

June 17, 2004

Dear FASB Representative,

I am writing this letter in strong opposition to the March 31, 2004 stock option expensing proposal. I am the CEO of HealthStream, Inc. a public education and technology company located in Nashville, Tennessee. My company employs approximately 150 U.S. employees and has provided nearly every employee with the opportunity to participate as an equity owner in the business as a result of stock option grants and our employee stock purchase plan. We believe that these stock compensation methodologies have been instrumental in aligning the company's goals and growth with our employees' interests.

There has been substantial debate over the issue of expensing stock options, but the focus on large private companies has overshadowed the impact that the proposal would have on small companies like mine. In particular there are 3 issues that are particularly pertinent to my business and must be addressed before the approval of any legislation

- 1) Cost of Implementation: We have a broad-based stock option plan that provides equity ownership to a large portion of our employees. Currently, I have a lean finance staff that are responsible for all aspects of the financial health of the company, including the administration of our stock option program. While they are able to handle all of their responsibilities today, the complexity of implementing the FASB proposal will overwhelm them, and would likely force us to hire outside auditors or consultants to administer our stock option plan. Based on our small size, this incremental expense will have a meaningful impact on our profitability and our ability to hire employees in revenue-generating areas of our business.
- 2) Masking of Operating Results: We present our financial statements to partners, suppliers, and customers and potential customers. Since we have only a few years of operating history and are just beginning to achieve cash flow positive results, many of these partners rely on our income statement to determine our viability risk. Introducing stock option expense to our income statement will not only confuse our partners, but it will mask the true health of our business. Our success relies on our customer relationships and therefore we cannot afford to lose any of these relationships because of income statement changes that are simply the result of granting options to our employees. Further, the anticipated impact to our financial results would most likely limit our ability to offer such rewards in the future.

- 3) Stock Options are Essential for Startups: It is not easy to attract high quality employees to an early stage company that, by nature, has very little employment stability. In order to attract this talent, we must make our employees equity owners and provide them a vested interest in the outcome of the company. We have approximately 150 employees, so every employee can make a meaningful impact on the outcome of our company. Stock options are an important means of incentivizing and rewarding our employees, while also allowing us to invest in other aspects of our business. Expensing of stock options would make it difficult to implement the broad-based stock option plans that have driven our company, and almost every other successful early stage company.

As a CEO, board member, and employee, I urge you to reconsider your proposal and to continue to investigate these issues. Rushing to implement this proposal without working through the issues addressed above could have a detrimental affect on my company and the hundreds of others in the U.S. that rely on stock options as a means to grow in a difficult economic environment.

Sincerely,

Robert A. Frist, Jr.