

HEALTHSTREAM INC
Form DEF 14A
April 26, 2005

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SCHEDULE 14A INFORMATION

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934 (AMENDMENT NO.)**

Filed by the Registrant ☐

Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☐ Preliminary Proxy Statement
- ☐ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- ☐ Definitive Proxy Statement
- ☐ Definitive Additional Materials
- ☐ Soliciting Material under Rule 14a-12

HEALTHSTREAM, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- ☐ No fee required.
- ☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11
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for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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HEALTHSTREAM, INC.

**209 10TH Avenue South, Suite 450
Nashville, Tennessee 37203
(615) 301-3100**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held May 26, 2005**

Dear Shareholder:

On Thursday, May 26, 2005, HealthStream, Inc. will hold its 2005 annual meeting of shareholders at 209 10th Avenue South, Suite 450, Nashville, Tennessee 37203. The meeting will begin at 2:00 p.m., Central Daylight Time.

Only shareholders that own our common stock at the close of business on April 5, 2005 may vote at this meeting. A list of our shareholders will be available at our principal executive offices at 209 10th Avenue South, Suite 450, Nashville, Tennessee, during ordinary business hours beginning two days after this notice of the annual meeting is first sent to shareholders. At the meeting, we will consider the following proposals:

1. to elect Two (2) Class II directors to hold office for a term of three (3) years and until their respective successors have been duly elected and qualified; and
2. to transact such other business as may properly come before the meeting or any postponement or adjournment of the meeting.

Our 2004 Annual Report to Shareholders is being mailed to shareholders with this proxy statement. The annual report is not part of the proxy solicitation materials.

Cameras and recording devices are not permitted at the meeting. Street name holders will need to bring a copy of a brokerage statement reflecting stock ownership as of the record date.

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE COMPLETE, DATE, SIGN, AND RETURN AS PROMPTLY AS POSSIBLE THE ENCLOSED PROXY IN THE ACCOMPANYING REPLY ENVELOPE. SHAREHOLDERS WHO ATTEND THE MEETING MAY REVOKE THEIR PROXIES AND VOTE IN PERSON EVEN IF YOU HAVE PREVIOUSLY SIGNED AND RETURNED YOUR PROXY.

By Order of the Board of Directors,

Robert A. Frist, Jr.
Chief Executive Officer

Nashville, Tennessee
April 26, 2005

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HEALTHSTREAM, INC.

**209 10TH AVENUE SOUTH, SUITE 450
NASHVILLE, TENNESSEE 37203**

PROXY STATEMENT

**ANNUAL MEETING OF SHAREHOLDERS
May 26, 2005**

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QUESTIONS AND ANSWERS

1. Q: WHAT IS THE PURPOSE OF THE ANNUAL MEETING?

A: At HealthStream's annual meeting, shareholders will act upon the election of two (2) Class II directors and any other matters that may properly come before the meeting. In addition, our management will respond to questions from shareholders.

2. Q: WHEN WAS THIS PROXY STATEMENT MAILED TO SHAREHOLDERS?

A: This proxy statement was first mailed to shareholders on or about April 26, 2005.

3. Q: WHO IS SOLICITING MY VOTE?

A: This proxy solicitation is being made and paid for by HealthStream. In addition, we have retained SunTrust Bank, Georgeson Shareholder and Corporate Elections to assist in the solicitation. We will pay these entities approximately \$1,800 plus out-of-pocket expenses for their assistance. Our directors, officers and other employees not specially employed for this purpose may also solicit proxies by personal interview, mail, telephone or facsimile. They will not be paid additional remuneration for their efforts. We will also request brokers and other fiduciaries to forward proxy solicitation material to the beneficial owners of shares of the common stock that the brokers and fiduciaries hold of record. We will reimburse them for their reasonable out-of-pocket expenses.

4. Q: ON WHAT MATTERS MAY I VOTE?

A: You may vote on the election of two (2) Class II directors to our board of directors.

5. Q: HOW DOES THE BOARD RECOMMEND I VOTE ON THE PROPOSAL?

A: The board recommends that you vote **FOR** each of the director nominees.

6. Q: HOW WILL VOTING ON ANY OTHER BUSINESS BE CONDUCTED?

A: We do not know of any business to be considered at the 2005 annual meeting other than the election of two (2) Class II directors to our board of directors. If any other business is presented at the annual meeting, your signed proxy card gives authority to Robert A. Frist, Jr., our Chief Executive Officer, and Susan A. Brownie, our Senior Vice President and Secretary, or either of them, to vote on such matters at their discretion.

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7. Q: WHO IS ENTITLED TO VOTE?

A: Only shareholders of record at the close of business on April 5, 2005 (the record date) may vote at this meeting. As of the record date, there were approximately 21,267,596 shares of our voting common stock outstanding. The shares were held by 223 holders of record. Every shareholder is entitled to one vote for each share of common stock the shareholder held of record on the record date.

8. Q: HOW DO I VOTE?

A: You may vote by signing and dating the proxy card you receive and returning it in the enclosed prepaid envelope. If you return your signed proxy card but do not mark the boxes showing how you wish to vote, your shares will be voted **FOR** the proposal. You have the right to revoke your proxy at any time before the meeting by:

notifying our Senior Vice President and Secretary, Susan A. Brownie, at 209 10th Avenue South, Suite 450, Nashville, TN 37203;

voting in person; or

submitting a later-dated proxy card.

9. Q: CAN I VOTE BY TELEPHONE OR ELECTRONICALLY?

A: No, if you are a registered shareholder you may vote by following the instructions included with your proxy card.

If your shares are held by your broker, often referred to as in street name, please check your proxy card or contact your broker or nominee to provide direction for voting.

10. Q: WHAT IS THE VOTE REQUIRED TO APPROVE THE PROPOSAL?

A: Each of the director nominees must receive affirmative votes from a plurality of the shares voting to be elected.

11. Q: WHAT IS A QUORUM ?

A: A quorum is a majority of the outstanding shares. They may be present at the meeting or represented by proxy. There must be a quorum for business to be conducted at the meeting. Proxies received but marked as abstentions and broker non-votes will be included in the calculation of the number of shares considered to be present at the meeting.

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12. Q: WHAT IF I ABSTAIN FROM VOTING?

A: If you attend the meeting or send in your signed proxy card but abstain from voting on the proposal, you will be counted for purposes of determining whether a quorum exists. If you abstain from voting on the election of directors, your abstention will have no effect on the outcome.

13. Q: HOW DO I VOTE MY SHARES IF THEY ARE HELD IN THE NAME OF MY BROKER (STREET NAME)?

A: If your shares are held by your broker, often referred to as in street name, you will receive a form from your broker seeking instruction as to how your shares should be voted. The Nasdaq National Market rules provide that brokers and nominees may not exercise their voting discretion on certain non-routine matters without receiving instructions from the beneficial owner of the shares. Therefore, if you do not issue instructions to your broker, your broker is not allowed to exercise his or her voting discretion on certain non-routine matters and will return a proxy card with no vote (the non-vote) on the non-routine matter. In cases of a broker non-vote, the vote is treated as a vote against the related matter. For the remainder of issues, including election of directors, your broker will vote your shares at his or her discretion on your behalf.

14. Q: WHAT IS THE EFFECT OF A BROKER NON-VOTE?

A: A broker non-vote is treated as a vote against certain non-routine matters. Because directors are elected by a plurality of the votes cast by shareholders represented and entitled to vote at the Annual Meeting, non-votes are not considered in the election.

15. Q: WHO WILL COUNT THE VOTES?

A: A representative of our transfer agent, SunTrust Bank, Atlanta, will count the votes and act as inspector of elections.

16. Q: WHO MAY ATTEND THE ANNUAL MEETING?

A: Shareholders of record on April 5, 2005 may attend the meeting. Street name holders will need to bring a copy of a brokerage statement reflecting their ownership of our common stock as of the record date. Cameras and recording devices are not permitted at the meeting.

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17. Q: WHEN ARE SHAREHOLDER PROPOSALS DUE IN ORDER TO BE INCLUDED IN OUR PROXY STATEMENT FOR THE 2006 ANNUAL MEETING?

A: Any shareholder proposals to be considered for inclusion in next year's proxy statement must be submitted in writing to Secretary, HealthStream, Inc., 209 10th Avenue South, Suite 450, Nashville, Tennessee 37203, prior to the close of business on December 27, 2005.

18. Q: WHEN ARE OTHER SHAREHOLDER PROPOSALS DUE?

A: Our Bylaws contain an advance notice provision that requires that a shareholder's notice of a proposal to be brought before an annual meeting must be timely. In order to be timely, the notice must be addressed to our Secretary and delivered or mailed and received at our principal executive offices not less than 120 days prior to the first anniversary of the date this notice of annual meeting was provided to shareholders.

19. Q: HOW CAN I OBTAIN ADDITIONAL INFORMATION ABOUT THE COMPANY?

A: We will provide a copy of our Annual Report on Form 10-K for the year ended December 31, 2004, excluding certain of its exhibits, without charge to any shareholder who makes a written request to Investor Relations Department, HealthStream, Inc., 209 10th Avenue South, Suite 450, Nashville, Tennessee 37203 or an oral request by calling (615) 301-3237. The Company's Annual Report on Form 10-K and various other filings also may be accessed on the World Wide Web at www.healthstream.com or www.sec.gov. A copy of our Annual Report on Form 10-K for the year ended December 31, 2004, excluding certain of its exhibits, is being mailed with this proxy statement.

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The following table sets forth information regarding the beneficial ownership of our common stock as of March 31, 2005 (unless otherwise noted), for:

each person who is known by us to beneficially own more than 5% of the outstanding shares of our common stock;

each of our directors and nominees;

each of our executive officers named in the Summary Compensation Table; and

all of our directors and executive officers as a group.

The percentages of shares outstanding provided in the table are based on 21,183,854 shares outstanding as of March 31, 2005. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Unless otherwise indicated, each person or entity named in the table has sole voting and investment power, or shares voting and investment power with his or her spouse, with respect to all shares of stock listed as owned by that person. The number of shares shown does not include the interest of certain persons in shares held by family members in their own right. Shares issuable upon exercise of options that are exercisable within 60 days of March 31, 2005 are considered outstanding for the purpose of calculating the percentage of outstanding shares of our common stock held by the individual, but not for the purpose of calculating the percentage of outstanding shares held by any other individual. The address of each of our directors and executive officers listed below is c/o HealthStream, Inc., 209 10th Avenue South, Suite 450, Nashville, Tennessee 37203.

Name	Number of Shares	Percent
Robert A. Frist, Jr.	5,645,687(1)	26.7%
T. Rowe Price Associates, Inc.	2,496,500(2)	11.8%
Morgan Stanley Dean Witter & Co.	1,188,740(3)	5.6%
M. Fazle Husain	1,188,740(4)	5.6%
Jeffrey L. McLaren	460,093(5)	2.2%
Arthur E. Newman	308,498(6)	1.5%
Frank Gordon	222,386(7)	1.0%
Fred Perner	213,375(8)	1.0%
Susan A. Brownie	152,307(9)	*
John H. Dayani	138,920(10)	*
James F. Daniell	88,948(11)	*
Thompson S. Dent	79,194(12)	*
William W. Stead	53,500(13)	*
Linda Rebrovick	37,000(14)	*
Ronald Hinds	15,000(15)	*
Michael Pote	(16)	*
All directors and executive officers as a group (13 persons)	8,603,648(17)	40.5%

* Less than one percent.

(1) Includes 143,662 shares issuable upon exercise of options.

(2)

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100 East Pratt Street, Baltimore, Maryland 21202-1009. Based upon information set forth in Schedule 13G filed with the SEC on February 14, 2005 jointly by T. Rowe Price Associates, Inc. (Price Associates) and T. Rowe Price New Horizons Fund, Inc.

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(New Horizons), these shares are held by various individual and institutional investors for which Price Associates and New Horizons serve as investment advisor with power to direct investments and/or sole power to vote the shares. Price Associates and New Horizons disclaim beneficial ownership of these shares except to the extent of their pecuniary interest in those shares.

- (3) 1585 Broadway, New York, New York 10036. Morgan Stanley Venture Partners III, L.P. owns 999,284 common shares. Morgan Stanley Venture Investors III, L.P. owns 95,947 common shares. The Morgan Stanley Venture Partners Entrepreneur Fund, L.P. owns 43,709 common shares. Morgan Stanley Venture Partners III, L.L.C. (the General Partner) owns options to purchase 49,800 common shares. The General Partner is the general partner of Morgan Stanley Venture Partners III, L.P., Morgan Stanley Venture Investors III, L.P. and The Morgan Stanley Venture Partners Entrepreneur Fund, L.P. (collectively, the Funds), and, as such, has the power to vote or direct the vote and to dispose or direct the disposition of all of the shares held by the Funds. Morgan Stanley Venture Capital III, Inc. is the institutional managing member of the General Partner, and, as such, shares, together with the remaining managing members, the power to direct the actions of the General Partner. Morgan Stanley Dean Witter & Co., as the sole stockholder of Morgan Stanley Venture Capital III, Inc., controls the actions of Morgan Stanley Venture Capital III, Inc.
- (4) Includes 49,800 shares issuable upon exercise of options. Mr. Husain does not own any common shares directly. Mr. Husain is a managing member of Morgan Stanley Venture Partners III, L.L.C. and therefore may be deemed to beneficially own the shares owned by Morgan Stanley Venture Partners III, L.L.C., Morgan Stanley Venture Partners III, L.P., Morgan Stanley Venture Investors III, L.P. and The Morgan Stanley Venture Partners Entrepreneur Fund, L.P. Mr. Husain disclaims beneficial ownership of these shares except to the extent of his pecuniary interest in those shares.
- (5) Includes 109,538 shares issuable upon exercise of options.
- (6) Includes 282,498 shares issuable upon exercise of options.
- (7) 136,000 of these shares are held by Crofton Capital. Mr. Gordon disclaims beneficial ownership of these shares except to the extent of his pecuniary interest in those shares. 11,386 of these shares are held by The Joel Company. Mr. Gordon disclaims beneficial ownership of these shares except to the extent of his pecuniary interest in those shares. Also includes 20,000 shares issuable upon exercise of options.
- (8) Includes 198,000 shares issuable upon exercise of options.
- (9) Includes 137,931 shares issuable upon exercise of options.
- (10) Includes 53,500 shares issuable upon exercise of options.
- (11) Includes 51,275 shares issuable upon exercise of options.
- (12) Includes 53,500 shares issuable upon exercise of options.
- (13) Includes 49,800 shares issuable upon exercise of options.
- (14) Includes 37,000 shares issuable upon exercise of options.
- (15) Includes 15,000 shares issuable upon exercise of options.

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- (16) Mr. Pote left the company on June 11, 2004 and as of such time he owned 75,817 shares of our common stock, including shares acquired through the exercise of options. We do not have any information regarding his share ownership after June 11, 2004.
- (17) Includes 1,201,504 shares issuable upon exercise of options.

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ITEM ONE ELECTION OF DIRECTORS

The Board of Directors is divided into three classes (Class I, Class II and Class III). At each annual meeting of shareholders, directors constituting one class are elected for a three-year term. Directors who were elected to fill a vacancy in a class whose term expires in a later year are elected for a term equal to the remaining term for their respective class. The Fourth Amended and Restated Charter of the Company provides that each class shall consist, as nearly as may be possible, of one-third of the total number of directors constituting the entire Board of Directors. The current Board of Directors is comprised of ten members and is expected to be comprised of eight members following the Annual Meeting. Two members of the Board of Directors will be elected as Class II directors at the Annual Meeting.

The Board of Directors has nominated and recommends to the shareholders, Linda Rebrovick and Jeffrey L. McLaren for election as Class II directors to serve until the annual meeting of shareholders in 2008 and until such time as their respective successors are duly elected and qualified. Ms. Rebrovick and Mr. McLaren are currently Class II directors of the Company having been previously elected by the shareholders. John H. Dayani is a current Class II director who is not standing for re-election. M. Fazle Husain is a current Class III director who has resigned from the Board of Directors effective April 29, 2005.

If any of the nominees should become unable to accept election, the persons named in the proxy may vote for such other person or persons as may be designated by the Board of Directors. Management has no reason to believe that any of the nominees named above will be unable to serve. Certain information with respect to directors who are nominees for election at the Annual Meeting and with respect to directors who are not nominees for election at the Annual Meeting is set forth on the following pages.

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The directors shall be elected by a plurality of the votes cast in the election by the holders of the common stock represented and entitled to vote at the Annual Meeting.

Name	Age	Principal Occupation/Directorships	Director Since
Director Nominees			
<i>Class II Directors</i> <i>(Term Expires 2008)</i>			
Linda Rebrovick	49	Ms. Rebrovick is executive vice president and chief marketing officer of BearingPoint, Inc., formerly KPMG Consulting, Inc. Ms. Rebrovick was an executive vice president of its Health Care Consulting division from February 2000 to January 2001. Ms. Rebrovick was a national managing partner of KPMG LLP's Health Care Consulting division, served on its board of directors and was the chair of its board process and evaluation committee from 1997 to 2000. Ms. Rebrovick serves on the board of directors and audit committee of Pinnacle Financial Partners, a financial institution. Prior to joining KPMG LLP, Ms. Rebrovick spent 16 years in various sales, management and executive positions at IBM Corporation. Ms. Rebrovick received a Bachelor of Science in marketing from Auburn University.	2001
Jeffrey L. McLaren	38	Jeffrey L. McLaren is chief executive officer of Safer Sleep LLC, a health care and technology company. Mr. McLaren has also served as chief executive officer of Southern Genesis Inc., a management consulting company since October 2002. Mr. McLaren is one of our co-founders, served as our president and as one of our directors from 1990 through November 2000 and as our chief product officer from 1999 through November 2000. Mr. McLaren graduated from Trinity University with a Bachelor of Arts in both business and philosophy.	1990

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Name	Age	Principal Occupation/Directorships	Director Since
Continuing Directors			
<i>Class III Directors</i>			
<i>(Term Expires 2006)</i>			
Robert A Frist, Jr.	38	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 Hearing Planet, Inc., an online hearing aid distribution company. Mr. Frist graduated with a Bachelor of Science in business with concentrations in finance, economics and marketing from Trinity University.	1990
Frank Gordon	42	Mr. Gordon is managing partner of Crofton Capital LLP, a venture capital fund. From 1998 through 2004, Mr. Gordon served as vice president of development and managed care of MediSphere Health Partners, Inc., a health care services company. Mr. Gordon earned a Bachelor of Science from the University of Texas in Austin and a Masters in Business Administration from Georgia State University.	2002
Ronald Hinds	57	Mr. Hinds was executive vice president and chief financial officer of Renal Care Group, Inc. from 1995 through 1999. He was an audit partner with Deloitte & Touche LLP from 1981 to 1994 where he managed the health care practice of the Nashville office. During his tenure at Deloitte & Touche, Mr. Hinds served as a Regional Health Care Partner. Mr. Hinds is a certified public accountant who received his Bachelor of Science in accounting with a minor in economics from Middle Tennessee State University.	2003

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Name	Age	Principal Occupation/Directorships	Director Since
<i>Class I Directors</i> (Term Expires 2007)			
Thompson S. Dent	55	Mr. Dent is president and chief executive officer of Med-Tel International Corporation, an international diagnostic imaging company. Mr. Dent is a founder of PhyCor, Inc., a physician practice management company. Mr. Dent served as its chairman of the board from January 2002 to July 2002, its chief executive officer and president from June 2000 to January 2002 and served as its president and 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 holds a Masters in Healthcare Administration from George Washington University. On January 31, 2002, PhyCor and certain of its subsidiaries filed a voluntary petition for reorganization relief under Chapter 11 of the Bankruptcy Code. The Chapter 11 reorganization plan, captioned <i>In re PhyCor, Inc., et. al.</i> , Case No. 02-40278 (PcB) in the U.S. Bankruptcy Court for the Southern District of New York, was confirmed on July 31, 2002.	1995
James F. Daniell, M.D.	61	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. Dr. Daniell is also chairman of the board of Safer Sleep LLC, a health care and technology company. Dr. Daniell holds a Bachelor of Science from David Lipscomb University and an M.D. from the University of Tennessee.	1995
William W. Stead, M.D.	56	Dr. Stead has served as associate vice chancellor for health affairs and chief information officer of Vanderbilt University Medical Center since 1991. Dr. Stead is also a director of NetSilica, a healthcare information technology company. He is Chairman, Board of Regents of the National Library of Medicine, a founding fellow of the American College of Medical Informatics and the American Institute for Engineering in Biology and Medicine and a member of the Institute of Medicine of the National Academy of Sciences, the Systemic Interoperability Commission and Computer Science and	1998

Telecommunication Board of the National Research Council. He is past president of the American Association for Medical Systems and Informatics, and of the American College of Medical Informatics. Dr. Stead earned a Bachelor of Arts in chemistry and an M.D. from Duke University.

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Corporate Governance

Our business is managed under the direction of our Board of Directors. The Board of Directors delegates the conduct of the business to our senior management team. Directors have regular access to senior management. They may also seek independent, outside advice. The Board of Directors considers all major decisions. The Board of Directors holds regular quarterly meetings and meets on other occasions when required by special circumstances. The Board operates pursuant to our Corporate Governance Principles, a copy of which may be accessed on the World Wide Web at www.healthstream.com. Some of the directors also devote their time and attention to the Board of Directors' principal standing committees. The Board of Directors has established three standing committees so that certain areas can be addressed in more depth than may be possible at a full board meeting. The committees, their primary functions and memberships are as follows:

Audit Committee. The Audit Committee's primary duties and responsibilities are to oversee the Company's financial reporting process and systems of internal controls regarding finance, accounting and legal compliance; select, evaluate and compensate the Company's independent auditors; oversee the independence and performance of the Company's independent auditors and internal auditing functions; monitor compliance with the Company's Code of Ethics for Executive Officers and Directors and Code of Conduct; monitor the reporting hotline; and provide an avenue of communication among the independent auditors, management and the Board of Directors.

The Audit Committee operates pursuant to the terms of a Restated Audit Committee Charter, a copy of which is attached to this proxy statement as Appendix A and may be accessed on the World Wide Web at www.healthstream.com. Members of the Audit Committee during 2004 included Ronald Hinds, John H. Dayani and Frank Gordon, each of whom is independent within the meaning of the listing standards of Nasdaq and Rule 10A-3 of the Securities and Exchange Act. See Audit Committee Report for 2004.

Compensation Committee. The Compensation Committee has the responsibility for reviewing and approving the salaries, bonuses, and other compensation and benefits of executive officers, establishing and reviewing board compensation, reviewing and advising management regarding benefits and other terms and conditions of compensation of management and administering the Company's 2000 Stock Incentive Plan (the "2000 Stock Plan"). The Compensation Committee operates pursuant to the terms of a Compensation Committee Charter, a copy of which may be accessed on the World Wide Web at www.healthstream.com. Members of the Compensation Committee during 2004 included Thompson Dent, M. Fazle Husain, and Frank Gordon, each of whom is independent within the meaning of the listing standards of Nasdaq. John Dayani was also on the Compensation Committee through the first meeting in 2004. Dr. Dayani is independent within the meaning of the listing standards of Nasdaq. See Compensation Committee Report for 2004.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee provides assistance to the Board of Directors in identifying and recommending individuals qualified to serve as directors of the Company, reviews the composition of the Board of Directors, reviews and recommends corporate governance policies for the Company and periodically evaluates the performance of the Board of Directors. The Nominating and Corporate Governance Committee operates pursuant to the terms of a Nominating and Corporate Governance Committee Charter, a copy of which may be accessed on the World Wide Web at www.healthstream.com. Members of the Nominating and Corporate Governance Committee during 2004 included Linda Rebrovick, James Daniell and William Stead, each of whom is independent within the meaning of the listing standards of Nasdaq.

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During 2004, our Board of Directors held six meetings, the Audit Committee held five meetings, the Compensation Committee held four meetings and the Nominating and Corporate Governance Committee held four meetings. Each incumbent director attended at least seventy-five percent of the board and committee meetings on which the director served. Our Chairman and Chief Executive Officer, Robert A. Frist, Jr., as well as Ronald Hinds, Frank Gordon, Linda Rebrovick and Jeffrey L. McLaren attended last year's annual shareholder meeting. Our Board of Directors has adopted a policy strongly encouraging all of our directors to attend the annual meeting of shareholders.

Our Chairman and Chief Executive Officer proposes the agenda for the board meetings and presents the agenda to the Nominating and Corporate Governance Committee, which reviews the agenda with our Chairman and may raise other matters to be included in the agenda or at the meetings. All directors receive the agenda and supporting information in advance of the meetings. Directors may raise other matters to be included in the agenda or at the meetings. Our Chairman and Chief Executive Officer and other members of senior management make presentations to the board at the meetings and a substantial portion of the meeting time is devoted to the Board of Directors' discussion of and questions regarding these presentations.

The independent directors meet in executive session (i.e. with no members of management present) periodically, in at least two regularly scheduled meetings each year. The Chair of the Nominating and Corporate Governance Committee has been designated by the independent directors to preside at these meetings.

Nominating Committee Process

The Nominating and Corporate Governance Committee is responsible for identifying qualified individuals to serve as members of the company's Board of Directors as well as reviewing the qualifications and performance of incumbent directors to determine whether to recommend them to the Board of Directors as nominees for reelection. In identifying candidates for membership on the Board of Directors, the Nominating and Corporate Governance Committee shall take into account all factors it considers appropriate, which may include (a) ensuring that the Board of Directors, as a whole, is diverse and consists of individuals with various and relevant career experience, relevant technical skills, industry knowledge and experience, financial expertise (including expertise that could qualify a director as an audit committee financial expert, as that term is defined by the rules of the Securities and Exchange Commission), and local or community ties and (b) minimum individual qualifications, including strength of character, mature judgment, time availability, familiarity with the Company's business and industry, independence of thought and an ability to work collegially. The Nominating and Corporate Governance Committee also may consider the extent to which the candidate would fill a present need on the Board of Directors.

The Nominating and Corporate Governance Committee will consider nominees for the Board of Directors recommended by shareholders. Shareholders may propose nominees for consideration by the Nominating and Corporate Governance Committee by submitting the names and supporting information to: Nominating and Corporate Governance Committee, HealthStream, Inc., 209 10th Avenue South, Suite 450, Nashville, Tennessee 37203. Shareholder recommendations for nominees must include certain biographical and other information, which may be found in the Company's Amended and Restated Bylaws, and the proposed nominee's written consent to nomination. The recommendations must be delivered or mailed and received at our principal executive offices not less than 120 days prior to the first anniversary of the date this notice of annual meeting was provided to shareholders.

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Communication with the Board of Directors

Shareholders may communicate with any of the Company's directors by writing to them c/o HealthStream, Inc., 209 10th Avenue South, Suite 450, Nashville, Tennessee 37203. Shareholders may also communicate with our directors by sending an email to boardofdirectors@healthstream.com. Shareholders may communicate with the chair of any board committee by sending an email to auditchair@healthstream.com (Audit Committee), nomgovchair@healthstream.com (Nominating and Corporate Governance Committee) or compchair@healthstream.com (Compensation Committee), or with our outside directors as a group by sending an email to outsidedirectors@healthstream.com. Our Compliance Officer, Arthur Newman, reviews all such correspondence and regularly forwards to the Board a summary of all such correspondence and copies of all correspondence that, in the opinion of the Compliance Officer, deals with the functions of the Board or committees thereof or that he otherwise determines requires their attention. Concerns relating to accounting, financial reporting, internal controls or auditing matters are immediately brought to the attention of the Company's Audit Committee and handled in accordance with procedures established by the Audit Committee.

Independent Directors

The Board of Directors has determined that Thompson S. Dent, James F. Daniell, William W. Stead, Linda Rebrovick, Frank Gordon, Jeffrey L. McLaren and Ronald Hinds do not have any relationship that, in the opinion of the Board, would interfere with the exercise of the Board member's independent judgment in carrying out the responsibilities of a director and none of such directors has any relationship with the Company which would cause him or her to fail to meet the definition of "independent" under the listing standards of Nasdaq. All members of the standing committees of the Board of Directors are considered independent consistent with these rules.

Code of Conduct

The Company has established a Code of Conduct that applies to all Directors and employees of HealthStream, Inc. The purpose of the Code of Conduct is, among other things, to provide written standards for our Directors and employees that are reasonably designed to support high standards of business and personal ethics in the discharge of their duties. A copy of the Code of Conduct may be accessed on the World Wide Web at www.healthstream.com.

Code of Ethics for Executive Officers and Directors

The Company has established a Code of Ethics that applies to all executive officers and directors of HealthStream, Inc. The purpose of the Code of Ethics is, among other things, to provide written standards that are reasonably designed to deter wrongdoing and to promote: honest and ethical conduct, including ethical handling of actual or apparent conflicts of interest; full, fair, accurate, timely, and understandable disclosure in reports and documents filed with the SEC and other public communications by the Company; compliance with applicable governmental laws, rules and regulations; prompt internal reporting of violations of the code; and accountability for adherence to the code. A copy of the Code of Ethics, as well as any amendments to or waivers from the Code of Ethics, may be accessed on the World Wide Web at www.healthstream.com.

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Designation of Financial Expert

The Audit Committee of the Board of Directors has determined that all members of the Audit Committee are financially literate under the current listing standards of Nasdaq. The Board also determined that Ronald Hinds qualifies as an Audit Committee Financial Expert as defined by the regulations of the SEC adopted pursuant to the Sarbanes-Oxley Act of 2002 and that Mr. Hinds is independent as that term is used in item 7(d)(3)(iv) of Schedule 14A of the Securities Exchange Act.

Section 16(a) Beneficial Ownership Reporting Compliance

We believe that during the 2004 fiscal year, all SEC filings of directors, officers and greater than ten-percent shareholders complied with the requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended,. This belief is based on our review of forms filed or written representations that no forms were required.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR EACH OF THE DIRECTOR NOMINEES.

Table of Contents**EXECUTIVE COMPENSATION****Summary Compensation Table**

The following table sets forth information for fiscal years 2004, 2003 and 2002, regarding the compensation earned by the Chief Executive Officer and the other four most highly compensated executive officers based on salary and bonus earned during 2004 (Named Executive Officers).

Name and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation Award Securities Underlying Options (#)
		Salary (\$)	Bonus \$(1)	Other Annual Compensa- tion (\$)	
Robert A. Frist, Jr., CEO(3)	2004	137,508			50,000
	2003	96,250	10,000		
	2002	85,000			
Arthur E. Newman, Senior Vice President and CFO(2)	2004	168,958		29,000	40,000
	2003	157,500	23,154	21,500	50,000
	2002	156,875	20,000	28,200	
Michael T. Pote, (4) Senior Vice President	2004	75,521		83,750	
	2003	157,500	23,154		50,000
	2002	156,875	20,000		
Fred Perner, Senior Vice President	2004	166,042			40,000
	2003	150,000	22,051		50,000
	2002	148,750	20,000		
Susan A. Brownie, Vice President of Finance and Corporate Controller (5)	2004	136,006			28,000
	2003	125,000	14,069		20,000
	2002	103,606	15,000		35,000

- (1) Bonuses listed for each fiscal year relate to payments within a fiscal year of amounts related to the previous fiscal year.
- (2) Includes other compensation, generally reimbursed travel and living expenses that are not deductible for income tax purposes.
- (3) Options to purchase 40,000 shares of stock at an exercise price of \$2.69 per share were granted to Mr. Frist on February 19, 2004. In addition, Mr. Frist was granted options to purchase an additional 40,000 shares at \$2.69 per share contingent upon the achievement of certain revenue levels and other financial results. Since only a portion of the results were achieved, 10,000 options were issued based on 2004 results and have been treated as granted in 2004.
- (4)

Mr. Pote's employment with the Company ended in June 2004. Under the terms of his severance agreement, the Company continued to compensate Mr. Pote through December 2004.

- (5) Effective in 2005, Mrs. Brownie was promoted to Senior Vice President of Finance and Human Resources.

Table of Contents**Options Granted During 2004**

The following table provides information related to options granted to the named executive officers during the 2004 fiscal year and the potential realizable value of each grant of options assuming that the market price of the underlying security appreciates in value from the date of the grant to the end of the option term. We have not issued stock appreciation rights to our executive officers.

Name	Individual Grants		Percent of Total		Potential Realizable
	Number of Securities	Options Granted to	Employees	Exercise Price Per	Value at Assumed Annual Rate of Stock Price Appreciation for Option Terms (\$)(2)
	Underlying	Options Granted	in Fiscal	Expiration	