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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): July 27, 2020 (July 27, 2020)

HealthStream, Inc.

(Exact name of Registrant as Specified in Its Charter)

Tennessee
(State or Other Jurisdiction
of Incorporation)

000-27701
(Commission File Number)

62-1443555
(IRS Employer
Identification No.)

500 11th Avenue North, Suite 1000,
Nashville, Tennessee
(Address of Principal Executive Offices)

37203
(Zip Code)

Registrant's Telephone Number, Including Area Code: 615-301-3100

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of each Class</u> | <u>Trading Symbol(s)</u> | <u>Name of each exchange on which registered</u> |
|---------------------------------|--------------------------|--|
| Common Stock (Par Value \$0.00) | HSTM | Nasdaq |

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instructions A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02 Results of Operations and Financial Condition.

On July 27, 2020, HealthStream, Inc. (the “Company”) issued a press release announcing results of operations for the second quarter ended June 30, 2020, the text of which is set forth in Exhibit 99.1.

Item 7.01 Regulation FD Disclosure

On July 27, 2020, the Company issued a press release announcing results of operations for the second quarter ended June 30, 2020, the text of which is set forth in Exhibit 99.1.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

| <u>Exhibit Number</u> | <u>Description</u> |
|---------------------------|--|
| 99.1* | Press release dated July 27, 2020 |
| 104 | Cover Page Interactive Data File (embedded within the Inline XBRL document). |

* Furnished herewith.

Exhibit Index

| Exhibit Number | Description |
|-------------------|--|
| 99.1* | Press release dated July 27, 2020 |
| 104 | Cover Page Interactive Data File (embedded within the Inline XBRL document). |

* Furnished herewith.

SIGNATURES

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.

Date: July 27, 2020

By: _____
/s/ Scott A. Roberts
Scott A. Roberts
Chief Financial Officer

Exhibit 99.1

Contact: Scott A. Roberts
Chief Financial Officer
(615) 301-3182
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Media:
Mollie Condra, Ph.D.
Vice President,
Investor Relations &
Communications
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HEALTHSTREAM ANNOUNCES SECOND QUARTER 2020 RESULTS

NASHVILLE, Tenn. (July 27, 2020)—HealthStream, Inc. (Nasdaq: HSTM), a leading provider of workforce and provider solutions for the healthcare industry, announced today results for the second quarter ended June 30, 2020. In this earnings release, results for the six months ended June 30, 2020 and 2019 are presented for continuing operations only, unless otherwise indicated, as our results for the six months ended June 30, 2019 reflect a gain on the sale of our previously divested Patient Experience business included in discontinued operations. In contrast, our results for the three months ended June 30, 2020 and 2019 do not include any discontinued operations.

- Revenues of \$60.6 million in the second quarter of 2020, down 5% from \$63.8 million in the second quarter of 2019.
- Operating income of \$4.3 million in the second quarter of 2020 compared to \$2.3 million in the second quarter of 2019.
- Net income of \$3.4 million in the second quarter of 2020, up 43% from \$2.4 million in the second quarter of 2019.
- Earnings per share (EPS) of \$0.11 per share (diluted) in the second quarter of 2020 compared to \$0.07 per share (diluted) in the second quarter of 2019.
- Adjusted EBITDA¹ of \$12.0 million in the second quarter of 2020, up 2% from \$11.8 million in the second quarter of 2019.

Financial Results:

Second Quarter 2020 Compared to Second Quarter 2019

Revenues for the second quarter of 2020 decreased by \$3.2 million, or 5 percent, to \$60.6 million, compared to \$63.8 million for the second quarter of 2019.

Revenues from our Workforce Solutions segment were \$48.9 million for the second quarter of 2020, compared to \$52.4 million for the second quarter of 2019. Revenues from legacy resuscitation products accounted for this decline, as such products decreased by \$4.8 million and were \$10.7 million in the second quarter of 2020 compared to \$15.5 million in the second quarter of 2019. Other workforce revenues increased by \$1.3 million, representing an increase in platform and content subscriptions of \$1.8 million, or 5 percent, offset by a decline in professional services revenues of \$0.5 million, or 34 percent. Revenues from our Provider Solutions segment were \$11.7 million for the second quarter of 2020, compared to \$11.4 million for the second quarter of 2019. Revenue growth of \$0.3 million was primarily attributable to revenues from the CredentialMyDoc acquisition, which was completed in December 2019.

¹ Adjusted EBITDA is a non-GAAP financial measure. A reconciliation of adjusted EBITDA to net income and disclosure regarding why we believe adjusted EBITDA provides useful information to investors is included later in this release.

Operating income was \$4.3 million for the second quarter of 2020 compared to \$2.3 million from the second quarter of 2019. Operating costs and expenses were favorable compared to last year, primarily due to a \$2.2 million charge for stock-based compensation and related expense recorded in the second quarter of 2019 related to a stock grant to employees facilitated by our CEO. Also, certain operating expenses declined during the second quarter in response to the COVID-19 pandemic. Notably, operating expenses related to travel declined by \$1.1 million and operating expenses related to the cancellation of tradeshows declined \$0.2 million, each when compared to the second quarter of 2019. Although these reductions to expense were favorable to operating income results during the second quarter of 2020, they also are indicative of the negative impact the pandemic is having on our ability to market and sell our products through traditional, in-person means, which resulted in lower sales volumes during the second quarter of 2020 compared to the prior year quarter. These favorable expense reductions were offset in part by higher personnel costs due to increased staffing levels and higher amortization associated with capitalized software and acquired intangibles.

Net income was \$3.4 million in the second quarter of 2020, up 43 percent from \$2.4 million in the second quarter of 2019, and EPS was \$0.11 per share (diluted) in the second quarter of 2020, compared to \$0.07 per share (diluted) for the second quarter of 2019.

Adjusted EBITDA was \$12.0 million for the second quarter of 2020, up 2 percent from \$11.8 million in the second quarter of 2019.

At June 30, 2020, the Company had cash and cash equivalents and marketable securities of \$144.5 million. Capital expenditures incurred during the second quarter of 2020 were \$4.3 million.

Year-to-Date 2020 Compared to Year-to-Date 2019

For the first six months of 2020, revenues were \$122.1 million, a decrease of 5 percent over revenues of \$129.0 million for the first six months of 2019. Operating income for the first six months of 2020 increased by 51 percent to \$11.5 million, compared to \$7.6 million for the first six months of 2019. Income from continuing operations for the first six months of 2020 was \$10.5 million, up 47 percent from \$7.2 million for the first six months of 2019. The first six months of 2019 were negatively impacted by the \$2.2 million expense associated with the stock grant to employees facilitated by our CEO as noted above. Earnings per share from continuing operations were \$0.33 per share (diluted) for the first six months of 2020, compared to \$0.22 per share (diluted) for the first six months of 2019. Net income for the first six months of 2020 increased to \$10.5 million, compared to \$8.4 million for the first six months of 2019. Earnings per share were \$0.33 per share (diluted) for the first six months of 2020, compared to \$0.26 per share (diluted) for the first six months of 2019. Adjusted EBITDA from continuing operations decreased by 2 percent to \$23.8 million for the first six months of 2020, compared to \$24.2 million for the first six months of 2019. Adjusted EBITDA (from continuing and discontinued operations) decreased to \$23.8 million for the first six months of 2020, compared to \$25.9 million for the first six months of 2019.

Other Business Updates

At June 30, 2020, we had approximately 3.48 million contracted subscriptions to hStream™, our Platform-as-a-Service technology. hStream technology enables healthcare organizations and their respective workforces to easily connect to and gain value from the growing HealthStream ecosystem of applications, tools, and content.

Financial Outlook for 2020

The Company continues to believe that the extent, timing, and duration of COVID-19's negative impact on its operating results and financial condition will be driven by many factors, including the length and severity of the COVID-19 pandemic and the impact of the pandemic on economic activity,

particularly with respect to healthcare organizations. As a result of the unpredictable and evolving environment related to the COVID-19 pandemic, at this time the Company cannot reasonably quantify the impact that the pandemic will have on its operating and financial results for the remainder of 2020. Due to this continued uncertainty, the Company is not providing 2020 guidance in this earnings release.

“At mid-year 2020, it appears that the coronavirus pandemic is on a dramatic upswing in the U.S., pressing healthcare providers with continued excessive demand to address the needs of COVID-19 patients,” said Robert A. Frist, Jr., Chief Executive Officer, HealthStream. “Our commitment to support them remains strong as everyone faces great uncertainty, which I believe is understandably resulting in some delayed purchasing decisions.”

A conference call with Robert A. Frist, Jr., Chief Executive Officer, Scott A. Roberts, Chief Financial Officer and Senior Vice President, and Mollie Condra, Vice President of Investor Relations and Corporate Communications, will be held on Tuesday, July 28, 2020, at 9:00 a.m. (ET). To listen to the conference, please dial 877-647-2842 (no conference ID needed) if you are calling within the domestic U.S. or Canada. If you are an international caller, please dial 914-495-8564 (no conference ID needed). The conference may also be accessed by going to <http://ir.healthstream.com/events.cfm> for the simultaneous Webcast of the call, which will subsequently be available for replay. The replay telephone numbers are 855-859-2056 (conference ID #8148633) for U.S. and Canadian callers and 404-537-3406 (conference ID #8148633) for international callers.

Use of Non-GAAP Financial Measures

This press release presents adjusted EBITDA from continuing operations and adjusted EBITDA, both of which are non-GAAP financial measures used by management in analyzing the Company's financial results and ongoing operational performance. In order to better assess the Company's financial results, management believes that net income before interest, income taxes, stock based compensation, depreciation and amortization, changes in fair value of non-marketable equity investments, and the de-recognition of non-cash royalty expense resulting from our resolution of a mutual disagreement related to various elements of a past partnership which resulted in a reduction to cost of sales in the first quarter of 2020 (“adjusted EBITDA”) is a useful measure for evaluating the operating performance of the Company because adjusted EBITDA reflects net income adjusted for certain non-cash and non-operating items. Management also believes that adjusted EBITDA from continuing operations is a useful measure for evaluating the operating performance of the Company because such measure excludes the results of operations of the PX business that we no longer own and the gain on sale in connection with the sale of such business in February 2018 and thus reflects the Company's ongoing business operations and assists in comparing the Company's results of operations between periods. We also believe that adjusted EBITDA and adjusted EBITDA from continuing operations are useful to many investors to assess the Company's ongoing results from current operations. Adjusted EBITDA and adjusted EBITDA from continuing operations are non-GAAP financial measures and should not be considered as measures of financial performance under GAAP. Because adjusted EBITDA and adjusted EBITDA from continuing operations are not measurements determined in accordance with GAAP, such non-GAAP financial measures are susceptible to varying calculations. Accordingly, adjusted EBITDA and adjusted EBITDA from continuing operations, as presented, may not be comparable to other similarly titled measures of other companies and have limitations as analytical tools. These non-GAAP financial measures should not be considered a substitute for, or superior to, measures of financial performance, which are prepared in accordance with GAAP, and may be different from non-GAAP financial measures used by other companies. Investors are encouraged to review the reconciliations of our GAAP to non-GAAP financial measures, which are set forth below in this release.

About HealthStream

HealthStream (Nasdaq: HSTM) is dedicated to improving patient outcomes through the development of healthcare organizations' greatest asset: their people. Our unified suite of solutions is contracted by healthcare organizations across the U.S. for workforce development, training & learning management, talent management, credentialing, privileging, provider enrollment, performance assessment, and managing simulation-based education programs. Based in Nashville, Tennessee, HealthStream has additional offices in Jericho, New York; Boulder, Colorado; Denver, Colorado; San Diego, California; Chicago, Illinois; and Portland, Oregon. For more information, visit <http://www.healthstream.com> or call 800-521-0574.

HEALTHSTREAM, INC.
Condensed Consolidated Statements of Income
(In thousands, except per share data)
(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------------|------------------|------------------|
| | June 30, 2020 | June 30, 2019 | June 30, 2020 | June 30, 2019 |
| Revenues, net | \$ 60,553 | \$ 63,781 | \$ 122,125 | \$ 128,967 |
| Operating costs and expenses: | | | | |
| Cost of revenues (excluding depreciation and amortization) | 22,935 | 26,806 | 43,294 | 53,667 |
| Product development | 7,830 | 7,640 | 15,298 | 14,567 |
| Sales and marketing | 8,236 | 9,819 | 17,424 | 19,340 |
| Other general and administrative expenses | 10,098 | 10,306 | 19,963 | 20,276 |
| Depreciation and amortization | 7,150 | 6,942 | 14,599 | 13,480 |
| Total operating costs and expenses | 56,249 | 61,513 | 110,578 | 121,330 |
| Operating income | 4,304 | 2,268 | 11,547 | 7,637 |
| Other income, net | 199 | 852 | 1,906 | 1,674 |
| Income from continuing operations before income tax provision | 4,503 | 3,120 | 13,453 | 9,311 |
| Income tax provision | 1,061 | 719 | 2,920 | 2,130 |
| Income from continuing operations | 3,442 | 2,401 | 10,533 | 7,181 |
| Discontinued operations: | | | | |
| Gain on sale of discontinued operations | — | — | — | 1,620 |
| Income tax provision | — | — | — | 426 |
| Income from discontinued operations | — | — | — | 1,194 |
| Net income | \$ 3,442 | \$ 2,401 | \$ 10,533 | \$ 8,375 |
| Net income per share – basic: | | | | |
| Continuing operations | \$ 0.11 | \$ 0.07 | \$ 0.33 | \$ 0.22 |
| Discontinued operations | — | — | — | 0.04 |
| Net income per share - basic | \$ 0.11 | \$ 0.07 | \$ 0.33 | \$ 0.26 |
| Net income per share - diluted: | | | | |
| Continuing operations | \$ 0.11 | \$ 0.07 | \$ 0.33 | \$ 0.22 |
| Discontinued operations | — | — | — | 0.04 |
| Net income per share - diluted | \$ 0.11 | \$ 0.07 | \$ 0.33 | \$ 0.26 |
| Weighted average shares of common stock outstanding: | | | | |
| Basic | 31,997 | 32,394 | 32,166 | 32,366 |
| Diluted | 32,025 | 32,434 | 32,191 | 32,406 |

HEALTHSTREAM, INC.
Condensed Consolidated Balance Sheets
(In thousands)
(Unaudited)

| | June 30, 2020 | December 31, 2019 |
|---|-------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 112,534 | \$ 131,538 |
| Marketable securities | 31,989 | 41,328 |
| Accounts and unbilled receivables, net | 33,865 | 30,376 |
| Prepaid and other current assets | 20,292 | 21,330 |
| Total current assets | 198,680 | 224,572 |
| Capitalized software development, net | 23,250 | 21,445 |
| Property and equipment, net | 22,936 | 26,065 |
| Operating lease right of use assets, net | 28,422 | 29,615 |
| Goodwill and intangible assets, net | 180,213 | 162,277 |
| Deferred tax assets | 269 | 269 |
| Deferred commissions | 17,024 | 17,645 |
| Other assets | 7,031 | 7,656 |
| Total assets | \$ 477,825 | \$ 489,544 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable, accrued and other liabilities | \$ 26,316 | \$ 39,674 |
| Deferred revenue | 66,126 | 65,511 |
| Total current liabilities | 92,442 | 105,185 |
| Deferred tax liabilities | 13,491 | 13,183 |
| Deferred revenue, non-current | 1,609 | 1,918 |
| Operating lease liability, noncurrent | 29,388 | 30,733 |
| Other long-term liabilities | 1,471 | 357 |
| Total liabilities | 138,401 | 151,376 |
| Shareholders' equity: | | |
| Common stock | 280,746 | 290,021 |
| Accumulated other comprehensive income | 1 | 4 |
| Retained earnings | 58,677 | 48,143 |
| Total shareholders' equity | 339,424 | 338,168 |
| Total liabilities and shareholders' equity | \$ 477,825 | \$ 489,544 |

HEALTHSTREAM, INC.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

| | Six Months Ended | |
|---|-------------------|-------------------|
| | June 30, 2020 | June 30, 2019 |
| Operating activities: | | |
| Net income | \$ 10,533 | \$ 8,375 |
| Income from discontinued operations | — | (1,194) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 14,599 | 13,480 |
| Stock based compensation | 1,107 | 3,074 |
| Amortization of deferred commissions | 4,254 | 4,201 |
| Deferred income taxes | 2,427 | 2,066 |
| Provision for doubtful accounts | 351 | 48 |
| Loss (gain) on equity method investments | 50 | (69) |
| Non-cash royalty expense | (3,440) | — |
| Change in fair value of non-marketable equity investments | (1,181) | — |
| Other | 121 | (84) |
| Changes in assets and liabilities: | | |
| Accounts and unbilled receivables | (3,759) | 12,019 |
| Prepaid and other assets | (2,006) | 716 |
| Accounts payable, accrued and other liabilities | (9,755) | (6,354) |
| Deferred revenue | 231 | 329 |
| Net cash provided by operating activities | <u>13,532</u> | <u>36,607</u> |
| Investing activities: | | |
| Business combinations, net of cash acquired | (21,449) | (18,018) |
| Proceeds from sale of discontinued operations | — | 6,222 |
| Changes in marketable securities | 9,241 | (6,121) |
| Proceeds from sale of fixed assets | — | 12 |
| Payments to acquire non-marketable equity investments | (1,000) | (3,342) |
| Purchases of property and equipment | (1,268) | (19,598) |
| Payments associated with capitalized software development | (7,619) | (8,374) |
| Net cash used in investing activities | <u>(22,095)</u> | <u>(49,219)</u> |
| Financing activities: | | |
| Proceeds from exercise of stock options | — | 214 |
| Taxes paid related to net settlement of equity awards | (373) | (985) |
| Payment of earn-outs related to prior acquisitions | — | (37) |
| Repurchases of common stock | (10,009) | — |
| Payment of cash dividends | (31) | (52) |
| Net cash used in financing activities | <u>(10,413)</u> | <u>(860)</u> |
| Effect of exchange rate changes on cash and cash equivalents | (28) | — |
| Net decrease in cash and cash equivalents | (19,004) | (13,472) |
| Cash and cash equivalents at beginning of period | 131,538 | 134,321 |
| Cash and cash equivalents at end of period | <u>\$ 112,534</u> | <u>\$ 120,849</u> |

Reconciliation of GAAP to Non-GAAP Financial Measures⁽¹⁾
(In thousands)
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|------------------|------------------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 |
| GAAP income from continuing operations | \$ 3,442 | \$ 2,401 | \$ 10,533 | \$ 7,181 |
| Interest income | (237) | (884) | (831) | (1,674) |
| Interest expense | 25 | 30 | 50 | 51 |
| Income tax provision | 1,061 | 719 | 2,920 | 2,130 |
| Stock based compensation expense | 557 | 2,558 | 1,107 | 3,074 |
| Depreciation and amortization | 7,150 | 6,942 | 14,599 | 13,480 |
| Change in fair value of non-marketable equity investments | (29) | — | (1,181) | — |
| Non-cash royalty expense | — | — | (3,440) | — |
| Adjusted EBITDA from continuing operations | <u>\$ 11,969</u> | <u>\$ 11,766</u> | <u>\$ 23,757</u> | <u>\$ 24,242</u> |
| GAAP net income | \$ 3,442 | \$ 2,401 | \$ 10,533 | \$ 8,375 |
| Interest income | (237) | (884) | (831) | (1,674) |
| Interest expense | 25 | 30 | 50 | 51 |
| Income tax provision | 1,061 | 719 | 2,920 | 2,556 |
| Stock based compensation expense | 557 | 2,558 | 1,107 | 3,074 |
| Depreciation and amortization | 7,150 | 6,942 | 14,599 | 13,480 |
| Change in fair value of non-marketable equity investments | (29) | — | (1,181) | — |
| Non-cash royalty expense | — | — | (3,440) | — |
| Adjusted EBITDA | <u>\$ 11,969</u> | <u>\$ 11,766</u> | <u>\$ 23,757</u> | <u>\$ 25,862</u> |

(1) This press release contains certain non-GAAP financial measures, including adjusted EBITDA and adjusted EBITDA from continuing operations, which are used by management in analyzing its financial results and ongoing operational performance.

This press release includes certain forward-looking statements (statements other than solely with respect to historical fact), including statements regarding expectations for financial performance for 2020 as well as the anticipated impact of the COVID-19 pandemic on our financial results, that involve risks and uncertainties regarding HealthStream. These statements are based upon management's beliefs, as well as assumptions made by and data currently available to management. This information has been, or in the future may be, included in reliance on the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. The Company cautions that forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the actual results, performance, or achievements to be materially different from future results, performance, or achievements expressed or implied by the forward-looking statements, including, without limitation, as the result of developments related to the COVID-19 pandemic, such as the length and severity of the pandemic; business and economic conditions resulting from the pandemic; the impact on the pandemic on healthcare organizations; measures we are taking to respond to the pandemic; the impact of governmental action and regulation in connection with the pandemic (including the CARES Act); the timing and availability of effective medical treatments and vaccines; potential workforce disruptions; and the disruption in capital and financial markets; as well as risks referenced in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, filed on February 26, 2020 and the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2020 filed on April 30, 2020, and in the Company's other filings with the Securities and Exchange Commission from time to time. Consequently, such forward-looking information should not be regarded as a representation or warranty or statement by the Company that such projections will be realized. Many of the factors that will determine the Company's future results are beyond the ability of the Company to control or predict. Readers should not place undue reliance on forward-looking statements, which reflect management's views only as of the date hereof. The Company undertakes no obligation to update or revise any such forward-looking statements.

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