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 quarterly period ended March 31, 2012

Commission File No.: 000-27701

HealthStream, Inc.
(Exact name of registrant as specified in its charter)

Tennessee (State or other jurisdiction of incorporation or organization)	**62-1443555** (I.R.S. Employer Identification No.)
209 10th Avenue South, Suite 450 **Nashville, Tennessee** (Address of principal executive offices)	**37203** **(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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of April 23, 2012, 26,108,635 shares of the registrant's common stock were outstanding.

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HEALTHSTREAM, INC.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

HEALTHSTREAM, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	March 31, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 24,268	$ 76,904
Marketable securities – short-term	61,284	6,552
Accounts receivable, net of allowance for doubtful accounts of $149 and $149 at March 31, 2012 and December 31, 2011, respectively	16,324	16,014
Accounts receivable - unbilled	1,046	1,316
Deferred tax assets, current	4,140	5,080
Prepaid royalties, net of amortization	1,859	3,409
Other prepaid expenses and other current assets	1,980	1,804
Total current assets	110,901	111,079
Property and equipment:		
Equipment	16,472	16,362
Leasehold improvements	4,193	4,170
Furniture and fixtures	2,642	2,545
	23,307	23,077
Less accumulated depreciation and amortization	(17,078)	(16,990)
	6,229	6,087
Marketable securities – long-term	6,002	5,996
Capitalized software development, net of accumulated amortization of $8,982 and $8,344 at March 31, 2012 and December 31, 2011, respectively	8,302	7,940
Goodwill	21,147	21,147
Intangible assets, net of accumulated amortization of $9,148 and $8,930 at March 31, 2012 and December 31, 2011, respectively	1,739	1,957
Other assets	31	31
Total assets	$ 154,351	$ 154,237
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,426	$ 2,585
Accrued liabilities	3,904	5,492
Accrued compensation and related expenses	672	1,612
Deferred revenue	24,233	22,759
Total current liabilities	30,235	32,448
Deferred tax liabilities, noncurrent	323	323
Other long term liabilities	620	551
Commitments and contingencies	—	—
Shareholders' equity:		
Common stock, no par value, 75,000 shares authorized; 26,098 and 25,896 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	155,247	154,409
Accumulated deficit	(32,067)	(33,487)
Accumulated other comprehensive loss	(7)	(7)
Total shareholders' equity	123,173	120,915
Total liabilities and shareholders' equity	$ 154,351	$ 154,237

See accompanying notes to the condensed consolidated financial statements.

HEALTHSTREAM, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(In thousands, except per share data)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Revenues, net	$ 23,674	$ 18,506
Operating costs and expenses:		
Cost of revenues (excluding depreciation and amortization)	9,575	7,070
Product development	1,869	1,786
Sales and marketing	5,536	3,508
Other general and administrative expenses	2,819	2,542
Depreciation and amortization	1,534	1,043
Total operating costs and expenses	21,333	15,949
Income from operations	2,341	2,557
Other income (expense), net	19	20
Income before income tax provision	2,360	2,577
Income tax provision	940	1,051
Net income	$ 1,420	$ 1,526
Earnings per share:		
Basic	$ 0.05	$ 0.07
Diluted	$ 0.05	$ 0.07
Weighted average shares of common stock outstanding:		
Basic	25,999	21,837
Diluted	27,335	22,969

See accompanying notes to the condensed consolidated financial statements.

HEALTHSTREAM, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(In thousands)

	Three Months Ended March 31, 2012	2011
Net income	$ 1,420	$ 1,526
Other comprehensive income, net of taxes:		
Unrealized gain on marketable securities	—	4
Total other comprehensive income	—	4
Comprehensive income	$ 1,420	$ 1,530

See accompanying notes to the condensed consolidated financial statements.

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HEALTHSTREAM, INC.
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS’ EQUITY (UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2012
(In thousands)

	Common Stock		Accumulated Deficit	Accumulated Other Comprehensive (Loss)	Total Shareholders’ Equity
	Shares	Amount			
Balance at December 31, 2011	25,896	$154,409	$ (33,487)	$ (7)	$ 120,915
Net income	—	—	1,420	—	1,420
Other comprehensive income	—	—		—	—
Stock based compensation expense	—	242	—	—	242
Exercise of stock options	202	596	—	—	596
Balance at March 31, 2012	26,098	$155,247	$ (32,067)	$ (7)	$ 123,173

See accompanying notes to the condensed consolidated financial statements.

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
OPERATING ACTIVITIES:		
Net income	$ 1,420	$ 1,526
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,534	1,043
Stock based compensation expense	242	190
Deferred income taxes	940	1,051
Changes in operating assets and liabilities:		
Accounts and unbilled receivables	(40)	(2,075)
Prepaid royalties	1,550	741
Other prepaid expenses and other current assets	(232)	(186)
Other assets	146	91
Accounts payable	(1,160)	(1,000)
Accrued liabilities and accrued compensation and related expenses and other long-term liabilities	(2,460)	(1,180)
Deferred revenue	1,474	3,342
Net cash provided by operating activities	3,414	3,543
INVESTING ACTIVITIES:		
Proceeds from maturities of investments in marketable securities	3,500	2,135
Purchases of investments in marketable securities	(58,383)	(4,728)
Payments associated with capitalized software development	(1,000)	(4,086)
Purchases of property and equipment	(763)	(708)
Net cash used in investing activities	(56,646)	(7,387)
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	596	199
Payments on capital lease obligations	—	(2)
Net cash provided by financing activities	596	197
Net decrease in cash and cash equivalents	(52,636)	(3,647)
Cash and cash equivalents at beginning of period	76,904	17,868
Cash and cash equivalents at end of period	$ 24,268	$ 14,221

See accompanying notes to the condensed consolidated financial statements.

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 ("US GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, condensed consolidated financial statements do not include all of the information and footnotes required by US GAAP 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 intercompany transactions have been eliminated in consolidation. Operating results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

The balance sheet at December 31, 2011 is consistent with the audited financial statements at that date but does not include all of the information and footnotes required by US GAAP for a complete set of financial statements. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2011 (included in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 28, 2012).

2. INCOME TAXES

Income taxes are accounted for using the asset and liability method, whereby deferred tax assets and liabilities are determined based on the temporary differences between the financial statement and tax bases of assets and liabilities measured at tax rates that will be in effect for the year in which the differences are expected to affect taxable income.

During the three months ended March 31, 2012 and 2011, the Company recorded a provision for income taxes of $940,000 and $1.1 million, respectively. The Company's effective tax rate for the three months ended March 31, 2012 and 2011 was 39.8% and 40.8%, respectively. The Company's effective tax rate primarily reflects the statutory corporate income tax rate, the net effect of state taxes, and the effect of various immaterial permanent tax differences.

3. STOCK BASED COMPENSATION

The Company maintains two stock incentive plans. The Company accounts for its stock based compensation plans using the fair-value based method for costs related to share-based payments, including stock options and restricted share units. During the three months ended March 31, 2012, the Company issued 69,950 restricted share units with a grant date fair value of $23.00 per share, measured based on the closing fair market value of the Company's stock on the date of grant. During the three months ended March 31, 2011, the Company granted 219,750 stock options with a weighted average grant date fair value of $3.51. The fair value of stock options granted during the three months ended March 31, 2011 was estimated using the Black Scholes option pricing model, with the assumptions as follows:

	Three Months Ended March 31, 2011
Risk-free interest rate	2.37%
Expected dividend yield	0.0%
Expected life	5 years
Expected forfeiture rate	5%
Volatility	50%

Total stock based compensation expense recorded for the three months ended March 31, 2012 and 2011, which is recorded in the condensed consolidated statements of income, is as follows (in thousands):

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Cost of revenues (excluding depreciation and amortization)	$ 10	$ 11
Product development	34	40
Sales and marketing	38	48
Other general and administrative	160	91
Total stock based compensation expense	$ 242	$ 190

HEALTHSTREAM, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. EARNINGS PER SHARE

Basic earnings per share is computed by dividing the net income available to common shareholders for the period by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing the net income for the period by the weighted average number of common and common equivalent shares outstanding during the period. Common equivalent shares, composed of incremental common shares issuable upon the exercise of stock options and restricted share units subject to vesting are included in diluted earnings per share only to the extent these shares are dilutive. Common equivalent shares are dilutive when the average market price during the period exceeds the exercise price of the underlying shares. The total number of common equivalent shares excluded from the calculations of diluted earnings per share, due to their anti-dilutive effect, was approximately 0.2 million and 0.3 million for the three months ended March 31, 2012 and 2011, respectively.

The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31, 2012 and 2011 (in thousands, except per share data):

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Numerator:		
Net income	$ 1,420	$ 1,526
Denominator:		
Weighted-average shares outstanding	25,999	21,837
Effect of dilutive shares	1,336	1,132
Weighted-average diluted shares	27,335	22,969
Basic earnings per share	$ 0.05	$ 0.07
Diluted earnings per share	$ 0.05	$ 0.07

5. MARKETABLE SECURITIES

At March 31, 2012 and December 31, 2011, the fair value of marketable securities, which were all classified as available for sale, included the following (in thousands):

March 31, 2012	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value
Level 1:				
Mutual funds	$ 5,011	$ 12	$ —	$ 5,023
Level 2:				
Corporate debt securities	16,171	—	(7)	16,164
U.S. government securities	46,111	1	(13)	46,099
Subtotal	62,282	1	(20)	62,263
Total	$ 67,293	$ 13	$ (20)	$67,286

December 31, 2011	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value
Level 1:				
Mutual funds	$ 2,504	$ —	$ —	$ 2,504
Level 2:				
Corporate debt securities	2,038	—	(1)	2,037
U.S. government securities	8,013	—	(6)	8,007
Subtotal	10,051	—	(7)	10,044
Total	$ 12,555	$ —	$ (7)	$12,548

The carrying amounts reported in the condensed consolidated balance sheet approximate the fair value based on quoted market prices or alternative pricing sources and models utilizing market observable inputs. The maturities of the Company's long-term marketable securities are less than two years. As of March 31, 2012, the Company does not consider any of its marketable securities to be other than temporarily impaired.

HEALTHSTREAM, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. BUSINESS SEGMENTS

The Company primarily provides services to healthcare organizations and other members within the healthcare industry. The Company's services are primarily focused on the delivery of education and training products and services (HealthStream Learning), as well as survey and research services (HealthStream Research). The accounting policies of the segments are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2011.

The Company measures segment performance based on operating income before income taxes and prior to the allocation of certain corporate overhead expenses, interest income, interest expense, and depreciation. The following is the Company's business segment information as of and for the three months ended March 31, 2012 and 2011 (in thousands).

	Three Months Ended March 31,	
	2012	2011
Revenues		
Learning	$17,798	$12,987
Research	5,876	5,519
Total net revenue	$23,674	$18,506
Income from operations		
Learning	$ 4,757	$ 4,267
Research	279	327
Unallocated	(2,695)	(2,037)
Total income from operations	$ 2,341	$ 2,557

	March 31, 2012	December 31, 2011
Segment assets *		
Learning	$ 25,990	$ 27,322
Research	25,743	26,088
Unallocated	102,618	100,827
Total assets	$ 154,351	$ 154,237

* Segment assets include accounts and unbilled receivables, prepaid and other current assets, other assets, capitalized software development, certain property and equipment, and intangible assets. Cash and cash equivalents and marketable securities are not allocated to individual segments, and are included within Unallocated. A significant portion of property and equipment assets are included within Unallocated.

7. COLLABORATIVE ARRANGEMENT

On June 23, 2010, the Company announced the formation of SimVentures™, a collaborative arrangement between HealthStream and Laerdal Medical A/S (Laerdal Medical). The Company receives 50 percent of the profits or losses generated from this collaborative arrangement. For the three months ended March 31, 2012, the Company recorded approximately $0.4 million of revenues and $0.5 million of expenses related to the collaborative arrangement. For the three months ended March 31, 2011, the Company recorded no revenues and $0.1 million of expenses related to the collaborative arrangement. The Company also recorded approximately $0.4 million of capitalized software development for SimVentures during 2012.

Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

Special Cautionary Notice Regarding Forward-Looking Statements

You should read the following discussion and analysis in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this report and our audited consolidated financial statements and the notes thereto for the year ended December 31, 2011, appearing in our Annual Report on Form 10-K that was filed with the Securities and Exchange Commission ("SEC") on February 28, 2012, (the "2011 Form 10-K"). Statements contained in this Quarterly Report on Form 10-Q that are not historical fact are forward-looking statements that the Company intends to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Statements that are predictive in nature, that depend on or refer to future events or conditions, or that include words such as "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," " projects," "should," "will," "would," and similar expressions are forward-looking statements.

The Company cautions that forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. Forward-looking statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements.

In evaluating any forward-looking statement, you should specifically consider the information regarding forward-looking statements and the information set forth under the caption "Item 1A. Risk Factors" in our 2011 Form 10-K and the information regarding forward-looking statements in our earnings releases, as well as other cautionary statements contained elsewhere in this report, including the matters discussed in "Critical Accounting Policies and Estimates." We undertake no obligation beyond that required by law to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future. You should read this report and the documents that we reference in this report and have filed as exhibits to this report completely and with the understanding that our actual future results may be materially different from what we expect.

Overview

HealthStream provides Internet-based learning and research solutions for healthcare organizations—all designed to assess and develop the people that deliver patient care which, in turn, supports the improvement of business and clinical outcomes. Our learning products are used by healthcare organizations to meet a broad range of their training, certification, and development needs, while our research products provide our customers information about patients' experiences, workforce engagement, physician relations, and community perceptions of their services. HealthStream's customers include healthcare organizations, pharmaceutical and medical device companies, and other participants in the healthcare industry.

Key financial indicators for the first quarter of 2012 include:

- Revenues of $23.7 million in the first quarter of 2012, up 28% over the first quarter of 2011
- Operating income of $2.3 million in the first quarter of 2012, compared to $2.6 million in the first quarter of 2011: annual customer Summit net costs of approximately $520,000 incurred in the first quarter of 2012 versus the second quarter of 2011
- Net income of $1.4 million in the first quarter of 2012, compared to net income of $1.5 million in the first quarter of 2011, and earnings per share (EPS) of $0.05 per share in the first quarter of 2012, compared to EPS of $0.07 per share in the first quarter of 2011
- Adjusted EBITDA[1] of $4.1 million in the first quarter of 2012, up 8% from $3.8 million in the first quarter of 2011

(1) - Adjusted EBITDA is a non-GAAP financial measure. A reconciliation of adjusted EBITDA to net income is included in this report.

Critical Accounting Policies and Estimates

The Company's condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (US GAAP). These accounting principles require us to make certain estimates, judgments and assumptions during the preparation of our financial statements. We believe the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected.

The accounting policies and estimates that we believe are the most critical in fully understanding and evaluating our reported financial results include the following:

- Revenue recognition
- Accounting for income taxes
- Software development costs

- Goodwill, intangibles, and other long-lived assets
- Allowance for doubtful accounts
- Accrual for service credits
- Stock based compensation

In many cases, the accounting treatment of a particular transaction is specifically dictated by US GAAP and does not require management's judgment in its application. There are also areas in which management's judgment in selecting among available alternatives would not produce a materially different result. See Notes to Consolidated Financial Statements in our 2011 Form 10-K, which contains additional information regarding our accounting policies and other disclosures required by US GAAP. There have been no changes in our critical accounting policies and estimates from those reported in our 2011 Form 10-K.

Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

Revenues, net. Revenues increased approximately $5.2 million, or 27.9%, to $23.7 million for the three months ended March 31, 2012 from $18.5 million for the three months ended March 31, 2011. Revenues for 2012 consisted of $17.8 million, or 75% of total revenue, for HealthStream Learning and $5.9 million, or 25% of total revenue, for HealthStream Research. In 2011, revenues consisted of $13.0 million, or 70% of total revenue, for HealthStream Learning and $5.5 million, or 30% of total revenue, for HealthStream Research.

Revenues for HealthStream Learning increased $4.8 million, or 37.0%, over the first quarter of 2011. Revenues from our Internet-based subscription learning products increased by $3.5 million, or 28.1% over the prior year first quarter due to a higher number of subscribers and more courseware consumption by subscribers. Our HLC subscriber base increased to 2,659,000 fully-implemented subscribers and 2,790,000 contracted subscribers at March 31, 2012 compared to 2,400,000 fully-implemented subscribers and 2,523,000 contracted subscribers at March 31, 2011. "Contracted subscribers" include both those already implemented (2,659,000 and 2,400,000 at March 31, 2012 and 2011, respectively) and those in the process of implementation (131,000 and 123,000 at March 31, 2012 and 2011, respectively). Revenues from SimVentures, our collaborative arrangement with Laerdal Medical, were approximately $374,000 during the first quarter of 2012 while there were no revenues during the first quarter of 2011. Revenues from project-based services increased by $595,000 compared to the prior year first quarter. Revenues for the first quarter of 2012 also include approximately $300,000 of registration fees from our customer Summit.

Revenues for HealthStream Research increased $357,000, or 6.5%, over the first quarter of 2011. Revenues from Patient Insights™ surveys, our survey research product that generates recurring revenues, increased by $556,000, or 13.1%, over the prior year first quarter. Revenues from other surveys, which are conducted on annual or bi-annual cycles, declined by $199,000, or 15.8%, compared to the prior year first quarter due to fewer survey engagements.

Cost of Revenues (excluding depreciation and amortization). Cost of revenues increased approximately $2.5 million, or 35.4%, to $9.6 million for the three months ended March 31, 2012 from $7.1 million for the three months ended March 31, 2011. Cost of revenues as a percentage of revenues was 40.4% of revenues for the three months ended March 31, 2012 compared to 38.2% of revenues for the three months ended March 31, 2011. Cost of revenues for HealthStream Learning increased approximately $2.2 million to $6.4 million and approximated 35.7% and 32.0% of revenues for HealthStream Learning for the three months ended March 31, 2012 and 2011, respectively. The increase is primarily associated with increased royalties paid by us resulting from growth in courseware subscription revenues and increased costs associated with project-based services. Cost of revenues for HealthStream Research increased approximately $310,000 to $3.2 million and approximated 54.8% and 52.8% of revenues for HealthStream Research for the three months ended March 31, 2012 and 2011, respectively. The increase in amount is primarily the result of additional costs associated with the growth in patient survey volume over the prior year first quarter.

Product Development. Product development expenses increased approximately $82,000, or 4.6%, to $1.9 million for the three months ended March 31, 2012 from $1.8 million for the three months ended March 31, 2011. Product development expenses as a percentage of revenues were 7.9% and 9.7% of revenues for the three months ended March 31, 2012 and 2011, respectively.

Product development expenses for HealthStream Learning increased approximately $62,000 and approximated 8.3% and 10.9% of revenues for HealthStream Learning for the three months ended March 31, 2012 and 2011, respectively. The decrease as a percentage of revenue is the result of the growth in revenues over the prior year first quarter, while the increase in amount is due to additional personnel expenses associated with the maintenance of our platform, as well as working on new product development initiatives. Product development expenses for HealthStream Research increased approximately $20,000 and approximated 6.7% and 6.8% of revenues for HealthStream Research for the three months ended March 31, 2012 and 2011, respectively.

Sales and Marketing. Sales and marketing expenses, including personnel costs, increased approximately $2.0 million, or 57.8%, to $5.5 million for the three months ended March 31, 2012 from $3.5 million for the three months ended March 31, 2011. Approximately $870,000 of the increase resulted from our customer Summit, which occurred during the first quarter of 2012, but was held during the second quarter of 2011. Sales and marketing expenses approximated 23.4% and 19.0% of revenues for the three months ended March 31, 2012 and 2011, respectively.

Sales and marketing expenses for HealthStream Learning increased $1.8 million and approximated 22.9% and 17.3% of revenues for HealthStream Learning for the three months ended March 31, 2012 and 2011, respectively. This expense increase is primarily due to the costs associated with our customer Summit, as well as, additional personnel and related expenses, increased marketing spending, and increased commissions associated with better sales performance compared to the prior year. Sales and marketing expenses for HealthStream Research increased approximately $181,000, and approximated 23.0% and 21.2% of revenues for HealthStream Research for the three months ended March 31, 2012 and 2011, respectively. The expense increase was primarily due to the costs associated with our customer Summit.

Other General and Administrative Expenses. Other general and administrative expenses increased approximately $277,000, or 10.9%, to $2.8 million for the three months ended March 31, 2012 from $2.5 million for the three months ended March 31, 2011. Other general and administrative expenses as a percentage of revenues approximated 11.9% and 13.7% for the three months ended March 31, 2012 and 2011, respectively.

Other general and administrative expenses for HealthStream Learning increased $41,000 over the prior year first quarter due to employee recruiting costs, while other general and administrative expenses for HealthStream Research decreased $91,000 compared to the prior year first quarter due to lower personnel costs. The unallocated corporate portion of other general and administrative expenses increased $327,000 over the prior year first quarter, primarily associated with personnel expenses, professional fees, stock based compensation expense, and other general expenses.

Depreciation and Amortization. Depreciation and amortization increased approximately $491,000, or 47.1%, to $1.5 million for the three months ended March 31, 2012 from $1.0 million for the three months ended March 31, 2011. The increase primarily resulted from amortization of capitalized software development assets within HealthStream Learning and depreciation expense associated with leasehold improvements to our Nashville, Tennessee office space.

Other Income (Expense), Net. Other expense, net was approximately $19,000 for three months ended March 31, 2012 compared to $20,000 for the three months ended March 31, 2011.

Income Tax Provision. The Company recorded a provision for income taxes of $940,000 for the three months ended March 31, 2012 compared to $1.1 million for the three months ended March 31, 2011. The Company's effective tax rate was 39.8% for the first quarter of 2012 compared to 40.8% for the first quarter of 2011. Actual tax payments will be substantially less than our income tax provision until we utilize our federal and state net operating loss carry-forwards of approximately $14.5 million and $12.6 million, respectively, at December 31, 2011, to offset taxable income.

Net Income. Net income decreased approximately $106,000, or 6.9%, to $1.4 million for the three months ended March 31, 2012 from $1.5 million for the three months ended March 31, 2011. Earnings per diluted share was $0.05 per share for the three months ended March 31, 2012, compared to $0.07 per diluted share for the three months ended March 31, 2011. Key factors impacting EPS (diluted) for the first quarter of 2012 were the effect of additional shares outstanding that were issued during the Company's fourth quarter 2011 follow-on stock offering and the timing of our customer Summit. The impact of the follow-on stock offering increased the outstanding share count by approximately 3.6 million shares for the three months ended March 31, 2012.

Adjusted EBITDA (which we define as net income before interest, income taxes, stock-based compensation, and depreciation and amortization) increased by 8.4% to approximately $4.1 million for the three months ended March 31, 2012 compared to $3.8 million for the three months ended March 31, 2011. This improvement is consistent with the factors mentioned in management's discussion and analysis of financial condition and results of operations herewith. See Reconciliation of Non-GAAP Financial Measures in Management's Discussion and Analysis of Financial Condition and Results of Operations for our reconciliation of this calculation to measures under US GAAP.

Reconciliation of Non-GAAP Financial Measures

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

The Company understands that, although adjusted EBITDA is frequently used by investors and securities analysts in their evaluation of companies, this measure has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for an analysis of the Company's results as reported under US GAAP. For example, adjusted EBITDA does not reflect cash expenditures, or future requirements for capital expenditures or contractual commitments; it does not reflect non-cash components of employee compensation; it does not reflect changes in, or cash requirements for, our working capital needs; and due to the Company's utilization of federal and state net operating loss carryforwards in 2011 and 2012, actual cash income tax payments have been significantly less than the tax provision recorded in accordance with US GAAP, and income tax payments will continue to be less than the income tax provision until our existing federal and state net operating loss carryforwards have been fully utilized or have expired.

Management compensates for the inherent limitations associated with using adjusted EBITDA through disclosure of such limitations, presentation of our financial statements in accordance with US GAAP, and reconciliation of adjusted EBITDA to net income, the most directly comparable US GAAP measure.

Income before interest, income tax provision, stock based compensation expense, depreciation and amortization, or adjusted EBITDA (in thousands):

	Three Months Ended March 31,	
	2012	2011
Net income	$1,420	$1,526
Interest income	(31)	(22)
Interest expense	12	9
Income tax provision	940	1,051
Stock based compensation expense	242	190
Depreciation and amortization	1,534	1,043
Adjusted EBITDA	$4,117	$3,797

Liquidity and Capital Resources

Net cash provided by operating activities was approximately $3.4 million and $3.5 million during the three months ended March 31, 2012 and 2011, respectively. The Company's primary sources of cash were receipts generated from the sales of our products and services. Days sales outstanding ("DSO") which is calculated by dividing the accounts receivable balance, excluding unbilled and other receivables, by average daily revenues for the quarter, approximated 63 days for both the first quarter of 2012 and 2011. The primary uses of cash to fund operations included personnel expenses, sales commissions, royalty payments, payments for contract labor and other direct expenses associated with delivery of our products and services, and general corporate expenses.

Net cash used in investing activities was approximately $56.6 million and $7.4 million for the three months ended March 31, 2012 and 2011, respectively. During 2012, the Company purchased $58.4 million of marketable securities, spent $1.0 million for capitalized software development, and purchased $0.8 million of property and equipment. These uses of cash were partially offset by maturities of marketable securities of $3.5 million. During 2011, the Company purchased $4.7 million of marketable securities, spent $4.1 million for capitalized software development, and purchased $0.7 million of property and equipment. These uses of cash were partially offset by maturities of marketable securities of $2.1 million.

Cash provided by financing activities was approximately $0.6 million and $0.2 million for the three months ended March 31, 2012 and 2011, respectively. The primary source of cash from financing activities for 2012 and 2011 resulted from proceeds associated with the exercise of stock options.

Revenues increased and operating income improved over the prior year period, and our balance sheet reflects positive working capital of $80.7 million at March 31, 2012 compared to $78.6 million at December 31, 2011. The increase in working capital was primarily due to the cash generated from operations. The Company's primary source of liquidity is $91.6 million of cash and cash equivalents and marketable securities. The Company also has a $20.0 million revolving credit facility loan agreement, all of which was available at March 31, 2012.

We believe that our existing cash and cash equivalents, marketable securities, cash generated from operations, and available borrowings under our revolving credit facility will be sufficient to meet anticipated cash needs for working capital, new product development and capital expenditures for at least the next 12 months. Over the past seven years, we have utilized our federal and state net operating loss carryforwards to offset taxable income. We anticipate our remaining net operating loss carryforwards could become fully utilized within the next 24 months. Our actual tax payments may increase significantly once the net operating loss carryforwards are fully utilized. As part of our growth strategy, we review possible acquisitions that complement our products and services. We anticipate that future acquisitions, if any, would be effected through a combination of stock and cash consideration. The issuance of our stock as consideration for an acquisition could have a dilutive effect on earnings per share and could adversely affect our stock price. Because we have no material debt or outstanding borrowings under our revolving credit facility, our balance sheet is unleveraged. Our revolving credit facility contains financial covenants and availability calculations designed to set a maximum leverage ratio of outstanding debt to equity. Therefore, if we were to borrow against our revolving credit facility, our debt capacity would be dependent on the covenant values at the time of borrowing. As of March 31, 2012, we believe we were in compliance with all covenants. The credit markets have been experiencing extreme volatility and disruption, and we cannot provide assurances that if we need additional financing that it will be available on terms favorable to us, or at all. Failure to generate sufficient cash flow from operations or raise additional capital when required in sufficient amounts and on terms acceptable to us could harm our business, financial condition and results of operations.

Item 3. *Quantitative and Qualitative Disclosures about Market Risk*

The Company is 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, 2012, the Company had no outstanding debt. We may become subject to interest rate market risk associated with any future borrowings under our revolving credit facility. The interest rate under the revolving credit facility is based on 30 Day LIBOR plus a margin of either 175 or 200 basis points determined in accordance with a pricing grid. We are exposed to market risk with respect to our cash and investment balances, which approximated $91.6 million at March 31, 2012. Assuming a hypothetical 10% decrease in interest rates, interest income from cash and investments would decrease on an annualized basis by approximately $16,000.

The Company's investment policy and strategy is focused on investing in highly rated securities, with the objective of minimizing the potential risk of principal loss. The Company's policy limits the amount of credit exposure to any single issuer and sets limits on the average portfolio maturity.

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.

Item 4. *Controls and Procedures*

Evaluation of Controls and Procedures

HealthStream's chief executive officer and principal financial officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this Quarterly Report. Based on that evaluation, the chief executive officer and principal financial officer have concluded that HealthStream's disclosure controls and procedures were effective to ensure that the information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and the information required to be disclosed in the reports the Company files or submits under the Exchange Act was accumulated and communicated to the Company's management, including its chief executive and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There was no change in HealthStream's internal control over financial reporting that occurred during the period covered by this Quarterly Report that has materially affected, or that is reasonably likely to materially affect, HealthStream's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 6. *Exhibits*

(a) Exhibits

10.14^ - Form of HealthStream Inc. Restricted Share Unit Agreement (Officer)

10.15^ - Form of HealthStream Inc. Restricted Share Unit Agreement (Non-Employee Director)

31.1 – Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 – Certification of the Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 – Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 – Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.1 INS* – XBRL Instance Document

101.1 SCH* – XBRL Taxonomy Extension Schema

101.1 CAL* – XBRL Taxonomy Extension Calculation Linkbase

101.1 DEF* – XBRL Taxonomy Extension Definition Linkbase

101.1 LAB* – XBRL Taxonomy Extension Label Linkbase

101.1 PRE* – XBRL Taxonomy Extension Presentation Linkbase

^ - Management contract or compensatory plan or arrangement

* - The XBRL-related information in Exhibit No. 101 to this Quarterly Report on Form 10-Q is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

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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.:

April 30, 2012

By: /s/ GERARD M. HAYDEN, JR.
Gerard M. Hayden, Jr.
Chief Financial Officer

HEALTHSTREAM, INC.

EXHIBIT INDEX

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^ - Management contract or compensatory plan or arrangement

* - The XBRL-related information in Exhibit No. 101 to this Quarterly Report on Form 10-Q is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

Exhibit 10.14

HEALTHSTREAM, INC.
RESTRICTED SHARE UNIT AGREEMENT
(OFFICER)

This RESTRICTED SHARE UNIT AGREEMENT (this “Agreement”) is made and entered into as of the 18th day of March, 2012 (the “Grant Date”), between HealthStream, Inc., a Tennessee corporation (together with its Subsidiaries and Affiliates, the “Company”), and [ ] (the “Grantee”). Capitalized terms not otherwise defined herein shall have the meaning ascribed to such terms in the HealthStream, Inc. 2010 Stock Incentive Plan (the “Plan”).

WHEREAS, the Company has adopted the Plan, which permits the issuance of Restricted Share Units; and

WHEREAS, the Compensation Committee of the Board of Directors of the Company, including any subcommittee formed pursuant to Section 3.3 of the Plan (or, if no such committee is appointed, the Board of Directors of the Company) (the “Committee”) has determined that it would be to the advantage and best interest of the Company and its shareholders to grant an award of the Restricted Share Units provided for herein to the Grantee as an incentive for increased efforts during his or her term of service or employment with the Company or its Subsidiaries or Affiliates, and has advised the Company thereof and instructed the undersigned officers to issue said Restricted Share Units;

NOW, THEREFORE, the parties hereto agree as follows:

RESTRICTED SHARE UNIT GRANT

Grantee:	**[ ]**
Aggregate number of Restricted Share Units Granted hereunder:	**[ ]**
Grant Date:	**[ ]**

1. Grant of Restricted Share Unit Award.

1.1 The Company hereby grants to the Grantee the award (“Award”) of Restricted Share Units (“RSUs”) set forth above on the terms and conditions set forth in this Agreement and as otherwise provided in the Plan. Each RSU shall have a value equal to the Fair Market Value of one Share. A bookkeeping account will be maintained by the Company to keep track of the RSUs.

1.2 The Grantee’s rights with respect to the Award shall remain forfeitable at all times prior to the dates on which the RSUs shall vest in accordance with Section 2 hereof. This Award may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by Grantee other than by will or the laws of descent and distribution.

2. Vesting and Payment.

2.1 Vesting. Except as provided in Section 2.3, the RSUs subject to this Award shall vest as follows:
15% of the RSUs shall vest on the first anniversary of the grant date;
An additional 20% of the RSUs shall vest on the second anniversary of the grant date;
An additional 30% of the RSUs shall vest on the third anniversary of the grant date; and
The remaining 35% of the RSUs shall vest on the fourth anniversary of the grant date.

2.2 [intentionally omitted]

2.3 Change in Control. Notwithstanding the foregoing, upon the occurrence of a Change in Control, this Award shall become vested immediately prior to a Change in Control as to 100% of the RSUs (but only to the extent such Award has not otherwise terminated or become vested).

2.4 Settlement. The Grantee shall be entitled to settlement of the RSUs subject to this Award at the time that such RSUs vest pursuant to Section 2.1 or Section 2.3, as applicable. Such settlement shall be made as promptly as practicable thereafter (but in no event after the fifteenth day following the applicable vesting date, or in the case of a Change in Control, the Change in Control). Any settlement of RSUs granted pursuant to this Award shall be made in Shares through the issuance to the Grantee of a stock certificate (or evidence such Shares have been registered in the name of the Grantee with the relevant stock agent) for a number of Shares equal to the number of such vested RSUs. The Committee, may in its discretion, provide that the ownership of Shares upon the vesting of the RSUs shall be evidenced by a "book entry" (i.e., a computerized or manual entry) in the records of the Company or its designated agent in the name of the Grantee who has become vested in such Shares. The Grantee will not be entitled to any dividend equivalent or voting rights with regard to the RSUs.

2.5 Termination. Except as otherwise provided by the Committee, this Award shall not become vested as to any additional RSUs following the Grantee's termination of employment with the Company for any reason and Grantee shall forfeit any unvested RSUs as of the date of such termination of employment.

2.6 Withholding Obligations. Prior to the settlement of any RSUs subject to this Award, Grantee shall provide (i) full payment (in cash or by check or by a combination thereof) to satisfy the minimum withholding tax obligation with respect to which the Award or portion thereof shall settle or (ii) indication that the Grantee elects to tender to the Company Shares owned by the Grantee (or by the Grantee and his or her spouse jointly) and purchased and held for the requisite period of time as may be required to avoid the Company's incurring an adverse accounting charge, based on the Fair Market Value of such Shares on the payment date necessary to satisfy the minimum withholding tax obligation that would otherwise be required to be paid by the Grantee to the Company pursuant to clause (i) of this Section 2.6, or (iii) if made available by the Company, indication that the Grantee elects to have the number of Shares that would otherwise be issued to the Grantee upon settlement of the Award (or portion thereof) reduced by a number of Shares having an aggregate Fair Market Value, on the date of such issuance, equal to the payment to satisfy the minimum withholding tax obligation that would otherwise be required to be made by the Grantee to the Company pursuant to clause (i) of this Section 2.6. For the avoidance of doubt, the Company may satisfy the Grantee's withholding obligation from the Grantee's other compensation which may be payable by the Company, including any withholding obligation which may not be satisfied though the procedures identified in this Section 2.6.

3. No Right to Continued Service. Nothing in this Agreement or the Plan shall be interpreted or construed to confer upon the Grantee any right to continue service as an officer or employee of the Company.

4. Adjustments. The provisions of Section 4.2 and Section 14.3 of the Plan are hereby incorporated by reference, and the RSUs are subject to such provisions. Any determination made by the Committee pursuant to such provisions shall be made in accordance with the provisions of the Plan and shall be final and binding for all purposes of the Plan and this Agreement.

5. Administration Subject to the Plan. The Grantee hereby acknowledges receipt of a copy of (or an electric link to) the Plan and agrees to be bound by all the terms and provisions thereof. The terms of this Agreement are governed by the terms of the Plan, and in the case of any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan shall govern. The Committee shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee shall be final and binding upon the Grantee, the Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Award.

6. Modification of Agreement. Subject to the restrictions contained in the Plan and applicable law (including compliance with Section 409A of the Code), the Committee may waive any conditions or rights under, amend any terms of, or alter, suspend, discontinue, cancel or terminate, the RSU, prospectively or retroactively.

7. Section 409A. Notwithstanding anything herein to the contrary, to the maximum extent permitted by applicable law, the settlement of the RSUs to be made to the Grantee pursuant to this Agreement is intended to qualify as a "short-term deferral" pursuant to Section 1.409A-1(b)(4) of the Regulations and this Agreement shall be interpreted consistently therewith. However, in any circumstances where the settlement of the RSUs may not so qualify, the Committee shall administer the grant and settlement of such RSUs in strict compliance with Section 409A of the Code. Further, notwithstanding anything herein to the contrary, to the extent that this Award constitutes deferred compensation for purposes of Section 409A of the Code (i) no RSU payable upon the Grantee's termination of service shall be issued, unless Grantee's termination of service constitutes a "separation from service" within the meaning of Section 1.409A-1(h) of the Treasury Regulations and (ii) if at the time of a Grantee's termination of employment with the Company and all "service recipients" (as defined in the applicable provision of the Treasury Regulations), the Grantee is a "specified employee" as defined in Section 409A of the Code, and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of service is necessary

in order to prevent the imposition of any accelerated or additional tax under Section 409A of the Code, then the Company will defer the commencement of the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided to the Grantee) to the minimum extent necessary to satisfy Section 409A of the Code until the date that is six months and one day following the Participant's termination of employment with the Company (or the earliest date as is permitted under Section 409A of the Code), if such payment or benefit is payable upon a termination of employment. Each payment of RSUs constitutes a "separate payment" for purposes of Section 409A of the Code. Notwithstanding any other provision of this Agreement or the Plan to the contrary, to the extent that this RSU Agreement constitutes deferred compensation for purposes of Section 409A of the Code, a "Change in Control" for purposes of this Agreement shall mean "change in the ownership of the Company," a "change in the effective control of the Company," or a "change in the ownership of a substantial portion of the Company's assets," as such terms are defined in Section 1.409A-3(i)(5) of the Treasury Regulations.

8. No Right to Continued Employment. The grant of the RSU shall not be construed as giving the Grantee the right to be retained in the service of the Company, and the Company may at any time dismiss the Grantee from service, free from any liability or any claim under the Plan.

9. Severability. If any provision of this Agreement is, or becomes, or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any Person or the Award, or would disqualify the Plan or Award under any laws deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Person or Award, and the remainder of the Plan and Award shall remain in full force and effect.

10. Governing Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Tennessee without giving effect to the conflicts of law principles thereof, except to the extent that such laws are preempted by Federal law.

11. Successors in Interest. This Agreement shall inure to the benefit of and be binding upon any successor to the Company. This Agreement shall inure to the benefit of the Grantee's legal representatives. All obligations imposed upon the Grantee and all rights granted to the Company under this Agreement shall be binding upon the Grantee's heirs, executors, administrators and successors.

12. Resolution of Disputes. Any dispute or disagreement which may arise under, or as a result of, or in any way related to, the interpretation, construction or application of this Agreement shall be determined by the Committee. Any determination made hereunder shall be final, binding and conclusive on the Grantee and the Company for all purposes.

13. Notices. All notices required to be given under this Award shall be deemed to be received if delivered or mailed as provided for herein to the parties at the following addresses, or to such other address as either party may provide in writing from time to time.

To the Company:	HealthStream, Inc. Cummins Station, Suite 450 209 10th Avenue South Nashville TN 37203
To the Grantee:	The address then maintained with respect to the Grantee in the Company's records.

IN WITNESS WHEREOF, the parties have caused this Restricted Share Unit Agreement to be duly executed effective as of the day and year first above written.

HEALTHSTREAM, INC.:

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

GRANTEE:

Exhibit 10.15

HEALTHSTREAM, INC.
RESTRICTED SHARE UNIT AGREEMENT
(NON-EMPLOYEE DIRECTOR)

This RESTRICTED SHARE UNIT AGREEMENT (this “Agreement”) is made and entered into as of the 18th day of March, 2012 (the “Grant Date”), between HealthStream, Inc., a Tennessee corporation (together with its Subsidiaries and Affiliates, the “Company”), and [ ] (the “Grantee”). Capitalized terms not otherwise defined herein shall have the meaning ascribed to such terms in the HealthStream, Inc. 2010 Stock Incentive Plan (the “Plan”).

WHEREAS, the Company has adopted the Plan, which permits the issuance of Restricted Share Units; and

WHEREAS, the Board of Directors of the Company, (the “Board”) has determined that it would be to the advantage and best interest of the Company and its shareholders to grant an award of the Restricted Share Units provided for herein to the Grantee as an incentive for increased efforts during his or her term of service or employment with the Company or its Subsidiaries or Affiliates, and has advised the Company thereof and instructed the undersigned officers to issue said Restricted Share Units;

NOW, THEREFORE, the parties hereto agree as follows:

RESTRICTED SHARE UNIT GRANT

Grantee: **[ ]**

Aggregate number of Restricted Share Units
Granted hereunder: **[ ]**

Grant Date: **[ ]**

1. Grant of Restricted Share Unit Award.

1.1 The Company hereby grants to the Grantee the award (“Award”) of Restricted Share Units (“RSUs”) set forth above on the terms and conditions set forth in this Agreement and as otherwise provided in the Plan. Each RSU shall have a value equal to the Fair Market Value of one Share. A bookkeeping account will be maintained by the Company to keep track of the RSUs.

1.2 The Grantee’s rights with respect to the Award shall remain forfeitable at all times prior to the dates on which the RSUs shall vest in accordance with Section 2 hereof. This Award may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by Grantee other than by will or the laws of descent and distribution.

2. Vesting and Payment.

2.1 Vesting. Except as provided in Section 2.3, the RSUs subject to this Award shall vest as follows:

i. 1/3 of the RSUs shall vest on the first anniversary of the grant date;
ii. An additional 1/3 of the RSUs shall vest on the second anniversary of the grant date; and
iii. The remaining 1/3 of the RSUs shall vest on the third anniversary of the grant date.

2.2 [intentionally omitted]

2.3 Change in Control. Notwithstanding the foregoing, upon the occurrence of a Change in Control, this Award shall become vested immediately prior to a Change in Control as to 100% of the RSUs (but only to the extent such Award has not otherwise terminated or become vested).

2.4 Settlement. The Grantee shall be entitled to settlement of the RSUs subject to this Award at the time that such RSUs vest pursuant to Section 2.1 or Section 2.3, as applicable. Such settlement shall be made as promptly as practicable thereafter (but in no event after the fifteenth day following the applicable vesting date, or in the case of a Change in Control, the Change in Control). Any settlement of RSUs granted pursuant to this Award shall be made in Shares through the issuance to the Grantee of a stock certificate (or evidence such Shares have been registered in the name of the Grantee with the relevant stock agent) for a number of Shares equal to the number of such vested RSUs. The Board, may in its discretion, provide that the ownership of Shares upon the vesting of the RSUs shall be evidenced by a "book entry" (i.e., a computerized or manual entry) in the records of the Company or its designated agent in the name of the Grantee who has become vested in such Shares. The Grantee will not be entitled to any dividend equivalent or voting rights with regard to the RSUs.

2.5 Termination. Except as otherwise provided by the Board, this Award shall not become vested as to any additional RSUs following the Grantee's termination of service with the Company for any reason and Grantee shall forfeit any unvested RSUs as of the date of such termination of service.

3. No Right to Continued Service. Nothing in this Agreement or the Plan shall be interpreted or construed to confer upon the Grantee any right to continue service as a member of the Board.

4. Adjustments. The provisions of Section 4.2 and Section 14.3 of the Plan are hereby incorporated by reference, and the RSUs are subject to such provisions. Any determination made by the Board pursuant to such provisions shall be made in accordance with the provisions of the Plan and shall be final and binding for all purposes of the Plan and this Agreement.

5. Administration Subject to the Plan. The Grantee hereby acknowledges receipt of a copy of (or an electric link to) the Plan and agrees to be bound by all the terms and provisions thereof. The terms of this Agreement are governed by the terms of the Plan, and in the case of any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan shall govern. The Board shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules. All actions taken and all interpretations and determinations made by the Board shall be final and binding upon the Grantee, the Company and all other interested persons. No member of the Board shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Award.

6. Modification of Agreement. Subject to the restrictions contained in the Plan and applicable law (including compliance with Section 409A of the Code), the Board may waive any conditions or rights under, amend any terms of, or alter, suspend, discontinue, cancel or terminate, the RSU, prospectively or retroactively.

7. Taxes; Section 409A. The Grantee shall be responsible for all taxes due in connection with the grant or vesting or any payment or transfer with respect to the RSUs and Shares (and cash, if applicable) payable hereunder. Notwithstanding anything herein to the contrary, to the maximum extent permitted by applicable law, the settlement of the RSUs to be made to the Grantee pursuant to this Agreement is intended to qualify as a "short-term deferral" pursuant to Section 1.409A-1(b)(4) of the Regulations and this Agreement shall be interpreted consistently therewith. However, in any circumstances where the settlement of the RSUs may not so qualify, the Board shall administer the grant and settlement of such RSUs in strict compliance with Section 409A of the Code. Further, notwithstanding anything herein to the contrary, to the extent that this Award constitutes deferred compensation for purposes of Section 409A of the Code (i) no RSU payable upon the Grantee's termination of service shall be issued, unless Grantee's termination of service constitutes a "separation from service" within the meaning of Section 1.409A-1(h) of the Treasury Regulations and (ii) if at the time of a Grantee's termination of employment with the Company and all "service recipients" (as defined in the applicable provision of the Treasury Regulations), the Grantee is a "specified employee" as defined in Section 409A of the Code, and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of service is necessary in order to prevent the imposition of any accelerated or additional tax under Section 409A of the Code, then the Company will defer the commencement of the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided to the Grantee) to the minimum extent necessary to satisfy Section 409A of the Code until the date that is six months and one day following the Participant's termination of employment with the Company (or the earliest date as is permitted under Section 409A of the Code), if such payment or benefit is payable upon a termination of employment. Each payment of RSUs constitutes a "separate payment" for purposes of Section 409A of the Code. Notwithstanding any other provision of this Agreement or the Plan to the contrary, to the extent that this RSU Agreement constitutes deferred compensation for purposes of Section 409A of the Code, a "Change in Control" for purposes of this Agreement shall mean "change in the ownership of the Company," a "change in the effective control of the Company," or a "change in the ownership of a substantial portion of the Company's assets," as such terms are defined in Section 1.409A-3(i)(5) of the Treasury Regulations.

8. No Right to Continued Employment. The grant of the RSU shall not be construed as giving the Grantee the right to be retained in the service of the Company, and the Company may at any time dismiss the Grantee from service, free from any liability or any claim under the Plan.

9. Severability. If any provision of this Agreement is, or becomes, or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any Person or the Award, or would disqualify the Plan or Award under any laws deemed applicable by the Board, such provision shall be construed or deemed amended to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Board, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Person or Award, and the remainder of the Plan and Award shall remain in full force and effect.

10. Governing Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Tennessee without giving effect to the conflicts of law principles thereof, except to the extent that such laws are preempted by Federal law.

11. Successors in Interest. This Agreement shall inure to the benefit of and be binding upon any successor to the Company. This Agreement shall inure to the benefit of the Grantee's legal representatives. All obligations imposed upon the Grantee and all rights granted to the Company under this Agreement shall be binding upon the Grantee's heirs, executors, administrators and successors.

12. Resolution of Disputes. Any dispute or disagreement which may arise under, or as a result of, or in any way related to, the interpretation, construction or application of this Agreement shall be determined by the Board. Any determination made hereunder shall be final, binding and conclusive on the Grantee and the Company for all purposes.

13. Notices. All notices required to be given under this Award shall be deemed to be received if delivered or mailed as provided for herein to the parties at the following addresses, or to such other address as either party may provide in writing from time to time.

To the Company: HealthStream, Inc.
Cummins Station, Suite 450
209 10th Avenue South
Nashville TN 37203

To the Grantee: The address then maintained with respect to the Grantee in the Company's records.

IN WITNESS WHEREOF, the parties have caused this Restricted Share Unit Agreement to be duly executed effective as of the day and year first above written.

HEALTHSTREAM, INC.

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

GRANTEE:

____

<u>Exhibit 31.1</u>

I, Robert A. Frist, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of HealthStream, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 30, 2012

/S/ ROBERT A. FRIST, JR.

Robert A. Frist, Jr.
Chief Executive Officer

Exhibit 31.2

I, Gerard M. Hayden, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of HealthStream, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 30, 2012

/S/ GERARD M. HAYDEN, JR.

Gerard M. Hayden, Jr.
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of HealthStream, Inc. (the “Company”) on Form 10-Q for the period ending March 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Robert A. Frist, Jr., Chief Executive Officer of the Company, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ROBERT A. FRIST, JR.
Robert A. Frist, Jr.
Chief Executive Officer
April 30, 2012

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of HealthStream, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Gerard M. Hayden, Jr., Chief Financial Officer of the Company, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ GERARD M. HAYDEN, JR.
Gerard M. Hayden, Jr.
Chief Financial Officer
April 30, 2012