

Directors and Officers

Board of Directors

Robert A. Frist, Jr.
Chief Executive Officer, President, and
Chairman of the Board of Directors
HealthStream, Inc.

Jeffrey L. McLaren
Chief Executive Officer
Safer Sleep LLC

Thompson S. Dent
President and Chief Executive Officer
Med-Tel International Corporation

James F. Daniell, M.D.
Clinical Professor
*Vanderbilt University Medical School and
Vanderbilt University Nursing School*
Private Practice
Centennial Medical Center

William W. Stead, M.D.
Associate Vice Chancellor for Health Affairs,
Chief Information Officer
Vanderbilt University Medical Center

Linda Rebrovick
Vice President of Healthcare Sales
Dell, Inc.

Frank E. Gordon
Managing Partner
Crofton Capital LLP

Ronald Hinds
Former Partner
Deloitte & Touche LLP

Michael Shmerling
Chairman
Xebec Management, Inc.

Executive Officers

Robert A. Frist, Jr.
Chief Executive Officer, President, and
Chairman of the Board of Directors

Arthur E. Newman
Executive Vice President

Susan A. Brownie
Chief Financial Officer, Senior Vice President and
Corporate Secretary

Vice Presidents

D. Robert Wiemer, Jr.

Lee E. Krubner

W. Thomas Dugger

Michael J. Sousa

Kevin P. O'Hara

Corporate Data

Annual Meeting

The annual meeting of shareholders will be held on May 25, 2006, at 2:00 p.m. (CDT) at HealthStream, Inc., 209 10th Avenue South, Suite 450, Nashville, Tennessee 37203.

Independent Auditors

Ernst & Young LLP
Nashville, Tennessee

Transfer Agent

SunTrust Bank
P.O. Box 4625
Atlanta, Georgia 30302
(404) 588-7831

Legal Counsel

Bass, Berry & Sims PLC
Nashville, Tennessee

Corporate Headquarters

HealthStream, Inc.
209 10th Avenue South, Suite 450
Nashville, Tennessee 37203



Common Stock

HealthStream, Inc.'s common stock is traded on the Nasdaq Stock Market's National Market under the symbol HSTM. The following table shows the quarterly range of high and low closing sales prices of the common stock from 2003.

	High	Low
2003		
First Quarter	\$ 1.86	\$ 1.00
Second Quarter	2.69	1.00
Third Quarter	3.85	2.15
Fourth Quarter	3.10	2.50
2004		
First Quarter	\$ 3.04	\$ 1.75
Second Quarter	2.53	1.86
Third Quarter	2.10	1.61
Fourth Quarter	3.10	1.87
2005		
First Quarter	\$ 3.72	\$ 2.60
Second Quarter	4.00	2.65
Third Quarter	3.96	2.95
Fourth Quarter	2.83	1.91
2006		
First Quarter	\$ 3.72	\$ 2.39

As of March 3, 2006, HealthStream, Inc. had approximately 2,386 shareholders, including 193 shareholders of record and approximately 2,100 persons or entities holding common stock in nominee name.

The Company has never declared or paid any cash dividends on its common stock and does not anticipate paying cash dividends in the foreseeable future. HealthStream intends to retain earnings to finance the expansion of its operations.

Form 10-K

A copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, is being mailed with this letter. Additional copies of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, are available without exhibits, free of charge, to its shareholders. Requests should be addressed to Investor Relations Department, HealthStream, Inc., 209 10th Avenue South, Suite 450, Nashville, Tennessee 37203.



Financial Highlights

Year Ended December 31, <i>(In thousands, except per share amounts)</i>	2005	2004
Statement of Operations Data:		
Revenues	\$ 27,359	\$ 20,057
Operating costs and expenses	25,763	21,348
Income (loss) from operations	1,597	(1,291)
Other income, net	338	243
Income (loss) before income taxes	1,935	(1,048)
Provision for income taxes	22	–
Net income (loss)	\$ 1,913	\$ (1,048)

Net income (loss) per share:

Basic and diluted	\$ 0.09	\$ (0.05)
-------------------	---------	-----------

Weighted average shares of common stock outstanding:

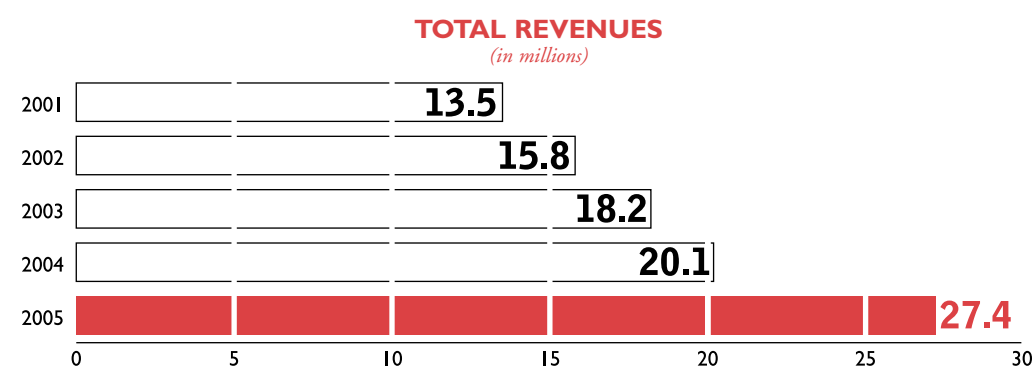
Basic	21,051	20,586
Diluted	21,942	20,586

Income before interest, taxes, depreciation and amortization (“EBITDA”⁽¹⁾):

Net income (loss)	\$ 1,913	\$ (1,048)
Interest, income taxes and depreciation and amortization	2,399	1,866
Income before interest, taxes and depreciation and amortization	\$ 4,312	\$ 818

⁽¹⁾ In order to better assess the Company's financial results, management believes that income (loss) before interest, taxes, depreciation and amortization (“EBITDA”) is an appropriate measure for evaluating the operating performance of the Company at this stage in its life cycle because EBITDA reflects net income (loss) adjusted for non-cash and non-operating items. EBITDA is also used by many investors to assess the Company's results from current operations. EBITDA is a non-GAAP financial measure and should not be considered as a measure of financial performance under generally accepted accounting principles. Because EBITDA is not a measurement determined in accordance with generally accepted accounting principles, it is susceptible to varying calculations. Accordingly, EBITDA, as presented, may not be comparable to other similarly titled measures of other companies.

December 31, <i>(In thousands)</i>	2005	2004
Balance Sheet Data:		
Cash and cash equivalents	\$ 5,726	\$ 2,257
Investments - short term	6,175	14,025
Restricted cash and interest receivable	293	210
Working capital	10,027	15,675
Total assets	35,216	28,557
Deferred revenue	4,503	3,988
Long-term debt and capital leases, net of current portion	216	29
Shareholders' equity	25,800	21,730



Letter to Shareholders

This past year, HealthStream achieved its first full-year of profitability and earned record annual revenues. Net income for 2005 was \$1.9 million, while full-year revenues were \$27.4 million, up 36 percent over the prior year. Our acquisition of Data Management and Research (DMR) contributed to our financial results in 2005, while also growing our strategic importance in the market. More than ever, the value of training and education in healthcare organizations is derived from improved job performance—which translates into safer hospitals and better patient care. To this end, hospitals are focused on a wide range of quality initiatives, nationwide. At HealthStream, we are excited about our increasing role that we are playing in support of this process—both during 2005 and in the coming years.

At HealthStream, we listen to our customers and understand the environment in which they function to support them with innovative training and education solutions to meet their clinical and business objectives. Our learning solutions are helping to improve healthcare organizations' compliance with regulatory training that is mandated by the Occupational Safety & Health Administration (OSHA), the Joint Commission on Accreditation of Healthcare Organizations (JCAHO), and the Health Insurance Portability and Accountability Act (HIPAA). Our solutions help our customers train employees in multiple clinical areas, reduce their organization's risk, and keep clinical personnel updated on using the latest medical device or product technology.

At year-end 2005, approximately 1.27 million healthcare professionals—from, collectively, approximately 1,150 healthcare organizations—were contracted to use the HealthStream Learning Center™ (HLC), our Internet-based learning platform. This means that one out of every four healthcare professionals working in acute-care hospitals in the United States was provided the ability through their organization to learn through the HLC. Together, our hospital customers now complete, on average, over 40,000 online courses on our learning platform each weekday.

Year-end results for 2005 included annual revenues of \$27.4 million, up 36 percent over 2004 revenues. Net income for 2005 was \$1.9 million, compared to a net loss of \$1.0 million for 2004. EBITDA (earnings before interest, taxes,

depreciation, and amortization) improved to \$4.3 million for 2005, compared to \$818,000 for 2004. We ended 2005 with a \$12.2 million cash and investment balance—with virtually no debt—after having replenished our cash reserves from a balance of \$8.1 million following the acquisition of DMR in March.

Importantly, we are receiving strong confirmation that our learning solutions are effective and valued as our hospital customers choose to renew their relationships with us. Based on the number of employees subscribed in their respective healthcare organizations, the renewal rate for the HLC was 92 percent for 2005. Several of the healthcare organizations that renewed were among our largest enterprise-level customers—like Sutter Health, Tenet Healthcare, Trinity Healthcare, and Providence Health Care. As of the date of this letter, we are continuing to discuss with HCA a revised longer-term agreement.

In March of 2005, HealthStream acquired DMR, which offers healthcare organizations a wide range of quality and satisfaction surveys, targeted to physicians, employees, and patients. These surveys provide data-driven roadmaps that can lead to the areas within our customers' healthcare organizations where our learning solutions can have the greatest impact. With the addition of DMR, we believe HealthStream is positioned to become a more valuable strategic partner in helping healthcare organizations better understand their opportunities to develop and train their workforce.

Along with the growing utilization of our learning solutions, we never lose track of the premium we place on innovation. To this end, we introduced several new products and courseware in 2005. For instance, Authoring Pro™, a premium authoring toolset uniquely designed for healthcare organizations, was introduced in June. Through our partnership with A.D.A.M. Inc., Authoring Pro provides hospital educators with a unique collection of over 10,000 medical illustrations, over 3,000 articles, and a robust collection of reports, presentations, and animations that can be embedded in self-authored online courses published through the HealthStream Learning Center. With Authoring Pro, educators can easily create professional quality online courses using a wide range of intellectual assets.

HealthStream is also innovating to support our hospital customers in achieving their quality initiatives. In collaboration with Advanced Practice Strategies and HCA, a new online program, Advanced Fetal Monitoring and Assessment, was launched for hospitals' perinatal departments in July. Since electronic fetal monitoring (EFM) is the focal point of almost half of all obstetric malpractice cases, EFM training and education presents an opportunity to create safer perinatal departments. This program for physicians and nurses focuses on best practices in EFM, allowing hospitals to communicate standards of care that lead to improved patient safety and quality outcomes.

As HealthStream's visibility grows, the quality of partnerships we are attracting continues to improve, allowing us to increasingly offer our customers “best in class” solutions. Through our partnership with the American Association for Critical Care Nurses (AACN), for example, approximately 2,500 clinical personnel subscribed to the Essentials of Critical Care Orientation program during 2005. As the world's largest specialty nursing organization, AACN's number one priority is the education of critical care nurses, and their partnership with HealthStream is helping them achieve this goal.

To further support our enterprise-level customers and advance their learning programs, HealthStream launched a Strategic Account Program in 2005. Client executives, led by our vice president of strategic accounts, comprise the team that actively supports this program. Our team works closely with these customers, holding monthly planning meetings with high-level dialogue among their leadership to address their organizational challenges and the potential role of learning solutions to meet them. Through our Strategic Account Program, HealthStream's role as a strategic partner with healthcare organizations is strengthening.

By the time you read this letter, HealthStream will have hosted its sixth annual Learning Summit—a conference devoted solely to learning in healthcare organizations. Over 700 participants are scheduled to attend, which is up from 160 in attendance at our first conference held in 2000. Over 100 sessions are scheduled to be held

on a wide range of topics, offering ample opportunities to collaborate and learn from one another. Together, HealthStream's approximately 1,150 hospital facility customers have built a strong community that we believe is leading the industry in using innovative training and education solutions to improve their organizations—and ultimately improve the quality of patient care.

As a part of this community, we celebrate our customers' successes and offer our support to meet their challenges. For our hospital customers along the Gulf Coast, the Katrina tragedy in the summer of 2005 marked a particularly challenging time. Eighteen HealthStream hospital customers were directly affected by Hurricane Katrina and experienced a complete halt to all training for weeks. HealthStream worked with these facilities to assist them in getting back on track in the weeks and months that followed.

In closing, I want to thank you, our shareholders, for your continued commitment and support of HealthStream. I, along with the rest of the management team, firmly believe that HealthStream is achieving its vision to improve the quality of healthcare by improving the quality and accessibility of healthcare education—and you are part of this process. We will continue to give our best efforts to the task of producing superior results for you.

Sincerely,

Robert A. Frist, Jr.
Chairman and Chief Executive Officer