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

FORM 10-Q

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

FOR THE QUARTER ENDED MARCH 31, 2001

Commission File No.: 001-8833

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

TENNESSEE	62-1443555
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

209 10TH AVENUE SOUTH, SUITE 450 NASHVILLE, TENNESSEE	37203
(Address of principal executive offices)	(Zip Code)

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

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

As of May 7, 2001, 20,366,058 shares of the Registrant's common stock were outstanding.

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HEALTHSTREAM, INC.

PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements

HEALTHSTREAM, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 2000 (NOTE 1)	MARCH 31, 2001 (UNAUDITED)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 19,830,572	$ 12,462,134
Short term investments	7,451,450	15,155,097
Restricted cash	794,342	910,265
Interest receivable	578,534	463,692
Accounts receivable, net of allowance for doubtful accounts of $198,000 in 2000 and 2001	3,957,149	4,040,840
Accounts receivable - unbilled	49,600	49,600
Prepaid development fees	695,427	697,551
Notes receivable, current portion	221,750	221,750
Other prepaid expenses and other current assets	1,075,776	1,084,736
Total current assets	34,654,600	35,085,665
Property and equipment:		
Furniture and fixtures	883,660	1,000,475
Construction in progress	117,000	--
Equipment	3,893,720	4,101,704
Leasehold improvements	885,630	941,085
	5,780,010	6,043,264
Less accumulated depreciation and amortization	(1,505,004)	(1,857,530)
	4,275,006	4,185,734
Intangible assets, net of accumulated amortization of $5,847,000 in 2000 and $7,713,000 in 2001	18,024,526	17,130,872
Investments	12,889,674	5,744,180
Notes receivable, net of current portion	--	215,000
Other assets	607,770	728,982
Total assets	$ 70,451,576	$ 63,090,433
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,150,996	$ 962,010
Accrued liabilities	1,719,906	1,630,309
Accrued royalties	1,500,000	--
Registration liabilities	794,342	827,727
Deferred revenue	2,764,235	2,607,210
Current portion of capital lease obligations	288,831	251,909
Total current liabilities	8,218,310	6,279,165
Capital lease obligations, less current portion	216,072	168,966
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value, 75,000,000 shares authorized; 21,242,312 shares and 20,312,451 shares issued and outstanding at December 31, 2000 and March 31, 2001, respectively	91,221,775	89,976,569
Accumulated other comprehensive income	30,556	282,449
Accumulated deficit	(29,235,137)	(33,616,716)
Total shareholders' equity	62,017,194	56,642,302
Total liabilities and shareholders' equity	$ 70,451,576	$ 63,090,433

See accompanying notes.

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

	THREE MONTHS ENDED MARCH 31, 2000	2001
Revenues, net of warrant expense of $436,052 in 2001..	$ 1,444,942	$ 3,053,962
Operating costs and expenses:		
Cost of revenues	758,060	1,505,256
Product development	1,190,070	1,203,218
Selling, general and administrative expenses	3,179,441	5,311,905
Total operating costs and expenses	5,127,571	8,020,379
Loss from operations	(3,682,629)	(4,966,417)
Other income (expense):		
Interest and other income	243,150	698,871
Write off of investment	--	(99,920)
Interest expense - related parties	(27,285)	--
Interest expense	(37,409)	(14,113)
	178,456	584,838
Net loss	$(3,504,173)	$ (4,381,579)
Net loss per share:		
Basic	$ (0.74)	$ (0.22)
Diluted	$ (0.74)	$ (0.22)
Weighted average shares of common stock outstanding:		
Basic	4,743,156	19,967,634
Diluted	4,743,156	19,967,634

See accompanying notes.

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

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ACCUMU-LATED DEFICIT	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL SHAREHOLDERS EQUITY
Balance at December 31, 2000	21,242,312	$ 91,221,775	$(29,235,137)	$ 30,556	$ 62,017,194
Net loss	--	--	(4,381,579)	--	(4,381,579)
Unrealized gain on investment, net of reclassification adjustment and tax	--	--	--	251,893	251,893
Comprehensive loss	--	--	--	--	(4,129,686)
Issuance of common stock in acquisitions	181,250	300,186	--	--	300,186
Repurchase of shares in connection with WebMD renegotiation	(1,111,111)	(1,981,444)	--	--	(1,981,444)
Recognition of warrant expense	--	436,052	--	--	436,052
Balance at March 31, 2001	20,312,451	$ 89,976,569	$(33,616,716)	$282,449	$ 56,642,302

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

	THREE MONTHS ENDED MARCH 31, 2000	THREE MONTHS ENDED MARCH 31, 2001
OPERATING ACTIVITIES:		
Net loss	$(3,504,173)	$ (4,381,579)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	90,466	362,738
Amortization	957,556	1,866,000
Gain on WebMD renegotiation	--	(1,500,000)
Noncash warrant expense	--	436,052
Amortization of content fees	--	126,231
Amortization of fixed royalties	--	60,738
Noncash compensation expense	16,000	17,625
Loss on write off of investment	--	99,920
Gain on sale of investment	(94,438)	--
Changes in operating assets and liabilities, excluding effects of acquisitions:		
Restricted cash	--	(115,923)
Interest receivable	--	114,842
Accounts receivable	103,045	(83,691)
Accounts receivable - unbilled	7,111	--
Prepaid development fees	--	(128,355)
Other prepaid expenses and other current assets	(311,883)	(488,503)
Other assets	(749,916)	(336,212)
Accounts payable	(83,058)	(188,986)
Accrued liabilities	1,126,446	(100,257)
Registration liabilities	--	33,385
Deferred revenue	(510,376)	(494,537)
Net cash used in operating activities	(2,953,220)	(4,700,512)
INVESTING ACTIVITIES:		
Acquisition of companies, net of cash acquired	(1,481,807)	(328,988)
Proceeds from sale of investment	122,271	--
Purchase of property and equipment	(419,072)	(273,466)
Net cash used in investing activities	(1,778,608)	(602,454)
FINANCING ACTIVITIES:		
Repurchase of common stock from WebMD	--	(1,981,444)
Proceeds from exercise of stock options	225,699	--
Payments on notes payable - related party	(76,016)	--
Payment on notes payable	(50,000)	--
Payments on capital lease obligations	(31,908)	(84,028)
Net cash provided by (used in) financing activities	67,775	(2,065,472)
Net decrease in cash and cash equivalents	(4,664,053)	(7,368,438)
Cash and cash equivalents at beginning of period	13,632,144	19,830,572
Cash and cash equivalents at end of period	$ 8,968,091	$ 12,462,134

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

	THREE MONTHS ENDED MARCH 31, 2000	2001
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 60,166	$ 14,113
Capital lease obligations incurred	$ 160,269	$ --
Effects of acquisitions:		
Estimated fair value of assets acquired	$ 1,196,740	$ 5,000
Purchase price in excess of net assets acquired	13,920,389	972,346
Estimated fair value of liabilities assumed	(3,427,806)	(348,172)
Stock issued	(10,090,200)	(300,186)
Cash paid	1,599,123	328,988
Less cash acquired	(117,316)	--
Net cash paid for acquisitions	$ 1,481,807	$ 328,988

See accompanying notes.

HEALTHSTREAM, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

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

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

During the second quarter of 2000, the Company began recognizing revenues under a services agreement with HCA Information Technology & Services, Inc., an affiliate of HCA - The Healthcare Company (collectively referred to herein as "HCA"). The Company granted HCA a warrant to purchase HealthStream, Inc. common stock. The accompanying Condensed Consolidated Statements of Operations reflect revenues related to the services provided, net of the amortization of the fair value of the related warrant as a reduction of the revenues proportionately over the term of the four-year agreement. The amortization will fluctuate based on the revenues received from this agreement and will vary as a percentage of revenues based on the estimated revenues over the course of the agreement.

2. MERGERS AND ACQUISITIONS

KnowledgeReview, LLC. On January 3, 2000, the Company acquired substantially all of the assets of KnowledgeReview, LLC (d/b/a "CMECourses.com") for $0.3 million in cash and 17,343 shares of the Company's common stock. All of the shares were held in an escrow account for one year, subject to claims for indemnification pursuant to the asset purchase agreement. KnowledgeReview owned and operated an Internet Web page that provided a search engine (CMEsearch.com) that helped physicians locate continuing medical education by specialty and facilitated online registration for such courses. The acquisition was accounted for as a purchase. Intangible assets acquired consisted of goodwill, customer lists and non-competition agreements of $0.4 million, $40,000 and $20,000, respectively, and are being amortized on a straight-line basis over three years, two years and six months, respectively.

Quick Study, Inc. On January 11, 2000, the Company acquired substantially all of the assets and liabilities of Quick Study, Inc. ("Quick Study") for $0.1 million in cash and 61,397 shares of the Company's common stock. In addition, the Company issued 6,669 additional shares of common stock based on achievement of revenue goals subsequent to the acquisition. A portion of the shares and the contingently issued shares were held in an escrow account for one year, subject to claims for indemnification pursuant to the agreement and plan of merger. In connection with the acquisition, the Company assumed $0.1 million of long-term debt. Quick Study published CD-ROM and network-based products for the healthcare industry. The acquisition was accounted for as a purchase. Intangible assets acquired consisted of goodwill, customer lists, and non-competition agreements of $0.6 million, $0.1 million and $0.1 million, respectively, and are being amortized on a straight-line basis over three, three and two years, respectively.

HEALTHSTREAM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

m3 the Healthcare Learning Company. 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 $0.6 million in cash and 818,037 shares of the Company's common stock. m3 provided interactive, multimedia education and training solutions to hospitals and other healthcare organizations. A portion of the shares was held in an escrow account for one year, subject to claims for indemnification pursuant to the agreement and plan of merger. In connection with the acquisition, the Company assumed $1.2 million of long-term debt. The acquisition was accounted for as a purchase. Intangible assets acquired consisted of goodwill and customer lists of $8.4 million and $1.0 million, respectively, and are being amortized on a straight-line basis over three years.

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

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

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

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

HEALTHSTREAM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

	THREE MONTHS ENDED MARCH 31, 2000
Revenues	$ 3,246,000
Net loss	$ (4,859,000)
Net loss per share:	
Basic	$ (0.87)
Diluted	$ (0.87)

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

3. NET LOSS PER SHARE

Basic net loss per share is computed by dividing the net loss available to common shareholders for the period by the weighted-average number of common shares outstanding during the period. Diluted loss per share is computed by dividing the net loss for the period by the weighted average number of common and dilutive potential common shares outstanding during the period. Potential common shares, composed of incremental common shares issuable upon the exercise of stock options and warrants, escrowed or restricted shares, and common shares issuable on assumed conversion of series A, B, and C convertible preferred stock, are included in diluted net loss per share only when these shares are dilutive. The total number of shares excluded from the calculations of dilutive loss per share was approximately 12,800,000 at March 31, 2000 and approximately 6,200,000 at March 31, 2001.

4. INITIAL PUBLIC OFFERING

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

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

HEALTHSTREAM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. RELATIONSHIP WITH WEBMD

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

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

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

5. CONTINGENCIES

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

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

SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- our limited operating history;

- variability and length of our sales cycle and our product mix;

- our history of losses and expectations of continued losses;

- our ability to manage rapid growth;

- successful implementation of the Company's operating and growth strategy, including possible strategic acquisitions;

- fluctuations in quarterly operating results caused by a variety of factors including the timing of sales and development contracts as well as the adoption of the Internet as a tool for online training and continuing education in the healthcare industry;

- successful establishment and maintenance of new and existing relationships with content and distribution partners; and

- global and/or regional economic factors and potential changes in laws and regulations, including, without limitation, changes in federal, state and international laws regulating education, training and Internet transactions.

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

OVERVIEW

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

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

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

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

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

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

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

- KnowledgeReview, which operated a search engine, cmesearch.com, allowing physicians to locate seminars and purchase educational CD-ROMs and online courseware, for $310,000 in cash and 17,343 shares of our common stock;

- Quick Study, which owned over 60 Web-based hours of nursing and OSHA content for $59,000 in cash, the assumption of $112,000 in long-term debt and 68,066 shares of our common stock;

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

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

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

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

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

In February 2000, we entered into a four-year agreement with HCA pursuant to which we will provide online training and education, courseware development and administrative management and consulting services to HCA and its affiliated and managed healthcare providers. Under this agreement, the Company will be able to bill a minimum of $12 million for the aforementioned services over the four year term, with the minimum in the first year approximating $2.0 million.

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

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

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

RESULTS OF OPERATIONS

REVENUES AND EXPENSE COMPONENTS

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

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

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

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

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

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

THREE MONTHS ENDED MARCH 31, 2000 COMPARED TO THREE MONTHS ENDED MARCH 31, 2001

Revenues. Revenues increased $1.7 million, from $1.4 million in 2000 to $3.1 million in 2001, due to revenues attributable to acquired businesses and organic growth. Of the increase, $1.0 million is attributable to live event and development services associated with the EDI acquisition, $0.3 million related to the SynQuest acquisition and the full quarter impact of the m3 acquisition, and $0.3 million related to organic growth associated with our ASP-based products. Revenues were split almost evenly between services to healthcare organizations and services to pharmaceutical and medical device companies, including revenues from the Web distribution network.

Cost of Revenues. Cost of revenues increased $0.7 million from $0.8 million in 2000 to $1.5 million in 2001. Of the increase, $0.5 million is attributable to the costs associated with live event and development services and related personnel. The remainder of the increase is associated with the increase in personnel associated with our ASP-based products and services. Cost of revenues as a percentage of revenues decreased from 52.5% in 2000 to 49.3% in 2001 primarily as a result of increased revenues related to our ASP-based products and services.

Product Development. Product development expenses were $1.2 million in both 2000 and 2001. Product development as a percentage of revenues decreased from 82.4% in 2000 to 39.4% in 2001 as a result of increased growth in revenues from ASP-based products and reduced focus on our client server products.

Selling, General and Administrative. Selling, general and administrative expenses increased $2.1 million from $3.2 million in 2000 to $5.3 million in 2001. General and administrative expenses, excluding a one-time gain of $1.5 million on renegotiation of the WebMD agreement, increased from $1.1 million in 2000 to $3.1 million in 2001. Sales and marketing expenses, including personnel costs, increased from $1.1 million in 2000 to $1.4 million in 2001. Depreciation and amortization expenses increased from $1.0 million in 2000 to $2.3 million in 2001. General and administrative expenses increased by $2.0 million due to increased facility costs, increases in administrative personnel related to the EDI and SynQuest acquisitions, increases in fixed royalty payments and severance expenses related to consolidation of duplicative functions. Sales and marketing expenses increased $0.3 million to $1.4 million as a result of sales personnel added as a result of the SynQuest acquisition. The $1.3 million increase in depreciation and amortization is attributable to the amortization of intangibles including goodwill, non-competition agreements and customer lists related to the acquisitions. As a percentage of revenues, selling, general and administrative expenses, excluding the one-time gain on renegotiation of the WebMD agreement, increased from 220% in 2000 to 223% in 2001 as a result of the increases in personnel and infrastructure discussed above.

Other Income/Expense. Other income and expense increased $0.4 million from approximately $0.2 million in 2000 to $0.6 million in 2001 related to increased interest income which resulted from the investment of the proceeds of the Company's IPO during the second quarter of 2000. This increase in interest income was offset by a loss of approximately $100,000 related to the write off of an investment. Interest expense decreased approximately $50,000 related to the conversion of related party notes and repayment of debt in connection with the Company's IPO.

Net Loss. Net loss increased $0.9 million from $3.5 million in 2000 to $4.4 million in 2001 due to the factors described above.

LIQUIDITY AND CAPITAL RESOURCES

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

Net cash used in operating activities was $3.0 million in the first quarter of 2000 and $4.7 million in the first quarter of 2001. Cash used in operating activities during the quarter ended March 31, 2000, which excludes the effects of acquisitions, was attributable to a $3.5 million net operating loss and increases in prepaid expenses and other current assets, other assets and decreases in deferred revenue which were partially offset by increases in depreciation and amortization as well as increases in accrued liabilities and a decrease in accounts receivable. Cash used in operating activities during the quarter ended March 31, 2001 related to the $4.4 million net loss, the non-cash gain on the WebMD renegotiation, increases in prepaid development, prepaid expenses and other current assets, decreases in accounts payable, accrued liabilities and deferred revenue, which were partially offset by increases in depreciation and amortization as well as decreases in interest receivable.

Net cash used in investing activities was $1.8 million in the first quarter of 2000 and $0.6 million in the first quarter of 2001. Cash used in investing activities during the first quarter of 2000 related to the m3, EMInet, Quick Study and KnowledgeReview acquisitions totaled $1.5 million and cash paid for the purchase of property and equipment totaled $0.4 million. In the first quarter of 2000, these outflows were partially offset by the receipt of $0.1 million from the sale of investments by the Company. During the first quarter of 2001, cash outflows related to the purchase of de'MEDICI Systems and the purchase of property and equipment.

Cash provided by financing activities was $0.1 million in the first quarter of 2000 while $2.1 million was used in financing activities in the first quarter of 2001. During the first quarter of 2000, cash provided by financing activities related to $0.2 million received in connection with the exercise of stock options, which was offset by $0.1 million of repayments of debt and capital leases. Cash used in financing activities during the first quarter of 2001 related primarily to $2.0 million related to the repurchase of common stock from WebMD.

In connection with our agreement with HCA, HCA will pay us revenues of at least $12.0 million over the four-year term of the agreement. As discussed above, the Company expects to amortize the estimated fair value of the warrant ($8.8 million) as a reduction of revenues proportionately over the term of the agreement. This amortization will fluctuate based on the revenues received from this agreement and will vary as a percentage of revenues based on the estimated revenues over the course of the agreement.

We also expect to incur additional product development costs, some of which will be capitalized, and sales and marketing costs to grow our business. As a result of the anticipated growth in personnel, development and online transactions, we expect that our capital expenditures will be approximately $3.0 million during the remainder of 2001.

Our arrangements with distribution, content and development partners have typically provided for payments based on revenues, and we expect to continue similar arrangements in the future. In addition to such percentage payments, we have fixed payment commitments of approximately $250,000 during the remainder of 2001. We also have fixed educational grant commitments of approximately $100,000 during the remainder of 2001. We have variable commitments of approximately $100,000 related to agreements under which other organizations have agreed to provide content development services for us. Payments under these development arrangements are contingent upon the delivery of services.

As of March 31, 2001, our primary source of liquidity was $34.7 million of cash and cash equivalents, restricted cash, investments and related interest receivable. As of April 30, 2001, the Company had cash, restricted cash, investments and related interest receivable of $32.6 million. We believe that our existing cash, restricted cash, investments and interest receivable will be sufficient to meet anticipated cash needs for working capital, capital expenditures and acquisitions for at least the next 12 months. Our growth strategy may include acquiring companies that complement our products and services. We anticipate that these acquisitions, if any, will be effected through issuance of our common stock and to a lesser extent, the payment of cash. Our inability to use our common stock to finance acquisitions or failure to generate sufficient cash flow from operations or raise additional capital when required in sufficient amounts and on acceptable terms could harm our business, results of operations and financial condition.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

As of March 31, 2001, we had no outstanding indebtedness other than capital lease arrangements. Accordingly, the Company is not exposed to significant market risk. The Company is exposed to market risk with respect to the cash and cash equivalents that it invests. At April 30, 2001, we had approximately $32.6 million of cash, restricted cash, investments and accrued interest that were invested in a combination of short and long-term investments. At this investment level a hypothetical 10% decrease in the interest rate would decrease interest income and increase net loss on an annualized basis by approximately $326,000.

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

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

On January 26, 2001, the Company issued 181,250 shares of its common stock to Lippincott Williams & Wilkins, Inc. in partial consideration for the acquisition of the assets of its de'MEDICI Systems division in a private placement under Section 4(2) of the Securities Act of 1933, in which no pubic solicitations were made.

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

(a) Exhibits

None

(b) Reports on Form 8-K

Report filed on January 8, 2001 regarding termination of WebMD agreement.

SIGNATURE

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

HEALTHSTREAM, INC.

By: /s/ ARTHUR E. NEWMAN

Arthur E. Newman
Chief Financial Officer
May 11, 2001