and writings referred to herein or delivered pursuant hereto, which form a part hereof, contains the entire understanding of the parties with respect to its subject matter. There are no restrictions, agreements, promises, warranties, covenants or undertakings other than those expressly set forth herein or therein. This Agreement supersedes all prior agreements and understandings between the parties with respect to its subject matter. This Agreement may be amended only by a written instrument duly executed by all parties or their respective heirs, successors, assigns or legal personal representatives. Any condition to a party's obligations hereunder may be waived but only by a written instrument signed by the party entitled to the benefits thereof. The failure or delay of any party at any time or times to require performance of any provision or to exercise its rights with respect to any provision hereof, shall in no manner operate as a waiver of or affect such party's right at a later time to enforce the same.

13.4. HEADINGS. The section and paragraph headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretations of this Agreement.

13.5. SEVERABILITY. The invalidity of any term or terms of this Agreement shall not affect any other term of this Agreement, which shall remain in full force and effect.

13.6. NOTICES. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if delivered in person, by electronic facsimile transmission, cable telegram, telex, or other standard form of telecommunications or mailed (by overnight courier or registered or certified mail, postage prepaid, return receipt requested) as follows:

If to Seller:

Emergency Medicine Internetwork, Inc.
1301 Regents Park Road, Suite 204
Houston, TX 77058
Attn: Kevin Rittger, M.D.
Facsimile: (281) 280-0285

with a copy to:

William R. Zweifel, Esq.
One Greenway Plaza
Suite 100
Houston, TX 77046
Facsimile: (713) 627-2498

If to Buyer:

HealthStream, Inc.
209 10th Avenue South, Suite 450
Nashville, TN 37203
Attn: Aaron Broad
Facsimile: (615) 301-3200

with a copy to:

Bass, Berry & Sims PLC
2700 First American Center
Nashville, Tennessee 37238
Attn: Laura R. Brothers, Esq.
Facsimile: (615) 742-6818

or to such other address as any party may have furnished to the others in writing in accordance herewith, except that notices of change of address shall only be effective upon receipt.

13.7. GOVERNING LAW. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Tennessee, without regard to its conflict of laws rules.

13.8. COUNTERPARTS. This Agreement may be executed simultaneously in one or more counterparts, with the same effect as if the signatories executing the several counterparts had executed one counterpart, provided, however, that the several executed counterparts shall together have been signed by Buyer and Seller. All such executed counterparts shall together constitute one and the same instrument.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officers of Buyer and by Seller on the date first above written.

BUYER:

HEALTHSTREAM, INC.

By: /s/ Robert A. Frist, Jr.

Title: Chief Executive Officer

SELLER:

EMERGENCY MEDICINE INTERNETWORK, INC.

By: /s/ Kevin Rittger

Title: President

SCHEDULE 3.2
ORGANIZATIONS QUALIFYING FOR EARN OUT

ORGANIZATION	CONTRACT VALUE
Lennoway Community Ambulance	$ 27,000
Lansing Fire Department	$ 22,500
City of Baytown	$ 8,342
GPU	$ 26,730
Trans Ocean Offshore	$ 22,500
Compaq	$ 8,464
Austin City EMS	$ 85,050
Rural Metro North Texas	$ 25,125
TOTAL	$225,711

EXHIBIT A

Escrow Agreement

EXHIBIT B

Non-Competition Agreement

EXHIBIT C

Opinion of Seller's Counsel

EXHIBIT D

Opinion of Buyer's Counsel

EXHIBIT E

Shareholders' Agreement

EXHIBIT F

Voting Agreement

EXHIBIT G

Co-Sale Agreement

EXHIBIT 4.4

INVESTORS' RIGHTS AGREEMENT

THIS INVESTORS' RIGHTS AGREEMENT is made as of the 21st day of April, 1999 by and between HealthStream, Inc., a Tennessee corporation (the "Company") and the investors listed on Schedule A hereto, each of which is herein referred to as an "Investor."

RECITALS

WHEREAS, the Company and the Investors are parties to the Series B Convertible Preferred Stock Purchase Agreement of even date herewith (the "Series B Convertible Agreement");

WHEREAS, in order to induce the Company to enter into the Series B Convertible Agreement and to induce the Investors to invest funds in the Company pursuant to the Series B Convertible Agreement, the Investors and the Company hereby agree that this Agreement shall govern the rights of the Investors to cause the Company to register shares of Common Stock issuable to the Investors and certain other matters as set forth herein;

NOW, THEREFORE, THE PARTIES HEREBY AGREE AS FOLLOWS:

1. REGISTRATION RIGHTS. The Company covenants and agrees as follows:

1.1 Definitions. For purposes of this Section 1:

(a) The term "Act" means the Securities Act of 1933, as amended.

(b) The term "Holder" means any person owning or having the right to acquire Registrable Securities or any assignee thereof in accordance with Section 1.12 hereof.

(c) The term "1934 Act" shall mean the Securities Exchange Act of 1934, as amended.

(d) The term "register," "registered," and "registration" refer to a registration effected by preparing and filing a registration statement or similar document in compliance with the Act, and the declaration or ordering of effectiveness of such registration statement or document.

(e) The term "Registrable Securities" means (i) the Common Stock issuable or issued upon conversion of the Series A or Series B Convertible Preferred Stock, and (ii) any Common Stock of the Company issued as (or issuable upon the conversion or exercise of any warrant, right or other security which is issued as) a dividend or other distribution with respect to, or in exchange for or in replacement of the shares referenced in (i) above, excluding in all cases, however, any Registrable Securities sold by a person in a transaction in which his rights under this Section 1 are not assigned.

(f) The number of shares of "Registrable Securities then outstanding" shall be determined by the number of shares of Common Stock outstanding which are Registrable Securities , and the number of shares of Common Stock issuable pursuant to then exercisable or convertible securities which are Registrable Securities.

(g) The term "SEC" shall mean the Securities and Exchange Commission.

1.2 Demand Registration.

(a) At any time after the Company shall have consummated a firm commitment underwritten public offering of the Common Stock of the Company under the Act, the holders of Registrable Securities (i) constituting at least 30% of the total shares of Registrable Securities then outstanding and (ii) having a minimum anticipated offering price of $5,000,000 may request the Company to register under the Act all or any portion of the shares of Registrable Securities held by such requesting Holder or Holders for sale on Form S-1 in the manner specified in such notice. Notwithstanding anything to the contrary contained herein, the Company shall not be obligated to effect, or to take any action to effect, any such registration pursuant to this Section 1.2:

(i) during the period starting with the date sixty (60) days prior to the Company's good faith estimate of the date of filing of, and ending on a date one hundred eighty (180) days after the effective date of, a Company-initiated registration (but in any event no greater than three hundred sixty (360) days after a request is made under this Section 1.2); provided that the Company is actively employing in good faith all reasonable efforts to cause such registration statement to become effective;

(ii) if the requesting Holders do not request that such offering be firmly underwritten by underwriters reasonably acceptable to the Company;

(iii) if the Company and the requesting Holders are unable to obtain the commitment of the underwriter described in clause (ii) above to firmly underwrite the offering; or

(iv) if in the good faith judgment of the Board of Directors of the Company, such registration would be seriously detrimental to the Company and the Board of Directors of the Company concludes, as a result, that it is essential to defer the filing of such registration statement at such time, in which case the Company shall furnish to such Holders a certificate signed by the President of the Company stating that in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company for such registration statement to be filed in the near future and that it is, therefore, essential to defer the filing of such registration statement, then the Company shall have the right to defer such filing for a period of not more than 180 days after receipt of the request of the requesting holders, and, provided further, that the Company shall not defer its obligation in this manner more than once in any eighteen-month period.

(b) Following receipt of any notice under this Section 1.2, the Company shall immediately notify all holders of Registrable Securities from whom notice has not been received and shall use its best efforts to register under the Act, for public sale in accordance with the method of disposition specified in such notice from requesting holders, the number of shares of Registrable Securities specified in such notice (and in all notices received by the Company from other holders within 15 days after the giving of

such notice by the Company). If such method of disposition shall be an underwritten public offering, the holders of a majority of the shares of Registrable Securities to be sold in such offering may designate the managing underwriter of such offering, subject to the approval of the Company which approval shall not be unreasonably withheld or delayed. The Company shall be obligated to register Registrable Securities pursuant to this Section 1.2 on two occasions only; provided, however, that such obligation shall be deemed satisfied only when a registration statement covering all shares of Registrable Securities specified in notices received and not rescinded as aforesaid, for sale in accordance with the method of disposition specified by the requesting Holders, shall have become effective and, if such method of disposition is a firm commitment underwritten public offering, all such shares shall have been sold pursuant thereto.

(c) The Company and any other holders of Common Stock which the Company shall permit to participate shall be entitled to include in any registration statement referred to in this Section 1.2, for sale in accordance with the method of disposition specified by the requesting Holders, provided the Company and any such holder accept the terms of any underwriting agreed by the initiating Holders, shares of Common Stock to be sold by the Company or such other holders for their own account, except as and to the extent that, in the sole discretion of the managing underwriter (if such method of disposition shall be an underwritten public offering), such inclusion would adversely affect the success of the offering of the Registrable Securities to be sold. Except for registration statements on Form S-4, S-8 or any successor thereto, the Company will not file with the SEC any other registration statement with respect to its Common Stock, whether for its own account or that of other stockholders, from the date of receipt of a notice from requesting holders pursuant to this Section 1.2, until the completion of the period of distribution of the registration contemplated thereby.

1.3 Company Registration. If (but without any obligation to do so) the Company proposes to register (including for this purpose a registration effected by the Company for shareholders other than the Holders) any of its stock or other equity securities under the Act in connection with the public offering of such securities solely for cash (other than a registration relating solely to the sale of securities to participants in a Company stock plan, a registration on Form S-4 or any other form which does not include substantially the same information as would be required to be included in a registration statement covering the sale of the Registrable Securities or a registration in which the only Common Stock being registered is Common Stock issuable upon conversion of debt securities which are also being registered), the Company shall, at such time, promptly give each Holder written notice of such registration. Upon the written request of each Holder given within twenty (20) days after mailing of such notice by the Company in accordance with Section 3.5, the Company shall, subject to the provisions of Section 1.7, cause to be registered under the Act all of the Registrable Securities that each such Holder has requested to be registered.

1.4 Obligations of the Company. Whenever required under this Section 1 to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

(a) Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use all reasonable efforts to cause such registration statement to become effective, and upon the request of the Holders of a majority of the

Registrable Securities, keep such registration statement effective for a period of up to sixty (60) days or, if earlier, until the Holder of Holders have completed the distribution related thereto.

(b) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Act and as may be necessary to keep such registration statement effective for a period of up to 60 days.

(c) Furnish to the Holders such numbers of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them.

(d) Use its best efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders.

(e) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter of such offering. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.

(f) Notify each Holder of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

(g) Cause all such Registrable Securities registered pursuant hereunder to be listed on each securities exchange on which similar securities issued by the Company are then listed.

(h) Provide a transfer agent and registrar for all Registrable Securities registered pursuant hereunder and a CUSIP number for all such Registrable Securities in each case not later than the effective date of such registration.

(i) Furnish, at the request of a majority of the Holders participating in the registration, on the date that such Registrable Securities are delivered to the underwriters for sale, if such securities are being sold through underwriters, or, if such securities are not being sold through underwriters, on the date that the registration statement with respect to such securities becomes effective, (i) an opinion, dated as of such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering and reasonably satisfactory to a majority in interest of the Holders requesting registration, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities and (ii) a letter dated as of such date, from the independent certified public accountants of the Company, in form and substance as is customarily

given by independent certified public accountants to underwriters in an underwritten public offering and reasonably satisfactory to a majority in interest of the Holders requesting registration, addressed to the underwriters, if any, and if permitted by applicable accounting standards, to the Holders requesting registration of Registrable Securities.

1.5 Furnish Information. It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Section 1 with respect to the Registrable Securities of any selling Holder that such Holder shall furnish to the Company such information regarding itself, the Registrable Securities held by it, and the intended method of disposition of such securities as shall be required to effect the registration of such Holder's Registrable Securities.

1.6 Expenses of Company Registration. The Company shall bear and pay all expenses incurred in connection with any registration, filing or qualification of Registrable Securities with respect to the registrations pursuant to Sections 1.2, 1.3 or 1.11 for each Holder (which right may be assigned as provided in Section 1.12), including (without limitation) all registration, filing, and qualification fees, printers and accounting fees relating or apportionable thereto and the fees and disbursements of counsel for the Company and the reasonable fees and disbursements of one counsel for the selling Holders selected by them, but excluding underwriting discounts and selling commissions relating to Registrable Securities.

1.7 Underwriting Requirements. In connection with any offering involving an underwriting of shares of the Company's capital stock, the Company shall not be required under Section 1.3 to include any of the Holders' securities in such underwriting unless they accept the terms of the underwriting as agreed upon between the Company and the underwriters selected by it (or by other persons entitled to select the underwriters), and then only in such quantity as the underwriters determine in their sole discretion will not jeopardize the success of the offering by the Company. If the total amount of securities, including Registrable Securities, requested by shareholders to be included in such offering exceeds the amount of securities sold other than by the Company that the underwriters determine in their sole discretion is compatible with the success of the offering, then the Company shall be required to include in the offering only that number of such securities, including Registrable Securities, which the underwriters determine in their sole discretion will not jeopardize the success of the offering (the securities so included to be apportioned pro rata among the selling shareholders according to the total amount of securities entitled to be included therein owned by each selling shareholder or in such other proportions as shall mutually be agreed to by such selling shareholders) but in no event shall the amount of securities of the selling Holders included in the offering be reduced below thirty percent (30%) of the total amount of securities included in such offering, unless such offering is the initial public offering of the Company's securities in which case the selling shareholders may be excluded if the underwriters make the determination described above and no other shareholder's securities are included. For purposes of the preceding parenthetical concerning apportionment, for any selling shareholder which is a holder of Registrable Securities and which is a partnership or corporation, the partners, retired partners and shareholders of such holder, or the estates and family members of any such partners and retired partners and any trusts for the benefit of any of the foregoing persons shall be deemed to be a single "selling shareholder", and any pro-rata reduction with respect to such "selling shareholder" shall be based upon the aggregate amount of shares carrying registration rights owned by all entities and individuals included in such "selling shareholder," as defined in this sentence.

1.8 Delay of Registration. No Holder shall have any right to obtain or seek an injunction restraining or otherwise delaying any such registration as the result of any controversy that might arise with respect to the interpretation or implementation of this Section 1.

1.9 Indemnification. In the event any Registrable Securities are included in a registration statement under this Section 1:

(a) To the extent permitted by law, the Company will indemnify and hold harmless each Holder, any underwriter (as defined in the Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Act or the 1934 Act, against any losses, claims, damages, or liabilities (joint or several) to which they may become subject under the Act, the 1934 Act, or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation"): (i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (iii) any violation or alleged violation by the Company of the Act, the 1934 Act, any state securities law or any rule or regulation promulgated under the Act, the 1934 Act or any state securities law; and the Company will pay to each such Holder, underwriter or controlling person, as incurred, any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this subsection 1.9(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability, or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable in any such case for any such loss, claim, damage, liability, or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by any such Holder, underwriter or controlling person.

(b) To the extent permitted by law, each selling Holder will indemnify and hold harmless the Company, each of its directors, each of its officers who has signed the registration statement, each person, if any, who controls the Company within the meaning of the Act, any underwriter, any other Holder selling securities in such registration statement and any controlling person of any such underwriter or other Holder, against any losses, claims, damages, or liabilities (joint or several) to which any of the foregoing persons may become subject, under the Act, or the 1934 Act, or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder under an instrument duly executed by such Holder and stated to be specifically for use in connection with such registration; and each such Holder will pay, as incurred, any legal or other expenses reasonably incurred by any person intended to be indemnified pursuant to this subsection 1.9(b), in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this subsection 1.9(b) shall not apply to amounts paid in settlement of any such loss, claim, damage,

liability or action if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld; provided, that, in no event shall any indemnity under this subsection 1.9(b) exceed the proceeds from the offering received by such Holder.

(c) Promptly after receipt by an indemnified party under this Section 1.9 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 1.9, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party (together with all other indemnified parties which may be represented without conflict by one counsel) shall have the right to retain one separate counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action, if materially prejudicial to its ability to defend such action, shall relieve such indemnifying party of any liability to the indemnified party under this Section 1.9, but the omission so to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 1.9.

(d) If the indemnification provided for in this Section 1.9 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, liability, claim, damage, or expense referred to therein, then the indemnifying party, in lieu of indemnifying such indemnified party hereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such loss, liability, claim, damage, or expense in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the statements or omissions that resulted in such loss, liability, claim, damage, or expense as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission provided that in no event shall any contribution by a Holder hereunder exceed the proceeds from the offering received by such Holder.

(e) The obligations of the Company and Holders under this Section 1.9 shall survive the completion of any offering of Registrable Securities in a registration statement under this Section 1, and otherwise. No indemnifying party, in the defense of any such claim or litigation, shall, except with the consent of each indemnified party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation.

1.10 Reports Under Securities Exchange Act of 1934. With a view to making available to the Holders the benefits of Rule 144 promulgated under the Act and any other rule or regulation of the SEC that may at any time permit a Holder to sell securities of the Company to the public without registration, the Company agrees to:

(a) make and keep public information available, as those terms are understood and defined in SEC Rule 144, at all times after ninety (90) days after the effective date of the first registration statement filed by the Company for the offering of its securities to the general public;

(b) take such action, including the voluntary registration of its Common Stock under Section 12 of the 1934 Act, as is necessary to enable the Holders to utilize Form S-3 for the sale of their Registrable Securities, such action to be taken as soon as practicable after the end of the fiscal year in which the first registration statement filed by the Company for the offering of its securities to the general public is declared effective;

(c) file with the SEC in a timely manner all reports and other documents required of the Company under the Act and the 1934 Act; and

(d) furnish to any Holder, so long as the Holder owns any Registrable Securities, forthwith upon request (i) a written statement by the Company that it has complied with the reporting requirements of SEC Rule 144 (at any time after ninety (90) days after the effective date of the first registration statement filed by the Company), the Act and the 1934 Act (at any time after it has become subject to such reporting requirements), or that it qualifies as a registrant whose securities may be resold pursuant to Form S-3 (at any time after it so qualifies), (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (iii) such other information as may be reasonably requested in availing any Holder of any rule or regulation of the SEC which permits the selling of any such securities without registration or pursuant to such form.

1.11 Form S-3 Registration. In case the Company shall receive from any Holder or Holders a written request or requests that the Company effect a registration on Form S-3 and any related qualification or compliance with respect to all or a part of the Registrable Securities owned by such Holder or Holders, the Company will:

(a) promptly give written notice of the proposed registration, and any related qualification or compliance, to all other Holders; and

(b) as soon as practicable, effect such registration and all such qualifications and compliances as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Holder's or Holders' Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any other Holder or Holders joining in such request as are specified in a written request given within 15 days after receipt of such written notice from the Company; provided, however, that the Company shall not be obligated to effect any such registration, qualification or compliance, pursuant to this section 1.11: (1) if Form S-3 is not available for such offering by the Holders; (2) if the Holders, together with the holders of any other securities of the Company entitled to inclusion in such registration,

propose to sell Registrable Securities and such other securities (if any) at an aggregate price to the public (net of any underwriters' discounts or commissions) of less than $1,000,000; (3) if the Company shall furnish to the Holders a certificate signed by the President of the Company stating that in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company and its shareholders for such Form S-3 Registration to be effected at such time, in which event the Company shall have the right to defer the filing of the Form S-3 registration statement for a period of not more than 60 days after receipt of the request of the Holder or Holders under this Section 1.11; provided, however, that the Company shall not utilize this right more than once in any twelve month period; (4) if the Company has within the twelve (12) month period preceding the date of such request, already effected two registrations on Form S-3 for the Holders pursuant to this Section 1.11; or (5) in any particular jurisdiction in which the Company would be required to qualify to do business or to execute a general consent to service of process in effecting such registration, qualification or compliance.

(c) Subject to the foregoing, the Company shall file a registration statement covering the Registrable Securities and other securities so requested to be registered as soon as practicable after receipt of the request or requests of the Holders. All expenses incurred in connection with a registration requested pursuant to Section 1.11, including (without limitation) all registration, filing, qualification, printer's and accounting fees and the reasonable fees and disbursements of counsel for the selling Holder or Holders and counsel for the Company, but excluding any underwriters' discounts or commissions associated with Registrable Securities, shall be borne pro rata by the Holder or Holders participating in the Form S-3 Registration. Registrations effected pursuant to this Section 1.11 shall not be counted as registrations effected pursuant to Section 1.3.

1.12 Assignment of Registration Rights. The rights to cause the Company to register Registrable Securities pursuant to this Section 1 may be assigned (but only with all related obligations) by a Holder to a transferee or assignee of such securities, provided: (a) the Company is, within a reasonable time after such transfer, furnished with written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned; (b) such transferee or assignee agrees in writing to be bound by and subject to the terms and conditions of this Agreement, including without limitation the provisions of Section 1.13 below; and (c) such assignment shall be effective only if immediately following such transfer the further disposition of such securities by the transferee or assignee is restricted under the Act.

1.13 "Market Stand-Off" Agreement. Each Investor hereby agrees that, during the period of duration specified by the Company and an underwriter of common stock or other securities of the Company, following the date of the first sale to the public pursuant to a registration statement of the Company filed under the Act, it shall not, to the extent requested by the Company and such underwriter, directly or indirectly sell, offer to sell, contract to sell (including, without limitation, any short sale), grant any option to purchase or otherwise transfer or dispose of (other than to donees who agree to be similarly bound) any securities of the Company held by it at any time during such period except common stock included in such registration; provided, however, that:

(a) such agreement shall be applicable only to the first such registration statement of the Company which covers common stock (or other securities) to be sold on its behalf to the public in an underwritten offering;

(b) all officers and directors of the Company and all other persons with registration rights (whether or not pursuant to this Agreement) enter into similar agreements; and

(c) such market stand-off time period shall not exceed (180) days.

In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to the Registrable Securities of each Investor (and the shares or securities of every other person subject to the foregoing restriction) until the end of such period.

Notwithstanding the foregoing, the obligations described in this Section 1.13 shall not apply to a registration relating solely to employee benefit plans on Form S-8 or similar forms which may be promulgated in the future, or a registration relating solely to an SEC Rule 145 transaction on Form S-4 or similar form which may be promulgated in the future.

1.14 Limitation on Subsequent Registration Rights. After the date of this Agreement, the Company shall not, without the prior written consent of the Holders of a majority of the Registrable Securities, enter into any agreement with any holder or prospective holder of any securities of the Company that would grant such holder registration rights senior to those granted to the Holders hereunder.

1.15 Termination of Registration Rights.

(a) No Holder shall be entitled to exercise any right provided for in this Section 1 after five (5) years following the consummation of the sale of securities pursuant to a registration statement filed by the Company under the Act in connection with the initial firm commitment underwritten offering of its securities to the general public (the "Special Termination Date") provided the Special Termination Date shall be extended as to any Holder or Holders who have, prior to the Special Termination Date, filed a request pursuant to Section 1.2(a) or Section 1.11(b) and such request is being deferred by the Company pursuant to the provisions of Section 1.2(a)(i), Section 1.2(a)(iv) or Section 1.11(b)(3).

(b) In addition, the right of any Holder to request registration or inclusion in any registration pursuant to this Section 1 shall terminate on such date after the closing of the first Company-initiated registered public offering of Common Stock of the Company as all shares of Registrable Securities held or entitled to be held upon conversion by such Holder may immediately be sold under Rule 144 during any 90-day period.

2. COVENANTS OF THE COMPANY.

2.1 Delivery of Financial Statements. The Company shall deliver to each Investor:

(a) as soon as practicable, but in any event within one hundred and twenty (120) days after the end of each fiscal year of the Company, commencing with the fiscal year ended December 31, 1998 (provided fiscal 1998 financial statements may be delivered subsequent to April 30, 1999 but shall be delivered no later than June 30, 1999), an income statement for such fiscal year, a balance sheet of the Company and statement of shareholder's equity as of the end of such year, and a schedule as to the sources and applications of funds for such year, such year-end financial reports to be in reasonable detail, prepared in accordance with generally accepted accounting principles consistently applied ("GAAP"), and audited and certified by independent public accountants of nationally recognized standing selected by the Company's Board of Directors;

(b) as soon as practicable, but in any event within forty-five (45) days after the end of each of the first three (3) quarters of each fiscal year of the Company, an unaudited profit or loss statement, schedule as to the sources and application of funds for such fiscal quarter and a statement showing the number of shares of each class and series of capital stock and securities convertible into or exercisable for shares of capital stock outstanding at the end of the period, the number of common shares issuable upon conversion or exercise of any outstanding securities convertible or exercisable for common shares and the exchange ratio or exercise price applicable thereto, all in sufficient detail as to permit the Investor to calculate its percentage equity ownership in the Company;

(c) as soon as practicable, but in any event thirty (30) days prior to the end of each fiscal year, a budget and business plan for the next fiscal year, prepared on a monthly basis, including balance sheets and sources and applications of funds statements for such months and, as soon as prepared, any other budgets or revised budgets prepared by the Company;

(d) with respect to the financial statements called for in subsections (b) of this Section 2.1, an instrument executed by the Chief Financial Officer or President of the Company and certifying that such financials were prepared in accordance with GAAP consistently applied with prior practice for earlier periods (with the exception of footnotes that may be required by GAAP) and fairly present the financial condition of the Company and its results of operation for the period specified, subject to year-end audit adjustment; and

(e) such other information relating to the financial condition, business, prospects or corporate affairs of the Company as the Investor or any assignee of the Investor may from time to time request, provided, however, that the Company shall not be obligated under this subsection (e) or any other subsection of Section 2.1 to provide information which it deems in good faith to be a trade secret or similar confidential information.

2.2 Inspection. The Company shall permit each Investor, at such Investor's expense, to visit and inspect the Company's properties, to examine its books of account and records and to discuss the Company's affairs, finances and accounts with its officers, all at such reasonable times as may be requested by' the Investor; provided, however, that the Company shall not be obligated pursuant to this Section 2.2 to provide access to any information which it reasonably considers to be a trade secret or similar confidential information.

2.3 Proprietary Information Agreement. The Company shall require all new employees of the Company to continue to execute and deliver a proprietary information agreement substantially in the form referred to in Section 2.19 of the Series B Convertible Preferred Stock Purchase Agreement

2.4 Frist Note. The Company shall not fail to make any monthly payments of interest due Robert A. Frist, Jr. ("Frist") as lender under that certain Promissory Note dated April 21st, 1999, in the principal amount of $1,543,000.00.

2.5 Termination of Covenants. The covenants set forth in Sections 2.1, 2.2 and Section 2.7 shall terminate and be of no further force or effect when the sale of securities pursuant to a registration statement filed by the Company under the Act in connection with the firm commitment underwritten offering of its securities to the general public is consummated in which the gross proceeds are at least $30 million and the per share price is at least $9.00.

2.6 IRC Section 305. So long as any shares of Series B Convertible Preferred Stock remain outstanding, the Company will not, without approval of holders of a majority of the Series B Convertible Preferred Stock then outstanding, do any act or thing which would result in taxation of the holders of shares of the Series B Convertible Preferred Stock under Section 305 of the Internal Revenue Code of 1986, as amended (or any comparable provision of the Internal Revenue Code as hereafter from time to time amended).

2.7 C Corporation Status. The Company shall remain a C corporation.

3. MISCELLANEOUS.

3.1 Successors and Assigns. Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties (including transferees of any shares of Registrable Securities). Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

3.2 Governing Law. This Agreement shall be governed by and construed under the laws of the State of Tennessee applicable to contracts made and to be performed wholly within such state.

3.3 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

3.4 Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

3.5 Notices. Unless otherwise provided, any notice required or permitted under this Agreement shall be given in writing and shall be deemed effectively given upon personal delivery to the party to be notified or upon deposit with the United States Post Office, by registered or certified mail, postage prepaid and addressed to the party to be notified at the address indicated for such party on the signature page hereof, or at such other address as such party may designate by ten (10) days' advance written notice to the other parties.

3.6 Expenses. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

3.7 Amendments and Waivers. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the holders of at least 66 2/3% of the Registrable Securities then outstanding. Any amendment or waiver effected in accordance with this paragraph shall be binding upon each holder of any Registrable Securities then outstanding, each future holder of all such Registrable Securities, and the Company.

3.8 Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

3.9 Aggregation of Stock. All shares of Registrable Securities held or acquired by affiliated entities or persons shall be aggregated together for the purpose of determining the availability of any rights under this Agreement.

3.10 Entire Agreement. This Agreement (including the Exhibits hereto, if any) constitutes the full and entire understanding and agreement between the parties with regard to the subjects hereof and thereof.

IN WITNESS WHEREOF the parties have executed this Agreement as of the date first above written.

HEALTHSTREAM, INC.

By: /s/ Robert A. Frist, Jr.

President

209 10th Ave. South
Suite 450
Nashville, TN 37203

INVESTORS:

MARTIN INVESTMENT PARTNERSHIP III

By: THE MARTIN COMPANIES, INC.
Managing Partner

By: /s/ Charles N. Martin

Charles N. Martin, President
20 Burton Hills Blvd.
Suite 100
Nashville, TN 37215

COLEMAN SWENSON HOFFMAN BOOTH IV L.P.

By Its General Partner
CSHB Ventures IV L.P.

By Its General Partner

/s/ Jay Hoffman

Jay Hoffman
237 Second Ave. South
Franklin, TN 37064-2469

DAUPHIN CAPITAL PARTNERS I, L.P.

By: /s/ James Hoover

James Hoover, Principal
108 Forest Ave.
Locust Valley, NY 11560

JCB HEALTHSTREAM INVESTORS, L.L.C

By: /s/ James Graves

James Graves, Chief Manager
330 Commerce St.
Nashville, TN 37201

NELSON CAPITAL PARTNERS III, L.P.

By: /s/ John K. Harrington

John K. Harrington
3401 West End Ave.
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Nashville, TN 37203

J.C. BRADFORD & CO., L.L.C

By: /s/ James Graves

James Graves, Managing Director
330 Commerce St.
Nashville, TN 37201

FCA VENTURE PARTNERS II, L.P.

By: /s/ Stuart C. McWhorter

Stuart C. McWhorter
310 25th Ave. South
Suite 109
Nashville, TN 37203

THE JOEL COMPANY

By: /s/ Robert A. Gordon

Robert A. Gordon
6444 Worchester Dr.
Nashville, TN 37221

CUMBERLAND EQUITY PARTNERS

By: /s/ Fleming Wilt

Fleming Wilt
201 Fourth Ave. North
Suite 1390
Nashville, TN 37219

SAVVY INVESTMENT PARTNERS

By: /s/ Thompson B. Patterson, Jr.

Thompson B. Patterson, Jr.
330 Commerce Street
Nashville, TN 37201

CHANCERY LANE INVESTMENTS, L.P.

By: /s/ H. Lee Barfield

H. Lee Barfield, General Partner
2700 First American Ctr.
Nashville, TN 37238-2700

By: /s/ Mary F. Barfield

Mary F. Barfield, General Partner
c/o H. Lee Barfield
2700 First American Ctr.
Nashville, TN 37238-2700

THE SEVEN PARTNERSHIP

By: /s/ Thompson Dent

Thompson Dent
30 Burton Hills Boulevard
Suite 500
Nashville, TN 37215

JCB VENTURE PARTNERSHIP IV

By: /s/ Robert Doolittle

Robert Doolittle, Chief Manager
330 Commerce St.
Nashville, TN 37201

MELKUS PARTNERS, LTD.

By: /s/ Ken Melkus

Ken Melkus
102 Woodmont Blvd.
Suite 110
Nashville, TN 37205

/s/ Robert A Frist, Jr.

Robert A Frist, Jr.
201 Abbott Glen Court
Nashville, TN 37215

/s/ William R. Frist

William R. Frist
3827 Richland Ave.
Nashville, TN 37205

/s/ Darren Liff

Darren Liff
209 10th Ave. South
Suite 432
Nashville, TN 37203

/s/ Scott Portis

Scott and Carol Len Portis
6205 Hillsboro Pike
Nashville, TN 37215

/s/ James Frist

James Frist
420 Elmington Ave.
Apt. 217
Nashville, TN 37205

/s/ Robert S. Doolittle

Robert S. Doolittle
J.C. Bradford & Co.
330 Commerce Street
Nashville, TN 37201

/s/ David Beard

David Beard
888 Collierville-Arlington Rd. North
Collierville, TN 38017

/s/ John Dayani

John Dayani
5301 Virginia Way
Suite 250
Brentwood, TN   37027

/s/ S. Douglas Smith

S. Douglas Smith
278 Franklin Road
Suite 238
Brentwood, TN 37027

/s/ Dr. Scott Portis

Dr. Scott Portis
214 East Main Street
Huntingdon, TN 38344

/s/ Barbara Sampson

Barbara Sampson
407 Lyons Head Drive
Knoxville, TN 37919

MORGAN STANLEY VENTURE PARTNERS III, L.P.

by: Morgan Stanley Venture Partners III, L.L.C
its General Partner

by: Morgan Stanley Venture Capital III, Inc.
its Institutional Managing Member

By: /s/ Debra Abramovitz

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By: /s/ Debra Abramovitz

THE MORGAN STANLEY VENTURE PARTNERS
ENTREPRENUER FUND, L.P.

by: Morgan Stanley Venture Partners, L.L.C
its General Partner

by: Morgan Stanley Venture Capital Fund III, Inc.
its Institutional Managing Member

By: /s/ Debra Abramovitz

GE CAPITAL EQUITY INVESTMENTS, INC.

By: /s/ Jeffrey T. Soukup

Jeffrey T. Soukup, Vice President
120 Long Ridge Rd.
Samford, CT 06927

CARSON/PAUL ASSOCIATES LLC

By: /s/ Russell L. Carson

Russell L. Carson, Managing Member
Welsh, Carson, Anderson & Stowe
320 Park Ave.
25th Floor
New York, NY 10022

HEALTHSTREAM, INC.

AMENDMENT TO
INVESTOR RIGHTS AGREEMENT

This Amendment to Investor Rights Agreement executed as of the 11th day of August, 1999 amends the Investor Rights Agreement (the "Agreement") executed as of the 21st day of April, 1999, by and between HealthStream, Inc., a Tennessee corporation (the "Company"), and the investors listed on Schedule A of the Agreement, and is entered into among the Company, GE Medical Systems, a division of the General Electric Company, a New York corporation ("GEMS"), and those persons who purchase shares of the Company's Series C Convertible Preferred Stock pursuant to the Series C Convertible Preferred Stock Purchase Agreement (the "Series C Purchasers") (GEMS, the Series C Purchasers and the investors listed on Schedule A of the Agreement are hereinafter referred to as an "Investor" and collectively as the "Investors").

WHEREAS, the Series C Purchasers are acquiring an aggregate of up to 650,000 shares of the Series C Convertible Preferred Stock of the Company;

WHEREAS, the signatories hereto which are also signatories to the Agreement are the holders of at least 66 2/3% of the Registrable Securities presently outstanding;

WHEREAS, the Company and GEMS are parties to a Rights Agreement executed as of the 14th day of June, 1999 ("Rights Agreement") in connection with the Company's grant to GEMS of certain rights to acquire shares of the Common Stock of the Company (the "Warrants") pursuant to a Warrant Agreement of even date with the Rights Agreement (the "Warrant Agreement");

WHEREAS, it is a condition of the investment of the Series C Purchasers that the Company, GEMS and the Series C Purchasers enter into this Amendment amending certain of the terms and conditions of the Agreement and terminating the Rights Agreement;

NOW, THEREFORE, THE PARTIES HEREBY AGREE AS FOLLOWS:

1. Subsection (e) of Section 1.1 entitled "Registrable Securities" shall be amended to read as follows:

"(e) The term "Registrable Securities" means (i) the Common Stock issuable or issued upon conversion of the Series A, Series B and Series C Convertible Preferred Stock, (ii) any Common Stock of the Company issued or to be issued upon conversion or exercise of the Warrants (or upon conversion of any securities issued upon conversion or exercise of the Warrants) and (iii) any Common Stock of the Company issued as (or issuable upon the conversion or exercise of any warrant, right or other security which is issued as) a dividend or other distribution with respect to, or in exchange for or in replacement of the shares referenced in (i) and (ii) above, excluding in all cases, however, any Registrable Securities sold by a person in a transaction in which his rights under this Section 1 are not assigned."

2. This Amendment shall be effective upon the written consent of the Company and the holders of at least 66 2/3% of the Registrable Securities then outstanding.

3. This Amendment, and the rights of the parties hereto, shall be governed by and construed in accordance with the laws of the State of Tennessee, without regard to such state's conflict of laws provisions.

4. This Amendment may be executed in one or more counterparts, each of which will be deemed an original but all of which together shall constitute one and the same instrument.

5. All other terms and provisions of the Agreement shall remain unchanged and are in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first above written.

HEALTHSTREAM, INC.

By: /s/ Robert A. Frist, Jr.

President

209 10th Ave. South
Suite 450
Nashville, TN 37203

INVESTORS:

MARTIN INVESTMENT PARTNERSHIP III

By: THE MARTIN COMPANIES, INC.
Managing Partner

By: /s/ Charles N. Martin

Charles N. Martin, President
20 Burton Hills Blvd.
Suite 100
Nashville, TN 37215

COLEMAN SWENSON HOFFMAN BOOTH IV L.P.

By Its General Partner
CSHB Ventures IV L.P.

By Its General Partner

/s/ Jay Hoffman

Jay Hoffman
237 Second Ave. South
Franklin, TN 37064-2469

DAUPHIN CAPITAL PARTNERS I, L.P.

By: /s/ James Hoover

James Hoover, Principal
108 Forest Ave.
Locust Valley, NY 11560

JCB HEALTHSTREAM INVESTORS, L.L.C

By: /s/ James Graves

James Graves, Chief Manager
330 Commerce St.
Nashville, TN 37201

NELSON CAPITAL PARTNERS III, L.P.

By: /s/ John K. Harrington

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By: /s/ James Graves

James Graves, Managing Director
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THE JOEL COMPANY

By: /s/ Robert Gordon

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Nashville, TN 37238-2700

By: /s/ Mary F. Barfield

Mary F. Barfield, General Partner
c/o H. Lee Barfield
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THE SEVEN PARTNERSHIP

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MELKUS PARTNERS, LTD.

By: /s/ Ken Melkus

Ken Melkus
102 Woodmont Blvd.
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Nashville, TN 37205

/s/ Robert A Frist, Jr.

Robert A Frist, Jr.
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/s/ William R. Frist

William R. Frist
3827 Richland Ave.
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/s/ Darren Liff

Darren Liff
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/s/ Scott Portis

Scott and Carol Len Portis
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/s/ James Frist

James Frist
420 Elmington Ave.
Apt. 217
Nashville, TN 37205

/s/ Robert S. Doolittle

Robert S. Doolittle
J.C. Bradford & Co.
330 Commerce Street
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/s/ David Beard

David Beard
888 Collierville-Arlington Rd. North
Collierville, TN 38017

/s/ John Dayani

John Dayani
5301 Virginia Way
Suite 250
Brentwood, TN 37027

/s/ S. Douglas Smith

S. Douglas Smith
278 Franklin Road
Suite 238
Brentwood, TN 37027

/s/ Dr. Scott Portis

Dr. Scott Portis
214 East Main Street
Huntingdon, TN 38344

/s/ Barbara Sampson

Barbara Sampson
407 Lyons Head Drive
Knoxville, TN 37919

MORGAN STANLEY VENTURE PARTNERS III, L.P.

by: Morgan Stanley Venture Partners III, L.L.C.
its General Partner

by: Morgan Stanley Venture Capital III, Inc.
its Institutional Managing Member

By: /s/ Fazle Husain

MORGAN STANLEY VENTURE INVESTORS III, L.P.

by: Morgan Stanley Venture Partners III, L.L.C.
its General Partner

by: Morgan Stanley Venture Capital III, Inc.
its Institutional Managing Member

By: /s/ Fazle Husain

THE MORGAN STANLEY VENTURE PARTNERS
ENTREPRENUER FUND, L.P.

by: Morgan Stanley Venture Partners, L.L.C
its General Partner

by: Morgan Stanley Venture Capital Fund III, Inc.
its Institutional Managing Member

By: /s/ Fazle Husain

GE CAPITAL EQUITY INVESTMENTS, INC.

By: /s/ Michael E. Aspinwall

Michael E. Aspinwall,
Senior Vice President
120 Long Ridge Rd.
Samford, CT 06927

CARSON/PAUL ASSOCIATES LLC

By: /s/ Russell L. Carson

Russell L. Carson
Welsh, Carson, Anderson & Stowe
320 Park Ave.
25th Floor
New York, NY 10022

GE MEDICAL SYSTEMS

By: /s/ Steve Kellet

3000 North Grandview Boulevard
Waukesha, WI 53188

/s/ James & Cassandra Daniell

James & Cassandra Daniell
5935 Post Road
Nashville, TN 37205

/s/ Carol Frist

Carol Frist
1326 Page Road
Nashville, TN 37205

/s/ Robert A Frist, Sr.

Robert A Frist, Sr.
1326 Page Road
Nashville, TN 37205

/s/

Earl & Judith Ginn
713 Summerwind Circle
Nashville, TN 37215

HEALTHSTREAM PARTNERS

By: /s/ Thomas F. Frist III

General Partner
900-A, 3319 West End Avenue
Nashville, Tennessee 37203

VANDERBILT UNIVERSITY

By: /s/ Harry R. Jacobson

BORNEO PARTNERS

By: /s/ Michael Pote

Michael Pote, Administrator
8181 Londonberry Road
Nashville, TN 37221

/s/ Virginia Duncombe

Virginia Duncombe
153 Bingham Ave.
Rumson, NJ 07760

/s/ Stephen F. Rogers

Stephen and Linda Rogers
601 Foxborough Sq. N.
Brentwood, TN 37027

/s/ Dan McLaren

Dan McLaren
212 Deer Park Circle
Nashville, TN 37205

/s/ Carrie C. McLaren

Jeffrey and Carrie McLaren
147 Kenner Ave.
Nashville, TN 37205

/s/ Robert F. Merriman

Robert F. Merriman
14 Nottingham
Amarillo, TX 79124

SC FUND I, L.P.

By: /s/ James Collins

General Partner
10666 North Torrey Pines Rd.
La Jolla, CA 92037
Scripps Clinic Management
Services Organization, Inc.

FRIST FAMILY INTERNET PARTNERS

By: /s/ Robert A. Frist, Sr.

Robert A Frist, Sr.
1326 Page Road
Nashville, TN 37205

EXHIBIT 4.6

JUNE 14, 1999

WARRANT

THE WARRANT EVIDENCED OR CONSTITUTED HEREBY, AND ALL SHARES OF COMMON STOCK ISSUABLE HEREUNDER, HAVE BEEN AND WILL BE ISSUED WITHOUT REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND MAY NOT BE SOLD, OFFERED FOR SALE, TRANSFERRED, PLEDGED OR HYPOTHECATED WITHOUT REGISTRATION UNDER THE ACT UNLESS EITHER (i) THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL, IN FORM AND SUBSTANCE REASONABLY SATISFACTORY TO THE COMPANY, TO THE EFFECT THAT REGISTRATION IS NOT REQUIRED IN CONNECTION WITH SUCH DISPOSITION OR (ii) THE SALE OF SUCH SECURITIES IS MADE PURSUANT TO SECURITIES AND EXCHANGE COMMISSION RULE 144.

WARRANT TO PURCHASE COMMON STOCK OF

HEALTHSTREAM, INC.

(Subject to Adjustment)

NO. __

THIS CERTIFIES THAT, for value received, GE Medical Systems, a division of General Electric Company, a New York corporation (including its affiliates and permitted assigns, GE" or Holder"), is entitled, subject to the terms and conditions of this Warrant, at any time or from time to time after the date hereof (the "Effective Date"), and before 5:00 p.m. New York City time on the date that is ten (10) years from the date hereof (the "Expiration Date"), to purchase from HealthStream, Inc., a Tennessee corporation (the "Company") 132,450 shares of Common Stock of the Company at a price per share equal to the lesser of (i) $7.55 or (ii) the price as determined in good faith by the Company's Board of Directors at a meeting held on or about June 24, 1999 (the "Purchase Price"). Both the number of shares of Common Stock purchasable upon exercise of this Warrant and the Purchase Price are subject to adjustment and change as provided herein.

1. CERTAIN DEFINITIONS. As used in this Warrant the following terms shall have the following respective meanings:

"Commission" means the Securities and Exchange Commission.

"Common Stock" shall mean the Common Stock of the Company, no par value, and any other securities at any time receivable or issuable upon exercise of this Warrant.

"Exchange Act" means the Securities Exchange Act of 1934, as amended

"Fair Market Value" of a share of Common Stock as of a particular date shall mean:

(a) If traded on a securities exchange or the Nasdaq National Market, the Fair Market Value shall be deemed to be the average of the closing prices of the Common Stock of the Company on such exchange or market over the 5 business days ending immediately prior to the applicable date of valuation;

(b) If actively traded over-the-counter, the Fair Market Value shall be deemed to be the average of the closing bid prices over the 30-day period ending immediately prior to the applicable date of valuation; and

(c) If there is no active public market, the Fair Market Value shall be the value thereof, as agreed upon by the Company and the Holder; provided, however, that if the Company and the Holder cannot agree on such value, such value shall be determined by an independent valuation firm experienced in valuing businesses such as the Company and jointly selected in good faith by the Company and the Holder. Fees and expenses of the valuation firm shall be paid for by the Company.

"HSR Act" shall mean the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended from time to time.

"IPO" shall mean the Company's first firm commitment underwritten public offering of the Company's Common Stock pursuant to a registration statement filed with the Commission.

"Registered Holder" shall mean any Holder in whose name this Warrant is registered upon the books and records maintained by the Company.

"Securities Act" means the Securities Act of 1933, as amended.

"Warrant" as used herein, shall include this Warrant and any warrant delivered in substitution or exchange therefor as provided herein.

2. EXERCISE OF WARRANT

2.1. Payment. Subject to compliance with the terms and conditions of this Warrant and applicable securities laws, this Warrant may be exercised, in whole or in part at any time or from time to time, on or before the Expiration Date by the delivery (including, without limitation, delivery by facsimile) of the form of Notice of Exercise attached hereto as Exhibit 1 (the "Notice of Exercise"), duly executed by the Holder, at the principal office of the Company, and as soon as practicable after such date, surrendering (a) this Warrant at the principal office of the Company, and (b) payment in cash (by check) or by wire transfer of an amount equal to the product obtained by multiplying the number of shares of Common Stock being purchased upon such exercise by the then effective Purchase Price (the "Exercise Amount"), except that if Holder is subject to HSR Act Restrictions (as defined in Section 2.3 below), the Exercise Amount shall be paid to the Company within five (5) business days of the termination of all HSR Act Restrictions.

2.2. Stock Certificates; Fractional Shares. As soon as practicable on or after such date, the Company shall issue and deliver to the person or persons entitled to receive the same a certificate or certificates for the number of whole shares of Common Stock issuable upon such exercise, together with cash in lieu of any fraction of a share equal to such fraction of the current Fair Market Value of one whole share of Common Stock as of the date of exercise of this Warrant. No fractional shares or scrip representing fractional shares shall be issued upon an exercise of this Warrant. Such certificate or certificates shall be deemed to have been issued and any person so designated to be named therein shall be deemed to have become a holder of record of such Common Stock as of the date of delivery of the Notice of Exercise.

2.3. HSR Act. If the filing by the Company under the HSR Act should be required at the time of any exercise of this Warrant by a Holder, in the reasonable opinion of counsel for Holder, the Company will promptly make any such filing with the appropriate government agency. The Company hereby acknowledges that exercise of this Warrant by Holder may subject the Company and/or the Holder to the filing requirements of the HSR Act and that Holder may be prevented from exercising this Warrant until the expiration or early termination of all waiting periods imposed by the HSR Act ("HSR Act Restrictions"). If on or before the Expiration Date Holder has sent the Notice of Exercise to Company and Holder has not been able to complete the exercise of this Warrant prior to the Expiration Date because of HSR Act Restrictions, the Holder shall be entitled to complete the process of exercising this Warrant in accordance with the procedures contained herein notwithstanding the fact that completion of the exercise of this Warrant would take place after the Expiration Date.

2.4. Partial Exercise; Effective Date of Exercise. In case of any partial exercise of this Warrant, the Company shall cancel this Warrant upon surrender hereof and shall execute and deliver a new Warrant of like tenor and date for the balance of the shares of Common Stock purchasable hereunder. This Warrant shall be deemed to have been exercised immediately prior to the close of business on the date of its surrender for exercise as provided above. However, if Holder is subject to HSR Act filing requirements this Warrant shall be deemed to have been exercised on the date immediately following the date of the expiration of all HSR Act Restrictions. The person entitled to receive the shares of Common Stock issuable upon exercise of this Warrant shall be treated for all purposes as the holder of record of such shares as of the close of business on the date the Holder is deemed to have exercised this Warrant.

2.5. Net Issue Exercise. In lieu of the payment methods set forth in Section 2.1 above, the Holder may elect to exchange all or some of the Warrant for shares of Common Stock equal to the value of the amount of the Warrant being exchanged on the date of exchange. If Holder elects to exchange this Warrant as provided in this Section 2.5, Holder shall tender to the Company the Warrant for the amount being exchanged, along with written notice of Holder's election to exchange some or all of the Warrant, and the Company shall issue to Holder the number of shares of the Common Stock computed using the following formula:

$$X = \frac{Y (A-B)}{A}$$

Where X = the number of shares of Common Stock to be issued to Holder.

Y = the number of shares of Common Stock purchasable under the Warrant being exchanged (as adjusted to the date of such calculation).

A = the Fair Market Value of one share of the Company's Common Stock.

B = the Purchase Price (as adjusted to the date of such calculation).

All references herein to an "exercise" of the Warrant shall include an exchange pursuant to this Section 2.5. Upon receipt of a written notice of the Company's intention to raise capital by selling shares of Common Stock in an IPO (the "IPO Notice"), which notice shall be delivered to Holder at least forty-five (45) but not more than ninety (90) days before the anticipated date of the filing with the Securities and Exchange Commission of the registration statement associated with the IPO, the Holder shall promptly notify the Company whether or not the Holder will exercise this Warrant pursuant to this Section 2.5 prior to consummation of the IPO. Notwithstanding whether or not an IPO Notice has been delivered to Holder or any other provision of this Warrant to the contrary, if Holder decides to exercise this Warrant while a registration statement is on file with the Securities and Exchange Commission (the "SEC") in connection with the IPO, this Warrant shall be deemed exercised on the consummation of the IPO and the Fair Market Value of a share of Common Stock will be the price at which one share of Common Stock was sold to the public in the IPO. If Holder has elected to exercise this Warrant pursuant to this Section 2.5 while a registration statement is on file with the Securities and Exchange Commission in connection with an IPO and the IPO is not consummated, then Holder's exercise of this Warrant shall not be effective unless Holder confirms in writing Holder's intention to go forward with the exercise of this Warrant.

2.6. "Easy Sale" Exercise. In lieu of the payment methods set forth in Section 2.1 and 2.5 above, when permitted by law and applicable regulations (including Nasdaq and NASD rules), the Holder may pay the Purchase Price through a "same day sale" commitment from the Holder (and if applicable a broker-dealer that is a member of the National Association of Securities Dealers (a "NASD Dealer")), whereby the Holder irrevocably elects to exercise this Warrant and to sell a portion of the Shares so purchased to pay for the Purchase Price and the Holder (or, if applicable, the NASD Dealer) commits upon sale (or, in the case of the NASD Dealer, upon receipt) of such Shares to forward the Purchase Price directly to the Company.

3. VALID ISSUANCE: TAXES. All shares of Common Stock issued upon the exercise of this Warrant shall be validly issued, fully paid and non-assessable, and the Company shall pay all taxes and other governmental charges that may be imposed in respect of the issue or delivery thereof. The Company shall not be required to pay any tax or other charge imposed in connection with any transfer involved in the issuance of any certificate for shares of Common Stock in any name other than that of the Registered Holder of this Warrant, and in such case the Company shall not be required to issue or deliver any stock certificate or security until such tax

or other charge has been paid, or it has been established to the Company's reasonable satisfaction that no tax or other charge is due.

4. ADJUSTMENT OF PURCHASE PRICE AND NUMBER OF SHARES. The number of shares of Common Stock issuable upon exercise of this Warrant (or any shares of stock or other securities or property receivable or issuable upon exercise of this Warrant) and the Purchase Price are subject to adjustment upon occurrence of the following events:

4.1. Adjustment for Stock Splits, Stock Subdivisions or Combinations of Shares. The Purchase Price of this Warrant shall be proportionally decreased and the number of shares of Common Stock issuable upon exercise of this Warrant (or any shares of stock or other securities at the time issuable upon exercise of this Warrant) shall be proportionally increased to reflect any stock split or subdivision of the Company's Common Stock. The Purchase Price of this Warrant shall be proportionally increased and the number of shares of Common Stock issuable upon exercise of this Warrant (or any shares of stock or other securities at the time issuable upon exercise of this Warrant) shall be proportionally decreased to reflect any combination of the Company's Common Stock.

4.2. Adjustment for Dividends or Distributions of Stock or Other Securities or Property. In case the Company shall make or issue, or shall fix a record date for the determination of eligible holders entitled to receive, a dividend or other distribution with respect to the Common Stock (or any shares of stock or other securities at the time issuable upon exercise of the Warrant) payable in (a) securities of the Company or (b) assets (excluding cash dividends paid or payable solely out of retained earnings), then, in each such case, the Holder of this Warrant on exercise hereof at any time after the consummation, effective date or record date of such dividend or other distribution, shall receive, in addition to the shares of Common Stock (or such other stock or securities) issuable on such exercise prior to such date, and without the payment of additional consideration therefor, the securities or such other assets of the Company to which such Holder would have been entitled upon such date if such Holder had exercised this Warrant on the date hereof and had thereafter, during the period from the date hereof to and including the date of such exercise, retained such shares and/or all other additional stock available by it as aforesaid during such period giving effect to all adjustments called for by this Section 4.

4.3. Reclassification. If the Company, by reclassification of securities or otherwise, shall change any of the securities as to which purchase rights under this Warrant exist into the same or a different number of securities of any other class or classes, this Warrant shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities that were subject to the purchase rights under this Warrant immediately prior to such reclassification or other change and the Purchase Price therefore shall be appropriately adjusted, all subject to further adjustment as provided in this Section 4. No adjustment shall be made pursuant to this Section 4.3 upon any conversion or redemption of the Common Stock which is the subject of Section 4.5.

4.4. Adjustment for Capital Reorganization, Merger or Consolidation. In case of any capital reorganization of the capital stock of the Company (other than a combination, reclassification, exchange or subdivision of shares otherwise provided for herein), or any merger or consolidation of the Company with or into another corporation, or the sale of all or substantially all the assets of the Company then, and in each such case, as a part of such reorganization, merger, consolidation, sale or transfer, lawful provision shall be made so that the Holder of this Warrant shall thereafter be entitled to receive upon exercise of this Warrant, during the period specified herein and upon payment of the Purchase Price then in effect, the number of shares of stock or other securities or property of the successor corporation resulting from such reorganization, merger, consolidation, sale or transfer that a holder of the shares deliverable upon exercise of this Warrant would have been entitled to receive in such reorganization, consolidation, merger, sale or transfer if this Warrant had been exercised immediately before such reorganization, merger, consolidation, sale or transfer, all subject to further adjustment as provided in this Section 4. The foregoing provisions of this Section 4.4 shall similarly apply to successive reorganizations, consolidations, mergers, sales and transfers and to the stock or securities of any other corporation that are at the time receivable upon the exercise of this Warrant. If the per-share consideration payable to the Holder hereof for shares in connection with any such transaction is in a form other than cash or marketable securities, then the value of such consideration shall be determined in good faith by the Company's Board of Directors. In all events, appropriate adjustment (as determined in good faith by the Company's Board of Directors) shall be made in the application of the provisions of this Warrant with respect to the rights and interests of the Holder after the transaction, to the end that the provisions of this Warrant shall be applicable after that event, as near as reasonably may be, in relation to any shares or other property deliverable after that event upon exercise of this Warrant.

4.5. Conversion of Common Stock. In case all or any portion of the authorized and outstanding shares of Common Stock of the Company are redeemed or converted or reclassified into other securities or property pursuant to the Company's Charter or otherwise, or the Common Stock otherwise ceases to exist, then, in such case, the Holder of this Warrant, upon exercise hereof at any time after the date on which the Common Stock is so redeemed or converted, reclassified or ceases to exist (the "Termination Date"), shall receive, in lieu of the number of shares of Common Stock that would have been issuable upon such exercise immediately prior to the Termination Date, the securities or property that would have been received if this Warrant had been exercised in full and the Common Stock received thereupon had been simultaneously converted immediately prior to the Termination Date, all subject to further adjustment as provided in this Warrant. Additionally, the Purchase Price shall be immediately adjusted to equal the quotient obtained by dividing (x) the aggregate Purchase Price of the maximum number of shares of Common Stock for which this Warrant was exercisable immediately prior to the Termination Date by (y) the number of shares of Common Stock of the Company for which this Warrant is exercisable immediately after the Termination Date, all subject to further adjustment as provided herein.

4.6. Adjustment for Certain Issuances of Additional Shares of Common Stock. In the event of an Equity Sale Event (as hereinafter defined), then forthwith upon such Equity Sale

Event the Purchase Price in effect immediately prior to the time of such Equity Sale Event shall be adjusted to equal the price per share of the Common Stock issued or to be issued in such Equity Sale Event. For purposes of this Section 4.6, an Equity Sale Event shall mean any sale by the Company occurring on or before the date that is 12 months from the Effective Date of Common Stock, or any right or option to purchase Common Stock or other stock convertible into Common Stock, or any obligation or any share of stock convertible into or exchangeable for Common Stock for a price per share that is less than the Purchase Price in effect immediately prior to the time of such sale and that results in aggregate gross cash proceeds to the company of at least two million dollars ($2,000,000). The provisions of this Section 4.6 shall be void and of no further force or effect in the event that an Equity Sale Event shall not have occurred prior to the date that is 12 months from the Effective Date.

5. CERTIFICATE AS TO ADJUSTMENTS. In each case of any adjustment in the Purchase Price, number or type of shares issuable upon exercise of this Warrant or otherwise pursuant to Section 4, the Chief Financial Officer or Controller of the Company shall compute such adjustment in accordance with the terms of this Warrant and prepare a certificate setting forth such adjustment and showing in detail the facts upon which such adjustment is based, including a statement of the adjusted Purchase Price. The Company shall promptly send (by facsimile and by either first class mail, postage prepaid or overnight delivery) a copy of each such certificate to the Holder.

6. LOSS OR MUTILATION. Upon receipt of evidence reasonably satisfactory to the Company of the ownership of and the loss, theft, destruction or mutilation of this Warrant, and of indemnity reasonably satisfactory to it, and (in the case of mutilation) upon surrender and cancellation of this Warrant, the Company will execute and deliver in lieu thereof a new Warrant of like tenor as the lost, stolen, destroyed or mutilated Warrant.

7. RESERVATION OF COMMON STOCK. The Company hereby covenants that at all times there shall be reserved for issuance and delivery upon exercise of this Warrant such number of shares of Common Stock or other shares of capital stock of the Company as are from time to time issuable upon exercise of this Warrant and, from time to time, will take all steps necessary to amend its Charter or other similar organizational document to provide sufficient reserves of shares of Common Stock issuable upon exercise of this Warrant (and shares of its Common Stock for issuance on conversion of such Common Stock). All such shares shall be duly authorized, and when issued upon such exercise, shall be validly issued, fully paid and non-assessable, free and clear of all liens, security interests, charges and other encumbrances or restrictions on sale and free and clear of all preemptive rights, except encumbrances or restrictions arising under federal or state securities laws. Issuance of this Warrant shall constitute full authority to the Company's officers who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for shares of Common Stock and Common Stock upon the exercise of this Warrant.

8. TRANSFER AND EXCHANGE. Subject to the terms and conditions of this Warrant and compliance with all applicable securities laws, this Warrant and all rights hereunder may be transferred to any stockholder in the Company or a Permitted Transferee as defined in

the Company's Amended and Restated Stockholders' Agreement dated April 21, 1999, in whole or in part, without the Company's consent, provided that the transferee agrees in writing to comply with all of the terms and conditions of this Warrant, on the books of the Company maintained for such purpose at the principal office of the Company referred to above, by the Registered Holder hereof in person, or by duly authorized attorney, upon surrender of this Warrant properly endorsed and upon payment of any necessary transfer tax or other governmental charge imposed upon such transfer. Upon any permitted partial transfer, the Company will issue and deliver to the Registered Holder a new Warrant or Warrants with respect to the shares of Common Stock not so transferred. Each taker and holder of this Warrant, by taking or holding the same, consents and agrees that when this Warrant shall have been so endorsed, the person in possession of this Warrant may be treated by the Company, and all other persons dealing with this Warrant, as the absolute owner hereof for any purpose and as the person entitled to exercise the rights represented hereby, any notice to the contrary notwithstanding; provided, however that until a transfer of this Warrant is duly registered on the books of the Company, the Company may treat the Registered Holder hereof as the owner for all purposes.

9. RESTRICTIONS ON TRANSFER. The Holder, by acceptance hereof, agrees that, absent an effective registration statement filed with the SEC under the Securities Act, covering the disposition or sale of this Warrant or the Common Stock issued or issuable upon exercise hereof or the Common Stock issuable upon conversion thereof, as the case may be, and registration or qualification under applicable state securities laws, such Holder will not sell, transfer, pledge, or hypothecate any or all such Warrants or Common Stock, as the case may be, unless either (i) the Company has received an opinion of counsel, in form and substance reasonably satisfactory to the Company, to the effect that such registration is not required in connection with such disposition or (ii) the sale of such securities is made pursuant to SEC Rule 144.

10. COMPLIANCE WITH SECURITIES LAWS. By acceptance of this Warrant, the holder hereby represents, warrants and covenants that any shares of stock purchased upon exercise of this Warrant or acquired upon conversion thereof shall be acquired for investment only and not with a view to, or for sale in connection with, any distribution thereof; that the Holder has had such opportunity as such Holder has deemed adequate to obtain from representatives of the Company such information as is necessary to permit the Holder to evaluate the merits and risks of its investment in the company; that the Holder is able to bear the economic risk of holding such shares as may be acquired pursuant to the exercise of this Warrant for an indefinite period; that the Holder understands that the shares of stock acquired pursuant to the exercise of this Warrant or acquired upon conversion thereof will not be registered under the Securities Act (unless otherwise required pursuant to exercise by the Holder of the registration rights, if any, previously granted to the registered Holder) and will be "restricted securities" within the meaning of Rule 144 under the Securities Act and that the exemption from registration under Rule 144 will not be available for at least one year from the date of exercise of this Warrant, and even then will not be available unless a public market then exists for the stock, adequate information concerning the Company is then available to the public, and other terms and conditions of Rule 144 are complied with; and that all stock certificates representing shares

of stock issued to the Holder upon exercise of this Warrant or upon conversion of such shares may have affixed thereto a legend substantially in the following form (which legend the Company agrees to remove when such restrictions are no applicable):

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER THE SECURITIES LAWS OF ANY STATE. THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE ACT AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. THE ISSUER OF THESE SECURITIES MAY REQUIRE AN OPINION OF COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER TO THE EFFECT THAT ANY PROPOSED TRANSFER OR RESALE IS IN COMPLIANCE WITH THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

11. NO RIGHTS OR LIABILITIES AS STOCKHOLDERS. This Warrant shall not entitle the Holder to any voting rights or other rights as a stockholder of the Company. In the absence of affirmative action by such Holder to purchase Common Stock by exercise of this Warrant, no provisions of this Warrant, and no enumeration herein of the rights or privileges of the Holder hereof shall cause such Holder hereof to be a stockholder of the Company for any purpose.

12. REPRESENTATIONS AND WARRANTIES OF THE COMPANY. The Company hereby represents and warrants to Holder that:

12.1. Organization, Good Standing and Qualification. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Tennessee and has all requisite corporate power and authority to own its properties and assets and to carry on its business as now conducted and as presently proposed to be conducted. The Company is qualified to do business as a foreign corporation in each jurisdiction where failure to be so qualified would have a material adverse effect on its financial condition, business, prospects or operations.

12.2. Capitalization. The authorized capital stock of the Company consists of the following:

(a) Preferred Stock. 5,000,000 shares of Preferred Stock, no par value, of which 76,000 shares have been designated as Series A Convertible Preferred Stock, all of which are outstanding, and 1,436,961 shares have been designated as Series B Convertible Preferred Stock, 452,501 of which are outstanding. The rights, privileges and preferences of the Series B Convertible Preferred Stock are as stated in the Restated Charter of the Company.

(b) Common Stock. 20,000,000 shares of common stock., no par value ("Common Stock"), of which 1,991,647 shares are issued and outstanding. An additional 4,000,000 shares

of Common Stock are reserved for issuance pursuant to the Employee Stock Option Plan, dated April 15, 1994 (the "Option Plan"). The Company has granted options under the Option Plan to acquire a total of 915,616 shares of Common Stock.

12.3. Due Authorization; Consents. All corporate action on the part of the Company, its officers, directors and shareholders necessary for (a) the authorization, execution and delivery of, and the performance of all obligations of the Company under this Warrant, and (b) the authorization, issuance, reservation for issuance and delivery of all of the equity securities issuable upon exercise of this Warrant (and, if applicable, the Common Stock issuable upon conversion thereof) has been taken. This Warrant constitutes a valid and binding obligation of the Company enforceable in accordance with its terms, subject, as to enforcement of remedies, to applicable bankruptcy, insolvency, moratorium, reorganization and similar laws affecting creditors' rights generally and to general equitable principles. All consents, approvals and authorizations of, and registrations, qualifications and filings with, any federal or state governmental agency, authority or body, or any third party, required in connection with the execution, delivery and performance of this Warrant and the consummation of the transactions contemplated hereby and thereby have been obtained.

13. INTENTIONALLY DELETED

14. INTENTIONALLY DELETED

15. INTENTIONALLY DELETED

16. NOTICES. Except as may be otherwise provided herein, all notices, requests, waivers and other communications made pursuant to this Agreement shall be in writing and shall be conclusively deemed to have been duly given (a) when hand delivered to the other party; (b) when received when sent by facsimile at the address and number set forth below; (c) three business days after deposit in the U.S. mail with first class or certified mail receipt requested postage prepaid and addressed to the other party as set forth below; or (d) the next business day after deposit with a national overnight delivery service, postage prepaid, addressed to the parties as set forth below with next-business-day delivery guaranteed, provided that the sending party receives a confirmation of delivery from the delivery service provider.

GE MEDICAL SYSTEMS	HEALTHSTREAM, INC.
3000 North Grandview Boulevard	2098 10th Avenue South
Waukesha, WI 53188	Suite 450
Telephone: 414 544 3599	Nashville, TN 37203
Fax: 414 544 3930	Telephone: (615) 248-4848
Attention: Michael Jones	Fax: (615) 248-6833
	Attention: Robert Laird, Vice President and General Counsel

Each person making a communication hereunder by facsimile shall promptly confirm by telephone to the person to whom such communication was addressed each communication made by it by facsimile pursuant hereto but the absence of such confirmation shall not affect the

validity of any such communication. A party may change or supplement the addresses given above, or designate additional addresses, for purposes of this Section 16 by giving the other party written notice of the new address in the manner set forth above.

17. HEADINGS. The headings in this Agreement are for purposes of convenience in reference only and shall not be deemed to constitute a part hereof.

18. LAW GOVERNING. This Agreement and each Warrant Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of Tennessee and for all purposes shall be construed in accordance with the internal laws of said State.

19. NO IMPAIRMENT. The Company will not, by amendment of its Charter or bylaws, or through reorganization, consolidation, merger, dissolution, issue or sale of securities, sale of assets or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Registered Holder of this Warrant against impairment. Without limiting the generality of the foregoing, the Company (a) will not increase the par value of any shares of stock issuable upon the exercise of this Warrant above the amount payable therefor upon such exercise, and (b) will take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and non-assessable shares of Common Stock upon exercise of this Warrant.

20. NOTICES OF RECORD DATE. In case:

20.1. the Company shall take a record of the holders of its Common Stock (or other stock or securities at the time receivable upon the exercise of this Warrant), for the purpose of entitling them to receive any dividend or other distribution, or any right to subscribe for or purchase any shares of stock of any class or any other securities or to receive any other right; or

20.2. of any consolidation or merger of the Company with or into another corporation, any capital reorganization of the Company, any reclassification of the Capital Stock of the Company, or any conveyance of all or substantially all of the assets of the Company to another corporation in which holders of the Company's stock are to receive stock, securities or property of another corporation; or

20.3. of any voluntary dissolution, liquidation or winding-up of the Company; or

20.4. of any redemption or conversion of all outstanding Common Stock;

then, and in each such case, the Company will mail or cause to be mailed to the Registered Holder of this Warrant a notice specifying, as the case may be, (i) the date on which a record is to be taken for the purpose of such dividend, distribution or right, or (ii) the date on which such reorganization, reclassification, consolidation, merger, conveyance, dissolution, liquidation, winding-up, redemption or conversion is to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock or (such stock or securities as at the

time are receivable upon the exercise of this Warrant), shall be entitled to exchange their shares of Common Stock (or such other stock or securities), for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, conveyance, dissolution, liquidation or winding-up. Such notice shall be delivered at least thirty (30) days prior to the date therein specified.

21. SEVERABILITY. If application of any one or more of the provisions of this Warrant shall be unlawful under applicable law, then the parties will attempt in good faith to make such alternative arrangements as may be legally permissible and which carry out as nearly as practicable the terms of this Warrant. Should any portion of this Warrant be deemed unenforceable by a court of competent jurisdiction, the remaining portion thereof shall remain unaffected and be interpreted as if such unenforceable portions were initially deleted.

22. COUNTERPARTS. This Warrant may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

23. NO INCONSISTENT AGREEMENTS. The Company will not on or after the date of this Warrant enter into any agreement with respect to its securities which is inconsistent with the rights granted to the Holders of this Warrant or otherwise conflicts with the provisions hereof. The rights granted to the Holders hereunder do not in any way conflict with and are not inconsistent with the rights granted to holders of the Company's securities under any other agreements, except rights that have been waived.

24. SATURDAYS, SUNDAYS AND HOLIDAYS. If the Expiration Date falls on a Saturday, Sunday or legal holiday, the Expiration Date shall automatically be extended until 5:00 p.m. the next business day.

25. OBTAINING STOCK EXCHANGE LISTINGS. The Company will from time to time take all commercially reasonable action which may be necessary so that the shares of Common Stock issuable upon the exercise of this Warrant, immediately upon their issuance, will be listed on the principal securities exchanges and markets within the United States of America, if any, on which other shares of Common Stock are then listed.

IN WITNESS WHEREOF, the parties hereto have executed this Warrant as of the Effective Date.

GE MEDICAL SYSTEMS, A DIVISION OF GENERAL ELECTRIC COMPANY	HEALTHSTREAM, INC.
By: ----------	By: ----------
Name:	Name:
Title:	Title:

EXHIBIT 1

NOTICE OF EXERCISE

(To be executed upon exercise of Warrant)

HEALTHSTREAM, INC. WARRANT NO. ___

The undersigned hereby irrevocably elects to exercise the right of purchase represented by the within Warrant Certificate for, and to purchase thereunder, the securities of HEALTHSTREAM, INC., as provided for therein, and Tenders herewith payment of the exercise price in full in the form of cash or a certified or official bank check in same-day funds in the amount of $_____ for _____ such securities.

Please issue a certificate or certificates for such securities in the name of, and pay any cash for any fractional share to (please print name, address and social security number):

Name: _____

Address: _____

Signature: _____

Note: The above signature should correspond exactly with the name on the first page of this Warrant Certificate or with the name of the assignee appearing in the assignment form below.

If said number of shares shall not be all the shares purchasable under the within Warrant Certificate, a new Warrant Certificate is to be issued in the name of said undersigned for the balance remaining of the shares purchasable thereunder rounded up to the next higher whole number of shares.

EXHIBIT 2

ASSIGNMENT

(To be executed only upon assignment of Warrant Certificate) WARRANT NO. ___

For value received, the undersigned hereby sells, assigns and transfers unto _____ the within Warrant, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint _____ attorney, to transfer said Warrant Certificate on the books of the within-named Company with respect to the number of Warrants set forth below, with full power of substitution in the premises:

NAME(S) OF ASSIGNEE(S)	ADDRESS	# OF WARRANTS

And if said number of Warrants shall not be all the Warrants represented by the Warrant Certificate, a new Warrant Certificate is to be issued in the name of said undersigned for the balance remaining of the Warrants registered by said Warrant Certificate.

Dated:_____

Signature:_____

Notice: The signature to the foregoing Assignment must correspond to the name as written upon the face of this security in every particular, without alteration or any change whatsoever; signature(s) must be guaranteed by an eligible guarantor institution (banks, stock brokers, savings and loan associations and credit unions with membership in an approved signature guarantee medallion program) pursuant to Securities and Exchange Commission Rule 17Ad-15.

EXHIBIT 4.7

WARRANT

THE WARRANT EVIDENCED OR CONSTITUTED HEREBY, AND ALL SHARES OF COMMON STOCK ISSUABLE HEREUNDER, HAVE BEEN AND WILL BE ISSUED WITHOUT REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") AND MAY NOT BE SOLD, OFFERED FOR SALE, TRANSFERRED, PLEDGED OR HYPOTHECATED WITHOUT REGISTRATION UNDER THE ACT UNLESS EITHER (i) THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL, IN FORM AND SUBSTANCE REASONABLY SATISFACTORY TO THE COMPANY, TO THE EFFECT THAT REGISTRATION IS NOT REQUIRED IN CONNECTION WITH SUCH DISPOSITION OR (ii) THE SALE OF SUCH SECURITIES IS MADE PURSUANT TO SECURITIES AND EXCHANGE COMMISSION RULE 144.

WARRANT TO PURCHASE COMMON STOCK OF

HEALTHSTREAM, INC.

(Subject to Adjustment)

THIS CERTIFIES THAT, for value received, CIS Holdings, Inc., a Nevada corporation, or its permitted registered assigns ("HOLDER"), is entitled, subject to the terms and conditions of this Warrant, at any time or from time to time after February 10, 2000 (the "EFFECTIVE DATE"), and before 5:00 p.m. Eastern Daylight Time on February 10, 2008 (the "EXPIRATION DATE"), to purchase from HealthStream Inc., a Tennessee corporation (the "Company") 1,179,767 shares of Common Stock of the Company subject to adjustment in accordance with Section 4 herein. The initial exercise price per share (the "Initial Warrant Price") is $13.28 per share subject to adjustment in accordance with Section 4 herein. This Warrant shall not be exercisable prior to March 31, 2000 except in the event of the completion of the Company's initial public offering, a Private Placement, or immediately prior to consummation of a Company Sale. Twenty five percent (25%) of the shares granted under this Warrant, or 294,942 shares, shall be exercisable March 31, 2000 subject to earlier vesting as set forth in this Section. An additional twenty five percent (25%) of the shares granted under this Warrant, or 294,942 shares, shall vest and be exercisable on the first anniversary of the Effective Date. An additional twenty five percent (25%) of the shares granted under this Warrant, or 294,942 shares, shall vest and be exercisable on the second anniversary of the Effective Date. The remaining twenty five percent (25%) of the shares granted under this Warrant, or 294,941 shares, shall vest and be exercisable on the third anniversary of the Effective Date.

1. CERTAIN DEFINITIONS. As used in this Warrant the following terms shall have the following respective meanings:

"CHANGE OF CONTROL" shall mean any transaction or series of related transactions pursuant to which any entity or person (including without limitation any of their respective affiliates) other than an existing stockholder of the Company or an existing stockholder's affiliate first acquires after the effective date of this Agreement, directly or indirectly, an aggregate amount of fifty percent (50%) or more voting control or fifty percent (50%) or more of the equity securities ("Control") of the Company (or of any entity directly or indirectly having Control of the Company) or by contract or otherwise obtains the right to elect or appoint at least fifty percent (50%) of the Board of Directors of the Company (or any entity directly or indirectly having Control of the Company).

"COMMON STOCK DEEMED OUTSTANDING" shall mean, at any given time, the number of shares of Common Stock actually outstanding at such time, plus the number of shares of Common Stock issuable at such time upon convertible securities then outstanding, plus the number of shares of Common Stock issuable at any time upon exercise of all then outstanding options, warrants or similar rights.

"COMPANY SALE" shall mean any Change of Control of the Company effected by issuance of an equity interest (not to include a registered public offering or Private Placement), a capital reorganization, reclassification, consolidation, merger or sale of all or substantially all of the Company's assets.

"COMPANY SALE PRICE" shall mean the per share common equivalent price paid (or implied by the consideration received) for the Company in the event of a Company Sale.

"FAIR MARKET VALUE" of a share of Common Stock (or any other security as applicable) as of a particular date shall mean: (a) If traded on a securities exchange or the Nasdaq National Market, the Fair Market Value shall be deemed to be the average of the closing prices of the Common Stock of the Company on such exchange or market over the five (5) business days ending immediately prior to the applicable date of valuation; (b) If actively traded over-the-counter, the Fair Market Value shall be deemed to be the average of the closing bid prices over the 30-day period ending immediately prior to the applicable date of valuation; and (c) If there is no active public market, the Fair Market Value shall be the value thereof, as agreed upon by the Company and the Holder; provided, however, that if the Company and the Holder cannot agree on such value, such value shall be determined by an independent valuation firm experienced in valuing businesses such as the Company and jointly selected in good faith by the Company and the Holder. Fees and expenses of the valuation firm shall be paid for equally by the Company and the Purchaser.

"HSR ACT" shall mean the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

"INITIAL WARRANT PRICE" is defined in the introduction to this Warrant.

"PERSON" shall mean any individual, firm, corporation, partnership or other entity, and shall include any successor (by merger or otherwise) of such entity.

"PRIVATE PLACEMENT" shall mean a private placement of equity securities with aggregate proceeds of greater than $10.0 million.

"PURCHASE PRICE" shall mean the Initial Warrant Price, as adjusted pursuant to Section 4.

"REGISTERED HOLDER" shall mean any Holder in whose name this Warrant is registered upon the books and records maintained by the Company.

"WARRANT" as used herein, shall include this Warrant and any warrant delivered in substitution or exchange therefor as provided herein.

"COMMON STOCK" shall mean the Common Stock of the Company and any other securities at any time receivable or issuable upon exercise of this Warrant.

2. EXERCISE OF WARRANT

2.1. PAYMENT. Subject to compliance with the terms and conditions of this Warrant and applicable securities laws, this Warrant may be exercised, in whole or in part at any time or from time to time, on or before the Expiration Date by the delivery (including, without limitation, delivery by facsimile) of the form of Notice of Exercise attached hereto as EXHIBIT 1 (the "Notice of Exercise"), duly executed by the Holder, at the principal office of the Company, and as soon as practicable after such date, surrendering (a) this Warrant at the principal office of the Company, and (b) payment, in cash (by check) or by wire transfer, of an amount equal to the product obtained by multiplying the number of shares of Common Stock being purchased upon such exercise by the then effective Purchase Price (the "Exercise Amount"), provided that if Holder is subject to HSR Act Restrictions (as defined in Section 2.3 below), the Exercise Amount shall be paid to the Company within five (5) business days of the termination of all HSR Act Restrictions.

2.2. STOCK CERTIFICATES; FRACTIONAL SHARES. As soon as practicable on or after the date a person or persons are entitled to receive certificates for shares of Common Stock, the Company shall issue and deliver to the person or persons entitled to receive the same a certificate or certificates for the number of whole shares of Common Stock issuable upon such exercise, together with cash in lieu of any fraction of a share equal to such fraction of the current Fair Market Value of one whole share of Common Stock as of the date of exercise of this Warrant. No fractional shares or scrip representing fractional shares shall be issued upon an exercise of this Warrant.

2.3. HSR ACT. The Company hereby acknowledges that exercise of this Warrant by Holder may subject the Company and/or the Holder to the filing requirements of the HSR Act and that Holder may be prevented from exercising this Warrant until the expiration or early termination of all waiting periods imposed by the HSR Act ("HSR Act Restrictions"). If on or before the Expiration Date Holder has sent the Notice of Exercise to Company and Holder has not been able to complete the exercise of this Warrant prior to the Expiration Date because of HSR Act Restrictions, the Holder shall be entitled to complete the process of exercising this Warrant in accordance with the procedures contained herein notwithstanding the fact that completion of the exercise of this Warrant would take place after the Expiration Date.

2.4. PARTIAL EXERCISE; EFFECTIVE DATE OF EXERCISE. In case of any partial exercise of this Warrant, the Company shall cancel this Warrant upon surrender hereof and shall execute and deliver a new Warrant of like tenor and date for the balance of the shares of Common Stock purchasable hereunder. This Warrant shall be deemed to have been exercised immediately prior to the close of business on the date of its surrender for exercise as provided above. However, if Holder is subject to HSR Act filing requirements, this Warrant shall be deemed to have been exercised on the date immediately following the date of the expiration of all HSR Act Restrictions. The person entitled to receive the shares of Common Stock issuable upon exercise of this Warrant shall be treated for all purposes as the holder of record of such shares as of the close of business on the date the Holder is deemed to have exercised this Warrant.

2.5. EXERCISE SUBJECT TO UNDERWRITER LOCKUP AGREEMENTS. In the case of an underwritten public offering of the equity securities of the Company, the Purchaser shall be required to execute "lockup" agreements prohibiting the sale of the common shares underlying the Warrant, provided that the execution of such agreements are requested by the underwriters, and provided further that the prohibition on sale and exercise be the shorter of the lockup period applicable to executive officers, directors and greater than 5% beneficial owners of the Company's Common Stock (other than investment companies that purchased their shares at or after the Company's initial public offering) and 180 days.

2.6. EXERCISE IN CONNECTION WITH A COMPANY SALE. Upon receipt of a written notice of a Company Sale pursuant to Section 4.8(c) hereof (a "Company Sale Notice"), in addition to any rights that the Holder may have in connection with a Company Sale constituting an Organic Change (as defined in Section 4.4 herein), the Holder shall promptly notify the Company whether or not the Holder will exercise this Warrant in connection with the consummation of the Company Sale. If Holder has elected to exercise this Warrant in connection with such Company Sale and such Company Sale is not consummated, then Holder's exercise of this Warrant shall not be effective unless Holder confirms in writing Holder's intention to go forward with the exercise of this Warrant, in which case the Purchase Price will be whatever price was in effect without regard to the Company Sale.

2.7. NET ISSUE EXERCISE. In lieu of the payment methods set forth in Section 2.1 above, the Holder may elect to exchange all or some of the Warrant for shares of Common Stock equal to the value of the amount of the Warrant being exchanged on the date of exchange. If Holder elects to exchange this Warrant as provided in this Section 2.7, Holder shall tender to the Company the Warrant for the amount being exchanged, along with written notice of Holder's election to exchange some or all of the Warrant, and the Company shall issue to Holder the number of shares of the Common Stock computed using the following formula:

$$X = \frac{Y (A-B)}{A}$$

Where X = the number of shares of Common Stock to be issued to Holder.

Y = the number of shares of Common Stock purchasable under the Warrant being exchanged (as adjusted to the date of such calculation).

A = the Fair Market Value of one share of the Company's Common Stock.

B = the Purchase Price (as adjusted to the date of such calculation).

All references herein to an "exercise" of the Warrant shall include an exchange pursuant to this Section 2.7.

3. VALID ISSUANCE: CHARGES, TAXES AND EXPENSES. All shares of Common Stock issued upon the exercise of this Warrant shall be validly issued, fully paid and non-assessable. Issuance of certificates for shares of Common Stock upon the exercise of this Warrant shall be made without charge to the Registered Holder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company.

4. ADJUSTMENT OF PURCHASE PRICE, TERMS AND NUMBER OF SHARES. The number of shares of Common Stock issuable upon exercise of this Warrant (or any shares of stock or other securities or property receivable or issuable upon exercise of this Warrant) and the Purchase Price are subject to adjustment in accordance with the following:

4.1. ADJUSTMENT OF PURCHASE PRICE. Before the Company's initial public offering of Common Stock, the following provisions in Sections 4.1 and 4.2 shall apply:

(a) In order to prevent dilution of the rights granted hereunder, the Purchase Price and number of shares of Common Stock for which this Warrant is exercisable will be subject to adjustment from time to time pursuant to this Section 4.1; provided, however, that notwithstanding the foregoing, no adjustment to the Purchase Price will be made or considered under this Section 4.1 with respect to the

issuance of shares of Common Stock upon the exercise of convertible securities, options, warrants and other rights that were outstanding on the Effective Date or that may subsequently be issued under employee benefit plans approved by the Company's Board of Directors.

(b) If and whenever after the Effective Date the Company issues or sells, or in accordance with Article 4 is deemed to have issued or sold, any share of Common Stock for a consideration per share less than the Purchase Price in effect immediately prior to such time, except as provided in Section 4.1(a) herein, then forthwith upon such issue or sale the Purchase Price will be reduced by multiplying the Purchase Price in effect immediately prior to such issue or sale by a fraction, the numerator of which shall be equal to the sum of:

(1) the number of shares of Common Stock deemed outstanding immediately prior to such issue or sale, plus

(2) the number of shares of Common Stock which would have been issued in exchange for the aggregate consideration received by the Company upon such issue or sale if such shares had been issued or sold at the Purchase Price, and

the denominator of which shall be the number of shares of Common Stock Deemed Outstanding immediately after such issue or sale. In addition, the number of shares for which this Warrant is exercisable shall be adjusted to equal the quotient of:

(1) the aggregate Purchase Price for purchase of all shares of Common Stock for which the Warrant was exercisable immediately prior to such issue or sale, divided by

(2) the new Purchase Price as adjusted pursuant to the terms hereof.

4.2. EFFECT ON PURCHASE PRICE OF CERTAIN EVENTS. For purposes of determining the adjusted Purchase Price under Section 4.1 herein, the following will be applicable:

(a) ISSUANCE OF RIGHTS OR OPTIONS. If the Company in any manner grants any right, warrant or option to subscribe for or to purchase Common Stock or any stock or other securities convertible into or exchangeable for Common Stock (such rights or options being herein called "Options" and such convertible or exchangeable stock or securities being herein called "Convertible Securities"), and the price per share for which Common Stock is issuable upon the exercise of any such Options or upon conversion or exchange of any such Convertible Securities is less than the Purchase Price in effect immediately prior to the time of the granting of such Option, then the total maximum number of shares of Common Stock issuable upon the exercise of such Option or upon conversion or exchange of the total maximum amount of such Convertible Security issuable upon the exercise of such Option will be deemed to be outstanding and to have been issued and sold by the Company for such price per share. For purposes of this Section 4.2(a), the "price per share for which Common Stock is issuable" will be determined by dividing:

(1) the total amount, if any, received or receivable by the Company as consideration for the granting of such Options, plus the minimum aggregate amount of additional consideration payable to the Company upon exercise of such Options, plus in the case of such Options which are related to Convertible Securities, the minimum aggregate amount of additional consideration, if any, payable to the Company upon the issuance or sale of such Convertible Securities and the conversion or exchange thereof, by

(2) the total maximum number of shares of Common Stock issuable upon the exercise of such Options or upon the conversion or exchange of all such Convertible Securities issuable upon the exercise of such Options.

No further adjustment of the Purchase Price will be made upon the actual issuance of such Common Stock or of such Convertible Security upon the exercise of such Options or upon the actual issuance of such Common Stock upon conversion or exchange of such Convertible Security.

(b) ISSUANCE OF CONVERTIBLE SECURITIES. If the Company in any manner issues or sells any Convertible Securities and the price per share for which Common Stock is issuable upon conversion or exchange thereof is less than the Purchase Price in effect immediately prior to the time of such issue or sale, then forthwith upon such issue or sale the Purchase Price will be reduced as set forth in Section 4.1(b) herein. For purposes of determining the new Purchase Price, the maximum number of shares of Common Stock issuable upon conversion or exchange of such Convertible Securities will be deemed to be outstanding and to have been issued and sold by the Company for such price per share. For purposes of this subparagraph 4.2(b), the "price per share for which Common Stock is issuable" will be determined by dividing:

(1) the total amount received or receivable by the Company as consideration for the issue or sale of such Convertible Securities, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the conversion or exchange thereof, by

(2) the total maximum number of shares of Common Stock issuable upon the conversion or exchange of all such Convertible Securities.

No further adjustment of the Purchase Price will be made upon the actual issuance of Common Stock upon conversion or exchange of such Convertible Securities, and if any such issuance or sale of such Convertible Securities is made upon exercise of any Options for which adjustments of the Purchase Price had been or are to be made pursuant to other provisions of this Article 4, no further adjustment of the Purchase Price will be made by reason of such issuance or sale.

(c) CHANGE IN OPTION PRICE OR CONVERSION RATE. If the purchase price provided for in any Options, the additional consideration (if any) payable upon the issue, conversion or exchange of any Convertible Securities, or the rate at which any Convertible Securities are convertible into or exchangeable for Common Stock change at any time, the Purchase Price in effect at the time of such change will be readjusted to the Purchase Price which would have been in effect at such time had such Options or Convertible Securities still outstanding provided for such changed purchase price, additional consideration or charged conversion rate, as the case may be, at the time initially granted, issued or sold.

(d) TREATMENT OF EXPIRED OPTIONS AND UNEXERCISED CONVERTIBLE SECURITIES. Upon the expiration of any Option or the termination of any right to convert or exchange any Convertible Security without the exercise of any such Option or right, the Purchase Price then in effect hereunder will be adjusted to the Purchase Price which would have been in effect at the time of such expiration or termination had such Option or Convertible Security, to the extent outstanding immediately prior to such expiration or termination, never been issued.

(e) CALCULATION OF CONSIDERATION RECEIVED. If any Common Stock, Option or Convertible Security is issued or sold or deemed to have been issued or sold for cash, the consideration received therefore will be deemed to be the gross amount received by the Company

therefor. In case any Common Stock, Option or Convertible Security is issued or sold for a consideration other than cash, the amount of the consideration other than cash received by the Company will be the fair value (as defined below) of such consideration, except where such consideration consists of securities, in which case the amount of consideration received by the Company will be the Fair Market Value thereof as of the date of receipt. If any Common Stock, Option or Convertible Security is issued in connection with any merger in which the Company is the surviving corporation, the amount of consideration therefor will be deemed to be the fair value of such portion of the net assets and business of the non-surviving corporation as is attributable to such Common Stock, Option or Convertible Security, as the case may be. The fair value of any consideration other than cash and securities will be determined in good faith jointly by the Company and the holder of the Warrant. If such parties are unable to reach agreement within a reasonable period of time, the fair value of such consideration will be determined by an independent appraiser jointly selected by the Company and the holder of the Warrant.

(f) INTEGRATED TRANSACTIONS. In case any Option is issued in connection with the issue or sale of other securities of the Company, together comprising one integrated transaction in which no specific consideration is allocated to such Option by the parties thereto, the Option will be deemed to have been issued for a consideration to be determined pursuant to the procedures set forth in Section 4.2(e).

(g) TREASURY SHARES. The number of shares of Common Stock outstanding at any given time does not include shares owned or held by or for the account of the Company or any Subsidiary, and the disposition of any shares so owned or held will be considered an issue or sale of Common Stock.

(h) RECORD DATE. If the Company takes a record of the holders of Common Stock for the purpose of entitling them (i) to receive a dividend or other distribution payable in Common Stock, Options or Convertible Securities or (ii) to subscribe for or purchase Common Stock, Options or Convertible Securities, then such record date will be deemed to be the date of the issue or sale of the shares of Common Stock deemed to have been issued or sold upon the declaration of such dividend or upon the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be; provided that if such dividend, distribution or subscription is not ultimately consummated, no adjustment will be made to the Purchase Price hereunder or, if so made, such adjustment will be rescinded.

4.3. SUBDIVISION OR COMBINATION OF COMMON STOCK. If the Company at anytime subdivides (by any stock split, stock dividend, recapitalization or otherwise) one or more classes of its outstanding shares of Common Stock into a greater number of shares, the Purchase Price in effect immediately prior to such subdivision will be proportionately reduced, and if the Company at any time combines (by reverse stock split or otherwise) one or more classes of its outstanding shares of Common Stock into a smaller number of shares, the Purchase Price in effect immediately prior to such combination will be proportionately increased. In addition, the number of shares of Common Stock into which the Warrant is exercisable shall be adjusted proportionately in accordance with Section 4.1(a) herein.

4.4. REORGANIZATION, RECLASSIFICATION, CONSOLIDATION, MERGER OR SALE. Any capital reorganization, reclassification, consolidation, merger or sale of all or substantially all of the Company's assets to another Person which is effected in such a way that holders of Common Stock are entitled to receive (either directly or upon subsequent liquidation) stock, securities or assets (other than, or in addition to, cash) with respect to or in exchange for Common Stock is referred to herein as an "Organic Change". Prior to consummation of any Organic Change, the Company will make appropriate provisions (in form and substance satisfactory to the holder of the Warrant) to ensure that the holder of the Warrant will thereafter have the right to acquire and receive, in lieu of or in addition to the shares of Common

Stock immediately theretofore acquirable and receivable upon the exercise of such holder's Warrant, such shares of stock, securities or assets as such holder would have received in connection with such Company Sale if such holder had converted his or her Warrant immediately prior to such Organic Change. In any such case, the Company will make appropriate provisions (in form and substance satisfactory to the holder of the Warrant) to ensure that the provisions of this Article 4 and Article 5 will thereafter be applicable to the Warrant (including, in the case of any such consolidation, merger or sale in which the successor corporation or purchasing corporation is other than the Company, an immediate adjustment of the Purchase Price to the value for the Common Stock reflected by the terms of such consolidation, merger or sale, and a corresponding immediate adjustment in the number of shares of Common Stock acquirable and receivable upon exercise of the Warrant, if the value so reflected is less than the Purchase Price in effect immediately prior to such consolidation, merger or sale). The Company will not effect any such consolidation, merger or sale, unless prior to the consummation thereof, the successor corporation (if other than the Company) resulting from consolidation or merger or the corporation purchasing such assets assumes by written instrument (in form reasonably satisfactory to the holder of the Warrant), the obligation to deliver to each such holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, such holder may be entitled to acquire.

4.5. ADJUSTMENT FOR DIVIDENDS OR DISTRIBUTIONS OF STOCK OR OTHER SECURITIES OR PROPERTY. In case the Company shall make or issue, or shall fix a record date for the determination of eligible holders entitled to receive, a dividend or other distribution with respect to the Common Stock (or any shares of stock or other securities at the time issuable upon exercise of the Warrant) payable in (a) securities of the Company or (b) assets (excluding cash dividends paid or payable solely out of retained earnings), then, in each such case, the Holder of this Warrant on exercise hereof at any time after the consummation, effective date or record date of such dividend or other distribution, shall receive, in addition to the shares of Common Stock (or such other stock or securities) issuable on such exercise prior to such date, and without the payment of additional consideration therefor, the securities or such other assets of the Company to which such Holder would have been entitled upon such date if such Holder had exercised this Warrant on the date hereof and had thereafter, during the period from the date hereof to and including the date of such exercise, retained such shares and/or all other additional stock available by it as aforesaid during such period giving effect to all adjustments called for by this Article 4.

4.6. CERTAIN EVENTS. If any event occurs of the type contemplated by the provisions of this Article 4 but not expressly provided for by such provisions, then the Company's Board of Directors will make an appropriate adjustment in the Purchase Price and the number of shares of Common Stock issuable upon exercise of this Warrant so as to protect the rights of the holder of the Warrant; provided that no such adjustment will increase the Purchase Price as otherwise determined pursuant to this Article 4 or decrease the number of shares of Common Stock issuable upon exercise of the Warrant.

4.7. CERTIFICATE AS TO ADJUSTMENTS. Upon the occurrence of each adjustment or readjustment pursuant to this Section 4, the Company at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to the Registered Holder a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Company shall, upon the written request, at any time, of the Registered Holder, furnish or cause to be furnished to such Registered Holder, a like certificate setting forth: (i) such adjustments and readjustments; (ii) the Exercise Price; and (iii) the number of shares of Common Stock and the amount, if any, of other property that at the time should be received upon the exercise of the Warrant.

4.8. NOTICES.

(a) Within five business days of any adjustment of the Purchase Price, the number or type of shares issuable upon exercise of this Warrant or otherwise pursuant to Article 4 hereof, the Company will give written notice thereof to the holder of the Warrant setting forth such adjustment and showing in detail the facts upon which such adjustment is based; provided that this provision shall not be construed to create a presumption that the Holder has conceded its right to challenge the Company's adjustment if it believes it was not done in accordance with the terms of this Agreement.

(b) The Company will give written notice to the holder of the Warrant at least 20 days prior to the date on which the Company closes its books or takes a record (i) with respect to any dividend or distribution upon Common Stock, (ii) with respect to any pro rata subscription offer to holders of Common Stock or (iii) for determining rights to vote with respect to any Company Sale, Organic Change, dissolution or liquidation.

(c) The Company will also give written notice to the holder of the Warrant at least 20 days prior to the date on which any Company Sale or Organic Change will take place.

5. PURCHASE RIGHTS. If at any time the Company grants, issues or sells any Options, Convertible Securities or rights to purchase stock, warrants, securities or other property pro rata to the record holders of any class of Common Stock (the "Purchase Rights"), then the holder of the Warrant will be entitled to acquire at the time of exercise of the Warrant by such holder (based on the number of shares of Common Stock issued upon such exercise), upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which such holder could have acquired if such holder had held the number of shares of Common Stock acquirable upon exercise of such holder's Warrant immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights; provided, however, that holder of the Warrant shall not be entitled to any Purchase Rights under this Article 5 if such holders have received an adjustment in the Purchase Price of the Warrant under Article 4 with respect to the issuance of such Purchase Rights.

6. REPLACEMENT. Upon receipt of evidence reasonably satisfactory to the Company (an affidavit of the registered holder will be satisfactory) of the ownership and the loss, theft, destruction or mutilation of the Warrant, and in the case of any such loss, theft or destruction, upon receipt of indemnity satisfactory to the Company (provided that if the holder is an institutional investor its own agreement will be satisfactory), or, in the case of any such mutilation upon surrender of such mutilated warrant, the Company will (at the holder's expense) execute and deliver in lieu of such warrant a new warrant of identical tenor representing the warrant represented by such lost, stolen, destroyed or mutilated warrant and dated the date of such lost, stolen, destroyed or mutilated warrant.

7. RESERVATION OF COMMON STOCK. The Company hereby covenants that at all times there shall be reserved for issuance and delivery upon exercise of this Warrant such number of shares of Common Stock or other shares of capital stock of the Company as are from time to time issuable upon exercise of this Warrant and, from time to time, will take all steps necessary to amend its Charter to provide sufficient reserves of shares of Common Stock issuable upon exercise of this Warrant. All such shares shall be duly authorized, and when issued upon such exercise, shall be validly issued, fully paid and non-assessable, free and clear of all liens, security interests, charges and other encumbrances or restrictions on sale and free and clear of all preemptive rights, except encumbrances or restrictions arising under federal or state securities laws. Issuance of this Warrant shall constitute full authority to the Company's officers who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for shares of Common Stock and Common Stock upon the exercise of this Warrant.

8. TRANSFER AND EXCHANGE. Subject to Article 9, this Warrant and all rights hereunder may be freely transferred in whole or in part, on the books of the Company maintained for such purpose at the principal office of the Company referred to above, by the Registered Holder hereof in person, or by duly authorized attorney, upon surrender of this Warrant properly endorsed and upon payment of any necessary transfer tax or other governmental charge imposed upon such transfer. Upon any partial transfer, the Company will issue and deliver to the Registered Holder a new Warrant or Warrants with respect to the shares of Common Stock not so transferred. Each taker and holder of this Warrant, by taking or holding the same, consents and agrees that when this Warrant shall have been so endorsed, the person in possession of this Warrant may be treated by the Company, and all other persons dealing with this Warrant, as the absolute owner hereof for any purpose and as the person entitled to exercise the rights represented hereby, any notice to the contrary notwithstanding; provided, however that until a transfer of this Warrant is duly registered on the books of the Company, the Company may treat the Registered Holder hereof as the owner for all purposes.

9. RESTRICTIONS ON TRANSFER. The Holder, by acceptance hereof, agrees that, absent an effective registration statement filed with the SEC under the Securities Act of 1933, as amended (the "Act"), covering the disposition or sale of this Warrant or the Common Stock issued or issuable upon exercise hereof, as the case may be, and registration or qualification under applicable state securities laws, such Holder will not sell, transfer, pledge, or hypothecate any or all such Warrants or Common Stock, as the case may be, unless either (i) the Company has received an opinion of counsel, in form and substance reasonably satisfactory to the Company, to the effect that such registration is not required in connection with such disposition or (ii) the sale of such securities is made pursuant to Rule 144 promulgated under the Act.

10. COMPLIANCE WITH SECURITIES LAWS. By acceptance of this Warrant, the holder hereby represents, warrants and covenants that any shares of stock purchased upon exercise of this Warrant shall be acquired for investment only and not with a view to, or for sale in connection with, any distribution thereof; that the Holder has had such opportunity as such Holder has deemed adequate to obtain from representatives of the Company such information as is necessary to permit the Holder to evaluate the merits and risks of its investment in the Company; that the Holder is able to bear the economic risk of holding such shares as may be acquired pursuant to the exercise of this Warrant for an indefinite period; that the Holder understands that the shares of stock acquired pursuant to the exercise of this Warrant will not be registered under the Act (unless otherwise required pursuant to exercise by the Holder of the registration rights, if any, previously granted to the registered Holder) and will be "restricted securities" within the meaning of Rule 144 under the Act and that the exemption from registration under Rule 144 will not be available for at least one year from the date of exercise of this Warrant, subject to any special treatment by the SEC for exercise of this Warrant pursuant to Section 2.2, and even then will not be available unless a public market then exists for the stock, adequate information concerning the Company is then available to the public, and other terms and conditions of Rule 144 are complied with; and that all stock certificates representing shares of stock issued to the Holder upon exercise of this Warrant may have affixed thereto a legend substantially in the following form: THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE ACT, OR UNDER THE SECURITIES LAWS OF ANY STATE. THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE ACT AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. THE ISSUER OF THESE SECURITIES MAY REQUIRE AN OPINION OF COUNSEL IN FORM AND SUBSTANCE REASONABLY SATISFACTORY TO THE ISSUER TO THE EFFECT THAT ANY PROPOSED TRANSFER OR

RESALE IS IN COMPLIANCE WITH THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

11. NO RIGHTS OR LIABILITIES AS STOCKHOLDERS. This Warrant shall not entitle the Holder to any voting rights or other rights as a stockholder of the Company. In the absence of affirmative action by such Holder to purchase Common Stock by exercise of this Warrant, no provisions of this Warrant, and no enumeration herein of the rights or privileges of the Holder hereof shall cause such Holder hereof to be a stockholder of the Company for any purpose.

12. REPRESENTATIONS. The Company hereby represents and warrants as follows:

12.1. AUTHORIZATION. The Company has full power and authority to enter into and to perform this Warrant in accordance with its terms.

12.2. AUTHORIZED STOCK. On the Effective Date, the Company's authorized capital stock consists of 20,000,000 shares of Common Stock no par value and 5,000,000 shares of preferred stock no par value. The Company's authorized capital stock will be increased upon the filing of a Restated Charter in connection with the Company's initial public offering of Common Stock.

12.3. OUTSTANDING STOCK. Immediately prior to the Effective Date, the Company's issued and outstanding stock consists of 2,882,240 shares of Common Stock and 1,932,207 shares of preferred stock convertible into 3,854,678 shares of Common Stock. Additionally, the Company has issued options and warrants for the purchase of 1,692,880 shares of Common Stock.

13. NOTICES. All notices required hereunder shall be in writing and shall be deemed to have been duly given upon receipt, and shall be either delivered in person, by registered or certified mail, postage prepaid, return receipt requested, or by overnight delivery service with proof of delivery, and addressed as follows:

To HealthStream:
Attn: Robert Laird, General Counsel
HealthStream Inc.
209 10th Ave South, Suite 450
Nashville, Tennessee 37203

To the Holder:
Attn: President, CIS Holdings, Inc.
2555 Park Plaza
Nashville, Tennessee 37203

with a copy to:
General Counsel
Columbia/HCA Healthcare Corporation
One Park Plaza
Nashville, Tennessee 37203

14. HEADINGS. The headings in this Warrant are for purposes of convenience in reference only, and shall not be deemed to constitute a part hereof.

15. LAW GOVERNING. This Warrant shall be construed and enforced in accordance with, and governed by, the laws of the State of Tennessee.

16. NO IMPAIRMENT. The Company will not, by amendment of its Charter or bylaws, or through any reorganization, consolidation, merger, dissolution, issue or sale of securities, sale or transfer of assets or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Registered Holder of this Warrant against impairment. Without limiting the generality of the foregoing, the Company (a) will not increase the par value of any shares of stock issuable upon the exercise of this Warrant above the amount payable therefor upon such exercise, and (b) will take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and non-assessable shares of Common Stock upon exercise of this Warrant.

17. SEVERABILITY. If any term, provision, covenant or restriction of this Warrant is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated and the parties will attempt in good faith to make such alternative arrangements as may be legally permissible and which carry out as nearly as practicable the terms of this Warrant.

18. NO INCONSISTENT AGREEMENTS. The Company will not on or after the date of this Warrant enter into any agreement with respect to its securities which is inconsistent with the rights granted to the Holders of this Warrant or otherwise conflicts with the provisions hereof. The rights granted to the Holders hereunder do not in any way conflict with and are not inconsistent with the rights granted to holders of the Company's securities under any other agreements, except rights that have been waived.

19. SATURDAYS, SUNDAYS AND HOLIDAYS. If the Expiration Date falls on a Saturday, Sunday or legal holiday, the Expiration Date shall automatically be extended until 5:00 p.m. the next business day.

20. OBTAINING STOCK EXCHANGE LISTINGS. The Company will from time to time take all commercially reasonable actions following its initial public offering which may be necessary so that the shares of Common Stock issuable upon exercise of the Warrant will be listed on the principal securities exchanges or markets on which other shares of Common Stock are then listed.

21. REMEDIES. The Company stipulates that the remedies at law of the holder of this Warrant in the event of any default or threatened default by the Company in the performance of or compliance with any of the terms of this Warrant are not adequate and may be enforced by a decree for the specific performance of any agreement contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

IN WITNESS WHEREOF, the Company has executed this Warrant as of the Effective Date.

HEALTHSTREAM, INC.

By: /s/ Jeffrey L. McLaren

Title: President

EXHIBIT 5.1

B A S S, B E R R Y & S I M S P L C
A PROFESSIONAL LIMITED LIABILITY COMPANY
ATTORNEYS AT LAW

KNOXVILLE OFFICE:
1700 RIVERVIEW TOWER
KNOXVILLE, TN 37901-1509
(423) 521-6200

2700 FIRST AMERICAN CENTER
NASHVILLE, TENNESSEE 37238-2700
(615) 742-6200
www.bassberry.com

MEMPHIS OFFICE:
119 S. MAIN STREET,
SUITE 500
MEMPHIS, TN 38103
(901)-312-9100

December _____, 1999

HealthStream, Inc.
209 10th Avenue, Suite 450
Nashville, Tennessee 37203

Re: Registration Statement on Form S-1 (File No. 333-8839)

Dear Ladies and Gentlemen:

We have acted as your counsel in connection with the preparation of a Registration Statement on Form S-1 (the "Registration Statement") filed by you with the Securities and Exchange Commission, covering _____ shares of Common Stock, no par value (the "Common Stock"), of HealthStream, Inc., a Tennessee corporation (the "Company"),to be offered by the Company.

In connection with this opinion, we have examined and relied upon such records, documents and other instruments as in our judgment are necessary or appropriate in order to express the opinions hereinafter set forth and have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, and the conformity to original documents of all documents submitted to us as certified or photostatic copies.

Based on the foregoing and such other matters as we have deemed relevant, we are of the opinion that the shares of Common Stock to be offered by the Company, when and as described in the Registration Statement (after the Registration Statement is declared effective), will be validly issued, fully paid and nonassessable.

We hereby consent to the reference to our law firm in the Registration Statement under the caption "Legal Matters" and to the use of this opinion as an exhibit to the Registration Statement.

Sincerely,

/s/ Bass, Berry & Sims PLC

Bass, Berry & Sims PLC

EXHIBIT 10.19

COURSEWARE DEVELOPMENT AGREEMENT

This Courseware Development Agreement ("Agreement"), is entered into as of January __, 2000 ("Effective Date") between e-Vitro, Inc., a Colorado corporation, with its principal place of business at 507 Canyon Boulevard, Suite 200, Boulder, Colorado 80302 ("Developer") and HealthStream, Inc., a Tennessee corporation, with its principal place of business at 209 10th Avenue South, Suite 450, Nashville, Tennessee 37203 ("HealthStream").

WHEREAS, HealthStream wishes to engage the services of Developer to develop browser-based interactive training modules;

WHEREAS, HealthStream and Developer wish to provide appropriate consideration for those efforts that each party has agreed to undertake;

WHEREAS, as part of the consideration for those efforts, Developer and HealthStream have agreed to enter into a certain Warrant to Purchase Common Stock of Developer of even date herewith (the "Warrant");

WHEREAS, HealthStream and Developer each acknowledge the sufficiency and adequacy of the value, concessions, and recitations set forth herein;

NOW THEREFORE, HealthStream and Developer agree as follows:

SECTION 1. DEFINITIONS. As used in this Agreement, the following terms shall have the meanings assigned below:

A. "Content" shall mean the material and knowledge components to be contributed by HealthStream and other entities as determined by HealthStream ("HealthStream's Content Partners") necessary for the development of the modules. Content includes the procedural sequences, standard operating procedures, photographs, videos, instruction manuals and screen images supplied by HealthStream and HealthStream's Content Partners to Developer for incorporation into the modules defined hereafter.

B. "Interactive Content" shall mean Developer's computer browser-based adaptation and implementation of the Content for delivery through HealthStream's Training Navigator(R) (or T.NAV(R)) System.

C. "Modules" shall mean Interactive Content that has been organized into a clearly defined and limited course of study equaling no fewer than one hundred twenty (120) browser-based screens. Modules may be comprised of disparate Content subjects equaling no fewer than one hundred twenty (120) browser-based screens. Subject to Developer's reservation of rights as specified in Section 3.1 herein, Modules are the proprietary property of HealthStream.

SECTION 2. COURSEWARE DEVELOPMENT

2.1 Courseware Development.

A. Developer hereby agrees to develop Interactive Content into no fewer than forty (40) Modules or a combination of browser screens that would equal forty (40) Modules according to the Quality Criterion outlined in Section 2.1.B below, (collectively, the "Courseware").

B. Developer agrees to develop all Courseware at a level of quality and interactivity substantially equal to or greater than those courses developed by HealthStream for the Cleveland Clinic Foundation. Developer also agrees to develop the Courseware so that it may function and work with HealthStream's T.NAV System. Such criterion for the Courseware shall be known as the "Quality Criterion." HealthStream shall not be obligated to pay for any Courseware unless HealthStream reasonably believes the Quality Criterion has been satisfied.

C. Developer agrees to develop Content into Courseware and deliver completed Courseware to HealthStream no later than sixty (60) days following receipt of the Content from HealthStream.

D. Both parties will ensure that resources from both parties will be allocated to accomplish the development of the Courseware in a timely fashion. Developer shall provide HealthStream with a weekly status update of the development of the Courseware.

E. The Modules will be developed in "Alpha" and "Beta" test phases (each, a "Phase"). Upon completion of a Phase, Developer shall provide notice to this effect to HealthStream (the "Completion Notice"). Within ten (10) days after the receipt of the Completion Notice by HealthStream; Developer and HealthStream shall consult and cooperate with each other to determine whether the subject Module substantially conforms with the applicable Quality Criterion at such Phase. In the event HealthStream determines in its reasonable discretion that the Module does not substantially conform with the applicable Quality Criterion, HealthStream shall provide written notice to Developer within such ten (10) day period containing a description of the failure to conform (the "Defect Notice"). Within twenty (20) days after its receipt of the Defect Notice, Developer shall make such corrections or modifications as may be necessary for the subject Module to substantially conform with the applicable Quality Criterion. Within ten (10) days after the date the corrections or modifications are made, HealthStream shall in its reasonable discretion make a determination about whether such corrected or modified Module substantially conforms with the applicable Quality Criterion. In the event HealthStream determines such corrected or modified Module substantially conforms with the applicable Quality Criterion, HealthStream shall provide written notice of acceptance of the Module. In the event such corrected or modified Module does not substantially conform with the applicable Quality Criterion, the procedure for correction and modification provided for in this Subsection shall be repeated until such time as the Module substantially conforms with the applicable Quality Criterion. In the event HealthStream fails to deliver a Defect Notice to Developer within the period specified in this Subsection, HealthStream shall be deemed to have made acceptance of such Module.

2.2. Courseware Development Fee. Upon execution of this Agreement, HealthStream shall pay to Developer Ninety Five Thousand and No/100ths Dollars (US$95,000). Upon delivery to HealthStream of a completed Module and upon HealthStream's reasonable determination that the Module satisfies the Quality Criterion, HealthStream shall pay to Developer Ten Thousand and No/100ths Dollars (US$10,000.00) per completed Module. HealthStream is responsible for any and all taxes, other than income, applicable to or in connection with the services rendered by Developer.

2.3. Expenses. Upon the submission of invoices by Developer, HealthStream shall reimburse Developer for reasonable travel, room, and board expenses incurred by Developer in connection with its performance of the services provided for in this Agreement.

SECTION 3. INTELLECTUAL PROPERTY OWNERSHIP.

3.1. HealthStream's Retained Rights. The Courseware is a "work made for hire," and Developer's work on the Courseware has been specially ordered by HealthStream and will be developed under HealthStream's direction and control. Developer's work on the Courseware is derivative of HealthStream's previous work and merely a contribution to HealthStream's collective work. HealthStream is the sole author of the Courseware, its contents, and any work embodying or derived from any portion of the Courseware. HealthStream is also the owner of the Courseware and all intellectual property rights related to the Courseware, and to the extent that the Courseware is not properly characterized as "work made for hire," or to the extent that Developer has rendered any Courseware design services on behalf of HealthStream prior to the date of this Agreement, then Developer will irrevocably grant, assign, and otherwise transfer, and hereby does irrevocably grant, assign, and transfer, exclusively and in perpetuity to HealthStream, its successors and its assigns, all intellectual property rights and other rights of Developer in the Courseware whatsoever, now existing or hereafter discovered, in all media and forms of expression. The provisions of this Section shall not have application to any methods, processes, technology, approaches, know-how, development tools, or third-party software (with respect to which Developer is unable to make a transfer) which are used in connection with, or incorporated in, the Courseware, and all of the foregoing, together with any proprietary rights associated with any of the foregoing, shall be exclusively owned by the Developer.

3.2. Reproduction, Derivation, Performance and Display Rights. Developer grants, assigns and otherwise transfers exclusively and in perpetuity to HealthStream, its successors and its assigns, any right Developer may have to reproduce, make derivative works, publicly perform or publicly display the Courseware, and the right to license or sublicense the Courseware, or any portion thereof; provided, however, subject to section 4.2 herein, HealthStream acknowledges and agrees that Developer may without restriction develop, distribute, and use computer software and courseware that is similar to the Courseware and has the same intended functionality as the Courseware, regardless of whether such computer software or courseware is competitive with the Courseware or provided to competitors of HealthStream.

SECTION 4. CONFIDENTIAL AND PROPRIETARY INFORMATION.

4.1. Confidentiality. HealthStream and Developer acknowledge that they have been and will be in a confidential relationship with each other, and that they have each gained and will gain knowledge that comprises valuable trade secrets and other confidential information of the other party (collectively, the "Confidential Information"), which is the exclusive property of the other party, including, without limitation, customer data, sales and marketing data and strategies, technical information, and data concerning financial and educational institutions. Each party agrees that it will not disclose any of the other party's Confidential Information, nor will either party take any action that might reasonably be expected to lead to such disclosure, both during the term of this Agreement and thereafter. Each party agrees that it will not use any of the other party's Confidential Information, nor will either party take any action that might reasonably be expected to lead to such use, both during the term of this Agreement and thereafter, except for the purposes of this Agreement.

4.2. Non-Competition. Developer agrees that, during the term of this Agreement and for a period of one (1) year following termination or expiration of this Agreement, Developer shall not design or develop, or render design or development services to third parties with respect to any products having subject matter that is so similar to the Modules or Courseware developed pursuant to the terms of this Agreement that such product would directly compete with the Modules or the Courseware. Because HealthStream's business is accessible on the worldwide web, Developer agrees that this non-competition provision will apply worldwide, and that this worldwide scope is reasonable.

4.3. Specific Performance. Developer acknowledges and agrees that the performance of the obligations under this Section 4 is special, unique and extraordinary in character. In addition to such other rights and remedies that HealthStream may have at equity or law with respect to any breach by Developer of any of the provisions of this Section 4, HealthStream shall have the right and remedy to have such

provisions specifically enforced by any court of competent jurisdiction or to enjoin Developer from performing any act taken by Developer in violation of this Section 4. Developer acknowledges and agrees that any such breach or threatened breach will cause irreparable injury to HealthStream and its business and that money damages will not provide an adequate remedy to HealthStream.

4.

SECTION 5. WARRANTIES AND REPRESENTATIONS

A. Developer warrants and represents that:

A. All of the services Developer performs under this Agreement will be performed in a professional and workmanlike manner, consistent with generally accepted industry standards, using properly trained personnel.

B. Developer has all requisite power, authority and legal right to execute, deliver and perform its obligations under this Agreement and all of such actions have been duly and validly authorized by all necessary proceedings on the part of Developer.

C. No authorization, consent, approval, license, permit, exemption or other action by, and no registration, qualification, designation, declaration or filing with any governmental authority is or will be necessary in connection with the execution of this Agreement.

D. Developer will substantially comply with all applicable laws and regulations in the performance of its obligations under this Agreement

E. The execution and delivery of this Agreement by Developer does not and will not: (a) materially violate any applicable law; or (b) conflict with or result in a material breach of or default under any agreement or instrument to which Developer is a party or by which any of its properties is bound.

F. There is no pending action, suit or threatened proceeding by or before any governmental authority against Developer that in any way affects Developer's ability to enter into this Agreement or perform any of Developer's obligations hereunder.

G. To the best of Developer's knowledge, and as applicable, ability, Developer's work shall not (a) impair or infringe on the intellectual property rights of any third party or any rights of publicity or privacy; (b) violate any law, including without limitation, the laws and regulations governing export control, unfair competition, antidiscrimination or false advertising; (c) be defamatory, trade libelous, or unlawfully harassing; (d) be obscene, child pornographic or indecent; (e) contain any viruses, trojan horses, trap doors, easter eggs, worms, time bombs, or other computer programming routines intended to damage, interfere with, intercept, or expropriate any system, date or business/personal information.

H. To the best of Developer's ability, The Courseware shall be free of any bugs or programming devices that are designed to disrupt or are capable of disrupting the use or functionality of T.NAV.

I. The Courseware shall perform substantially as described herein.

J. THE DEVELOPER EXPRESSLY DISCLAIMS ANY AND ALL IMPLIED WARRANTIES, INCLUDING WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, OR ACCURACY OF INFORMATIONAL CONTENT.

B. HealthStream warrants and represents that:

1. HealthStream has all requisite power, authority and legal right to execute, deliver and perform its obligations under this Agreement and all of such actions have

been duly and validly authorized by all necessary proceedings on the part of HealthStream.

2. The execution and delivery of this Agreement by HealthStream does not and will not: (a) materially violate any applicable law; or (b) conflict with or result in a material breach of or default under any agreement or instrument to which HealthStream is a party or by which any of its properties is bound.

3. The Content shall not infringe any patents, copyrights, trade secrets, or other proprietary rights of any third parties, and HealthStream will have no reason to believe that any such infringement or claims thereof could be made by third parties.

SECTION 6. TERM AND TERMINATION.

6.1. Term. This Agreement shall be effective as of the date hereof and shall continue, unless sooner terminated as provided herein, for twelve (12) months.

6.2. Termination. This Agreement may be terminated upon the occurrence of one or more of the following events:

A. HealthStream may terminate this Agreement without cause upon sixty (60) days prior written notice to Developer. Upon receipt of such notice, Developer shall inform HealthStream of the extent to which performance has been completed through such date or receipt of notice, and collect and deliver to HealthStream all work product and any Courseware then existing in a manner prescribed by HealthStream. Developer shall be paid for all work performed through the date of receipt of notice of such termination;

B. Either party may terminate this Agreement if the other party seeks protection under the bankruptcy laws (other than as a creditor) or any assignment is made for the benefit of creditors or a trustee is appointed for all or any portion of such party's assets;

C. Either party may terminate this Agreement if the other party is in default of any material provision of this Agreement and such default is not cured within thirty (30) days after receipt of written notice of default by such other party.

6.3 Post-Termination Rights.

A. Upon termination of this Agreement, each party shall immediately deliver to the other party all copies of the other party's Confidential Information in such party's possession or control; and Developer shall immediately deliver to HealthStream (a) all Courseware, including any Modules, Content, and Interactive Content; and (b) any other information or item related to this Agreement in Developer's possession or control.

B. If this Agreement is terminated for any reason, subject to Developer's reservation of rights as specified in Section 3.1 herein, Developer will and hereby does grant to HealthStream all right, title, and interest, including all United States and international copyrights and all other intellectual property rights in the Courseware.

SECTION 7. INDEMNITIES AND INSURANCE.

Developer agrees to:

A. Indemnify and hold harmless HealthStream from any liability resulting from the actions of any officer, director, employee or agent of Developer in the performance of this Agreement, including any and all losses, claims penalties, expenses, actions, suits, obligations, damages, liabilities, and liens (and all costs and expenses, including reasonable attorney's fees incurred in connection therewith), that HealthStream sustains or incurs or may sustain or incur in connection with Developer's performance hereunder, or as a consequence of any default by Developer in the performance or observance of any covenant or condition contained in this Agreement, including without limitation, the breach of any representation or warranty, the failure of Developer to substantially comply with any of HealthStream's specifications for its Courseware, or the failure to substantially comply with any applicable requirements of law (the "Claims"). Developer agrees that upon written notice by HealthStream of the assertion of any Claims, Developer shall, at HealthStream's option, either assume full responsibility for, or reimburse HealthStream for the reasonable costs and expenses of, the defense thereof.

B. Obtain and maintain during the term of this Agreement all insurance coverage reasonably necessary to guard against all risks of loss that may arise out of, or relating to, this Agreement, including business interruption insurance.

HealthStream agrees to:

A. Indemnify and hold harmless Developer from and against any and all claims that the Content or any portion thereof, infringes upon any patent, copyright, trade secret, or other proprietary rights.

B. Indemnify and hold harmless Developer from and against any and all claims or liability arising out of or related to the use, results of the use or the application of Courseware specifically relating to Content provided by HealthStream.

SECTION 8. MISCELLANEOUS.

8.1 Further Actions. Developer agrees to take any future actions that HealthStream may reasonably deem necessary or advisable to implement the terms of this Agreement.

8.2. No Implied Waivers. No action or course of dealing on the part of either party, their officers, employees, consultants, or agents, nor any failure or delay by either party with respect to exercising any right, power or privilege of such party under this Agreement shall operate as a waiver thereof, except to the extent expressly provided therein.

8.3. Attorneys' Fees, Costs and Expenses. Each party agrees to pay all reasonable costs and expenses, including, without limitation, attorney's fees and compensation for time spent by the other party's employees, that either party may incur in enforcing the terms of this Agreement against the other party, in protecting such party's rights hereunder, or in amending, waiving or modifying any of the terms hereunder.

8.4. Limitation on Damages. Neither party shall have liability to the other party or any other person or organization for, and each party expressly waives, all remedies and damages relating to indirect, incidental, and consequential or special damages of any description, whether arising out of warranty or other contract, negligence or other tort, or otherwise, including without limitation, recession, difference in value damages, capital losses, foreseeable business losses, loss of profits, and reliance damages. Under no circumstances shall the Developer's liability under this Agreement for any cause exceed the amount paid by HealthStream to the Developer; and under no circumstances shall HealthStream's liability under this Agreement for any cause exceed an amount equal to One Hundred

Thousand and No/100ths Dollars (US$100,000), plus Ten Thousand and No/100ths Dollars (US$10,000) multiplied by the number of Modules delivered by the Developer to HealthStream.

8.5. Notices. All notices shall be deemed received three days after they are sent by certified mail, return receipt requested, or when actually received by hand-delivery or overnight courier. All notices shall be sent to:

To HealthStream: Robert Laird, Esq.
General Counsel/Vice President of Finance
HealthStream, Inc.
209 10th Avenue South, Suite 450
Nashville, TN 37203

To Developer: Mark L. Schroeder
Chief Executive Officer
E-Vitro, Inc.
507 Canyon Boulevard
Suite 200
Boulder, Colorado 80302

8.6. Headings. Captions and headings to sections are included solely for convenience and are not intended to affect the interpretation of any provision of this Agreement.

8.7. Force Majeure. In the event an act of the government, war conditions, fire, flood, or other act of God prevents either party from performing in accordance with the provisions of this Agreement, such nonperformance shall be excused and shall not be considered a breach or default for so long as the said conditions prevail.

8.8. Independent Contractors. Each party to this Agreement is an independent contractor and this Agreement shall not be construed as creating a joint venture, partnership, agency or employment relationship between the parties hereto nor shall either party have the right, power or authority to create any obligation or duty, express or implied, on behalf of the other. Developer shall be fully responsible for paying all income taxes, penalties and interest, in addition to workers compensation and Social Security wages of any personnel under the employ of Developer, if any, and the filing of all necessary documents, forms and returns pertinent to all of the foregoing.

8.9. Preferred Vendor Status. Developer may represent that HealthStream is a preferred vendor of Developer in any of its marketing materials; provided, however that upon prior written notice by HealthStream of its desire to terminate such preferred vendor status, Developer agrees to (1) cease and desist including any such representation or reference to HealthStream in its marketing materials; and (2) cease and desist using or distributing any marketing materials that may contain such representation or reference to HealthStream.

8.10. Assignment. This Agreement shall be binding upon and inure to the benefit of HealthStream and Developer and their respective successors and assigns; provided, however, HealthStream has retained Developer for Developer's unique development capabilities and Developer shall not delegate any of its duties under this Agreement to any other person or entity without the prior written consent of HealthStream, which consent shall not be unreasonably withheld.

8.11. Governing Law. This Agreement shall be governed by the laws of the State of Tennessee without regard to its choice of law provisions.

8.12. Severability. The invalidity or unenforceability of any of the provisions of this Agreement shall not affect the validity of the rest of this Agreement. Each provision of this Agreement shall be

enforceable to the fullest extent permitted by law. If a court finds that any provision of this Agreement is invalid or unenforceable, but that by limiting such provision it would become valid and enforceable, then such provision shall be deemed to be written, construed, and enforced as so limited.

8.13. Entire Agreement. This Agreement is the entire agreement between the parties related to the matters herein and replaces and supersedes all other agreements, proposals, and understandings, oral or written. This Agreement may be amended only in writing and must be signed by appropriate officers of the parties hereto.

8.14. Counterparts. This Agreement may be executed in any number of counterparts, each of which, when so executed, shall be deemed an original, but all such counterparts shall constitute but one and the same instrument.

IN WITNESS WHEREOF, and intending to be legally bound hereby, each party hereto warrants and represents that this Agreement has been duly authorized by all necessary corporate action and that this agreement has been duly executed by and constitutes a valid and binding agreement of that party. All signed copies of this Agreement shall be deemed originals.

HealthStream, Inc.

By: ----------

Title: ----------

Date: ----------

e-Vitro, Inc.

By: ----------

Title: ----------

Date: ----------

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" and to the use of (1) our report dated January 22, 2000, except for Note 12, as to which the date is February 11, 2000, (2) our report dated January 22, 2000, with respect to the financial statements of Quick Study, Inc. and (3) our report dated September 17, 1999, with respect to the financial statements of SilverPlatter Education, Inc., in Amendment No. 1 to the Registration Statement (Form S-1 No. 333-8839) and related Prospectus of HealthStream, Inc. for the registration of 5 million shares of its common stock.

/s/ ERNST & YOUNG LLP

Nashville, Tennessee
February 11, 2000

EXHIBIT 23.3

CONSENT OF LANE GORMAN TRUBITT, L.L.P.

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated January 14, 2000, with respect to the financial statements of MultiMedia Marketing, Inc. d/b/a m3 The Healthcare Learning Company included in the Registration Statement (Form S-1 No. 333-8839) of HealthStream, Inc. for the registration of its common stock.

Dallas, Texas
January 27, 2000

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
FINANCIAL STATEMENTS OF HEALTHSTREAM, INC. FOR THE YEAR ENDED DECEMBER 31, 1999
AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

YEAR	
DEC-31-1999	
JAN-01-1999	
DEC-31-1999	
	13,632,144
	86,063
	599,919
	37,000
	0
	14,544,643
	1,923,533
	589,632
	17,454,705
	3,079,379
	185,801
	0
	19,172,060
	4,008,991
	(8,991,526)
	17,454,705
	2,567,868
	2,567,868
	2,119,127
	2,119,127
	2,037,272
	0
	205,100
	(4,456,094)
	0
	(4,456,094)
	0
	0
	0
	(4,456,094)
	(1.19)
	(1.19)