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

FORM 8-K/A
(Amendment No. 1)

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

Date of Report (Date of earliest event reported): October 19, 2016 (August 8, 2016)

HEALTHSTREAM, INC.
(Exact name of registrant as specified in its charter)

Tennessee	000-27701	62-1443555
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

209 10th Avenue South, Suite 450, Nashville, Tennessee 37203
(Address of principal executive offices) (Zip Code)

(615) 301- 3100
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

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 Instruction 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))

Explanatory Note

As previously reported in the Current Report on Form 8-K (the "Original Form 8-K"), filed by HealthStream, Inc. (the "Company") on August 8, 2016, Echo, Inc. ("Echo"), a wholly-owned subsidiary of the Company, entered into a Stock Purchase Agreement dated as of August 8, 2016 (the "Purchase Agreement") with Morrisey Holdings, Inc. (the "Seller"). Pursuant to the terms of the Purchase Agreement, Echo acquired from Seller all of the outstanding capital stock of Morrisey Associates, Inc. ("MAI") on August 8, 2016.

This Form 8-K/A amends the Original Form 8-K for the purpose of filing the financial statements and pro forma financial information required by Item 9.01 of Form 8-K within the time period permitted under Item 9.01 of Form 8-K. Except for this Explanatory Note, the filing of the financial statements and the pro forma financial information required by Item 9.01, and the consent of LBMC, PC filed herewith as Exhibit 23.1, there are no changes to the Original Form 8-K.

Pursuant to a corporate reorganization involving MAI completed on January 1, 2016, certain operations and related assets and liabilities of MAI (which were significant operating assets of the Seller that remain part of the continuing operations of Seller and its subsidiaries, but were not related to the practitioner credentialing and privileging software business which the Company acquired through its purchase of MAI pursuant to the Purchase Agreement) were conveyed to another subsidiary of the Seller. MAI retained the practitioner credentialing and privileging software operations and related assets and liabilities. Accordingly, the financial statements referenced below for periods prior to such reorganization have been prepared on a carve-out basis to reflect the practitioner credentialing and privileging software operations as if it were a separate entity. In this Current Report on Form 8-K/A, including exhibits, we refer, where applicable, to the carve-out financial statements of the practitioner credentialing and privileging software operations as the financial statements of MAI.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired

The audited carve-out financial statements of Practitioner Credentialing and Privileging Software Operations (a carve-out of Morrisey Associates, Inc.) as of and for the year ended December 31, 2015, and the notes thereto, are filed as Exhibit 99.1 and are hereby incorporated by reference.

The unaudited financial statements of MAI as of June 30, 2016 and December 31, 2015, and for the six months ended June 30, 2016 and 2015, and the notes thereto, are filed as Exhibit 99.2 and are hereby incorporated by reference.

(b) Pro Forma Financial Information

The unaudited pro forma combined condensed financial information of the Company and MAI as of and for the six months ended June 30, 2016, and for the year ended December 31, 2015, and the notes thereto, are filed as Exhibit 99.3 and are hereby incorporated by reference.

(d) Exhibits

23.1 Consent of LBMC, PC, Independent Auditors of Practitioner Credentialing and Privileging Software Operations (a carve-out of Morrisey Associates, Inc.).

99.1 Audited Carve-Out Financial Statements of Practitioner Credentialing and Privileging Software Operations (a carve-out of Morrisey Associates, Inc.) as of and for the year ended December 31, 2015, and the notes thereto.

99.2 Unaudited Financial Statements of MAI as of June 30, 2016 and December 31, 2015, and for the six months ended June 30, 2016 and 2015, and the notes thereto.

99.3 Unaudited pro forma combined condensed financial information of the Company and MAI as of and for the six months ended June 30, 2016, and for the year ended December 31, 2015, and the notes thereto.

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 hereunto duly authorized.

HEALTHSTREAM, INC.

By: /s/ Gerard M. Hayden
Gerard M. Hayden
Chief Financial Officer
October 19, 2016

INDEX TO EXHIBITS

Exhibit Number	Description
23.1	Consent of LBMC, PC, Independent Auditors of Practitioner Credentialing and Privileging Software Operations (a carve-out of Morrisey Associates, Inc.).
99.1	Audited Carve-Out Financial Statements of Practitioner Credentialing and Privileging Software Operations (a carve-out of Morrisey Associates, Inc.) as of and for the year ended December 31, 2015, and the notes thereto.
99.2	Unaudited Financial Statements of MAI as of June 30, 2016 and December 31, 2015, and for the six months ended June 30, 2016 and 2015, and the notes thereto.
99.3	Unaudited pro forma combined condensed financial information of the Company and MAI as of and for the six months ended June 30, 2016, and for the year ended December 31, 2015, and the notes thereto.

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We hereby consent to the incorporation by reference in the following Registration Statements of HealthStream, Inc.:

(1) Registration Statement (Form S-8 No. 333-211725) pertaining to the 2016 Omnibus Incentive Plan of HealthStream, Inc.,

(2) Registration Statement (Form S-8 No. 333-167241) pertaining to the 2010 Stock Incentive Plan of HealthStream, Inc.,

(3) Registration Statement (Form S-8 No. 333-37440) pertaining to the 1994 Employee Stock Option Plan, 2000 Stock Incentive Plan and Employee Stock Purchase Plan of HealthStream, Inc., and

(4) Registration Statement (Form S-3 No. 333-206897) of HealthStream, Inc.

of our report dated August 9, 2016 (except for Note 2 to the financial statements, as to which the date is October 13, 2016) relating to the carve-out financial statements of Practitioner Credentialing and Privileging Software Operations (a carve-out of Morrisey Associates, Inc.), which appears in the Current Report on Form 8-K/A dated October 19, 2016.

/s/ LBMC, PC

Brentwood, Tennessee
October 19, 2016

Exhibit 99.1

PRACTITIONER CREDENTIALING AND PRIVILEGING SOFTWARE OPERATIONS
(A Carve-out of Morrisey Associates, Inc.)

Carve-out Financial Statements

December 31, 2015

(With Independent Auditors' Report)

PRACTITIONER CREDENTIALING AND PRIVILEGING SOFTWARE OPERATIONS
(A Carve-out of Morrisey Associates, Inc.)

Independent Auditors' Report

To the Board of Directors
HealthStream, Inc. and Subsidiaries
Nashville, Tennessee

We have audited the accompanying carve-out financial statements of Practitioner Credentialing and Privileging Software Operations (a carve-out of Morrisey Associates, Inc.), which comprise the carve-out balance sheet as of December 31, 2015, the related carve-out statements of income, invested equity (deficit) and cash flows for the year then ended, and the related notes to the carve-out financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these carve-out financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the carve-out financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these carve-out financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the carve-out financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the carve-out financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the carve-out financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the carve-out financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the carve-out financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the carve-out financial statements referred to above present fairly, in all material respects, the financial position of Practitioner Credentialing and Privileging Software Operations (a carve-out of Morrisey Associates, Inc.) as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 of the carve-out financial statements, Morrisey Associates, Inc. provides software solutions primarily focused on two lines of business operations, including (1) practitioner credentialing and privileging, and (2) care and risk management. The accompanying carve-out financial statements have been prepared to reflect the assets, liabilities, revenue and expenses directly attributable to the Practitioner Credentialing and Privileging Software Operations, as well as allocations deemed reasonable by management, to present the carve-out financial position, results of operations and cash flows of the Practitioner Credentialing and Privileging Software Operations as if it were a separate entity as of and for the year ended December 31, 2015. Our opinion is not modified with respect to that matter.

Brentwood, Tennessee
August 9, 2016
(except for Note 2, as to which the
date is October 13, 2016)

PRACTITIONER CREDENTIALING AND PRIVILEGING SOFTWARE OPERATIONS
(A Carve-out of Morrisey Associates, Inc.)

BALANCE SHEET
DECEMBER 31, 2015

ASSETS	
Current assets:	
Accounts receivable	$ 3,456,635
Prepaid expenses and other current assets	319,348
Total current assets	3,775,983
Property and equipment, net	268,257
Capitalized software development, net of accumulated amortization of $2,319,536	40,475
Intangible assets, net of accumulated amortization of $4,345	1,835
Total assets	$ 4,086,550
LIABILITIES AND INVESTED EQUITY (DEFICIT)	
Current liabilities:	
Accounts payable	$ 194,907
Accrued liabilities	257,990
Accrued royalties	221,987
Unearned revenue	9,087,415
Total current liabilities	9,762,299
Other long term liabilities	175,384
Commitments and contingencies	—
Invested equity (deficit):	
Accumulated deficit	(5,851,133)
Total liabilities and invested equity (deficit)	$ 4,086,550

See accompanying notes to the audited carve-out financial statements.

PRACTITIONER CREDENTIALING AND PRIVILEGING SOFTWARE OPERATIONS
(A Carve-out of Morrisey Associates, Inc.)

STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2015

Revenues, net	$12,844,457
Operating costs and expenses:	
Cost of revenues (excluding depreciation and amortization)	2,914,142
Sales and marketing	1,403,335
Product development	1,200,151
Other general and administrative expenses	2,726,433
Depreciation and amortization	165,239
Total operating costs and expenses	8,409,300
Income before income taxes	4,435,157
Income taxes	15,229
Net income	$ 4,419,928

See accompanying notes to the audited carve-out financial statements.

PRACTITIONER CREDENTIALING AND PRIVILEGING SOFTWARE OPERATIONS
(A Carve-out of Morrisey Associates, Inc.)

STATEMENT OF INVESTED EQUITY (DEFICIT)
YEAR ENDED DECEMBER 31, 2015

	Total Invested Equity (Deficit)
Balance at December 31, 2014	$(5,538,512)
Net income	4,419,928
Deemed distributions	(4,732,549)
Balance at December 31, 2015	$(5,851,133)

See accompanying notes to the audited carve-out financial statements.

PRACTITIONER CREDENTIALING AND PRIVILEGING SOFTWARE OPERATIONS
(A Carve-out of Morrisey Associates, Inc.)

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2015

OPERATING ACTIVITIES:	
Net income	$ 4,419,928
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	165,239
Changes in operating assets and liabilities:	
Accounts and unbilled receivables	(1,183,911)
Prepaid expenses and other current assets	65,558
Accounts payable	109,799
Accrued liabilities and other long-term liabilities	(234,109)
Accrued royalties	204,656
Unearned revenue	1,227,277
Net cash provided by operating activities	4,774,437
INVESTING ACTIVITIES:	
Purchases of property and equipment	(41,888)
FINANCING ACTIVITIES:	
Deemed distributions	(4,732,549)
Net change in cash	—
Cash at beginning of period	—
Cash at end of period	$ —

See accompanying notes to the audited carve-out financial statements.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

1. ORGANIZATION AND BACKGROUND

Morrisey Associates, Inc. ("Morrisey") was founded in 1987 and is headquartered in Chicago, Illinois. Morrisey provides software solutions primarily focused on two lines of business operations, including (1) practitioner credentialing and privileging, and (2) care and risk management. The accompanying carve-out financial statements have been prepared to reflect the financial position, results of operations and cash flows of the practitioner credentialing and privileging software operations as if it were a separate entity as of and for the year ended December 31, 2015. Hereinafter, references within these financial statements to the "Company" refer to the practitioner credentialing and privileging software operations of Morrisey.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying carve-out financial statements are presented in accordance with generally accepted accounting principles in the United States ("GAAP"). The financial statements reflect the assets, liabilities, revenue and expenses of Morrisey directly attributable to the Company, as well as allocations made to the Company by management. The allocation methodologies are described within the accompanying notes, and management believes that these allocations are reasonable to present the financial position, results of operations and cash flows of the Company on a stand-alone basis. However, the financial position, results of operations and cash flows of the Company may differ from those that would have been achieved had the Company been a stand-alone entity during the period presented.

Reclassification

On October 13, 2016, the Company issued updated audited carve-out financial statements as of and for the year ended December 31, 2015. The updated audited carve-out financial statements reflect a reclassification made to the accompanying statement of income for the year ended December 31, 2015 to separately present $1,200,151 of product development expenses from other general and administrative expenses. Other general and administrative expenses decreased from $3,926,584 to $2,726,433. The reclassification of expenses had no effect on net income or invested equity (deficit) as previously reported. In addition, the accounting policy descriptions for operating costs and expenses, software development costs, and research and development were updated to reflect the reclassification.

Use of Estimates

The financial statements have been prepared in accordance with GAAP. These accounting principles require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates and such differences could be material to the financial statements.

Method of Allocation

Accounts receivable, unearned revenue and revenue

Accounts receivable, unearned revenue and revenue have been allocated to the Company based on specific identification of customer accounts receivable, deferred revenue and revenue directly attributable to the Company.

Prepaid expenses and other current assets

Prepaid expenses and other current assets have been allocated to the Company based on specific identification of assets and resultant expenses directly attributable to the Company.

Property and equipment, and depreciation expense

Property and equipment has been allocated based on specific identification of assets utilized by the Company. Leasehold improvements have been allocated on the basis in which such improvements benefit the respective line of business. Depreciation expense related to such property and equipment has been allocated to the Company accordingly.

Capitalized software development, and amortization expense

Capitalized software development has been allocated based on specific identification of development initiatives attributable to the Company. Amortization expense related to such capitalized software development has been allocated to the Company accordingly.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts payable

Accounts payable have been allocated to the Company based on a review of vendor records and resultant expenses attributable to the Company.

Accrued liabilities

Accrued liabilities have been allocated to the Company based on specific identification and resultant expenses attributable to the Company.

Operating costs and expenses

Costs of revenues, selling expenses and product development expenses have been generally allocated based on specific product line identification and capacity utilization. Other general and administrative expenses have been allocated based on a variety of methods, including headcount, specific identification, percentage of revenue, and utilization of square footage. Further, certain shared operating expenses pertaining to senior management, IT personnel, installation personnel and administrative staff have been allocated to the Company based on estimates of time spent on the requisite line of business. A total of approximately $464,000 of such shared operating expenses were allocated to the Company during the year ended December 31, 2015 and are reflected in the carve-out financial statements. Approximately $297,000 of such shared expenses are reflected in cost of revenues and approximately $167,000 are reflected in other general and administrative expenses, respectively.

Invested Equity (Deficit)

Management considers an allocation of historical invested capital, retained earnings and shareholder distributions to be impracticable. Accordingly, the invested deficit balance as of December 31, 2014 was determined on the basis of the excess of liabilities over assets attributable to the Company as of such time. The excess of liabilities over assets at December 31, 2015, inclusive of consideration given to income attributable to the Company for the year ended December 31, 2015, has been deemed to be distributions. Such distributions represent intercompany balances between the respective lines of business that are not expected to be directly recouped by the Company. Accordingly, distributions are not indicative of actual distributions made to Morrisey shareholders. As of December 31, 2015, Morrisey had 631,400 shares of no par value, common stock issued and outstanding. Further, a total of 700,000 shares of no par value, common stock are authorized.

Accounts Receivable

The Company’s accounts receivable are related to sales of software products and the delivery of related installation and consulting services. Credit is extended based on prior experience with the customer and evaluation of the customer’s financial condition. Accounts receivable are primarily due within 30 days. The Company does not accrue interest on past-due accounts receivable. The Company records an allowance for doubtful accounts representing an estimate of amounts considered uncollectible and is determined based on the Company’s historical collection experience, adverse situations that may affect the customer’s ability to pay, and prevailing economic conditions. The Company writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. The Company had no bad debt expense for the year ended December 31, 2015, and no allowance for doubtful accounts was considered necessary as of December 31, 2015.

Unearned Revenue

The Company earns revenue from the licensing of computer software and related delivery of implementation and support services to its health care customers. Revenue from hosting and support arrangements is recognized on a straight-line basis over the term of the contract; thus, unearned amounts are recorded on the balance sheet at year-end. Unearned revenue is generally short-term in nature.

Revenue Recognition

The Company recognizes revenue when the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, price is fixed and determinable, and collectibility is reasonably assured.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from software licensing arrangements, where the service element is not considered essential to the functionality of the other elements of the arrangement, is recognized upon activation of the software or as services are performed. The revenue recognized for each separate element of a software contract is based on vendor-specific objective evidence (VSOE) of fair value, which is based on the price the customer is required to pay when the element is sold separately.

Revenue from software licensing arrangements, where the service element is considered essential to the functionality of the other elements of the arrangement, is recognized ratably over the service term.

Revenue from hosting services, including implementation and customization services, is recognized on a straight-line basis upon acceptance by the customer and over the term of the contract.

The Company also provides consulting services, which are separately priced and are not essential to the functionality of the Company's software products. Revenue from these services is recognized as the services are performed because the arrangements qualify as service transactions.

Revenue recognized includes reimbursable expenses charged to customers in the amount of $271,420 for the year ended December 31, 2015.

Software Licenses

The Company purchases software from third-party software vendors and resells the software to customers. The cost of software licenses purchased from third parties is included in the cost of revenues when sold, and amounts due to the third-parties are recorded as accrued royalties in the accompanying carve-out balance sheet.

Fair Value of Financial Instruments

The Company's financial instruments include accounts receivable and accounts payable. The carrying value of such financial instruments approximates their estimated fair value based on the short-term nature of the instruments.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization of property and equipment are computed using the straight-line method over the following estimated useful lives of the assets or, if shorter, the lease term.

Asset description	*Life*
Leasehold improvements	Shorter of life of lease or estimated useful life
Computer equipment	3 - 5 years
Furniture and office equipment	5 - 7 years

Long-lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. Impairment for such long-lived assets to be held and used is determined by comparing the carrying value of these long-lived assets to be held and used to management's best estimate of future undiscounted cash flows expected to result from the use of the assets. If the assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. The estimated fair value of the assets is measured by estimating the present value of the future discounted cash flows to be generated. There were no long-lived assets impaired during the year ended December 31, 2015.

Research and Development

All costs incurred to establish the technological feasibility of a computer software product are expensed as research and development costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Software Development Costs

The Company performs software development, including the design of new software, and enhancements and upgrades of its existing software products. Certain costs related to such efforts are capitalized subsequent to the determination that the development work has technological feasibility and a substantial product life. Cost capitalization ceases when the product is available for general release to customers. These costs are amortized on a straight-line basis over the remaining estimated economic life of each product, which is generally three years.

Capitalization of computer software costs developed internally begins upon the establishment of the application development stage. The application development stage for the Company's computer software applications is generally based on achievement of a detailed program design free of high-risk development issues. The Company capitalizes only those costs directly attributable to the development of the internal software. The establishment of the application development stage and the ongoing assessment of recoverability of capitalized computer software development costs require considerable judgment by management with respect to certain external factors, including, but not limited to, technological feasibility, anticipated future gross revenue, estimated economic life, and changes in software and hardware technology.

Prior to reaching the application development stage, the Company's policy is to expense these costs as incurred and include them in general and administrative expenses. Activities undertaken after the products are available for general release to customers to correct errors or keep the product updated are expensed as incurred and included in product development expense.

Amortization of capitalized internally developed software costs commences when the related products become available for general release to customers. Amortization is provided on a product-by-product basis and is included in the applicable cost of revenue. Amortization is being provided for using the straight-line method over the estimated economic life of the products, which is three years.

The Company periodically performs reviews of the recoverability of such capitalized internal and external software costs. At the time a determination is made that capitalized amounts are not recoverable based on the estimated cash flows to be generated from the applicable software, any remaining capitalized amounts are written off. There were no impairment losses during the year ended December 31, 2015.

The total unamortized software development costs at December 31, 2015 was $40,475. The Company did not capitalize any software development costs during the year ended December 31, 2015. The total amount of software development costs amortized for the year ended December 31, 2015 was $56,097.

The unamortized software development costs at December 31, 2015 of $40,475 will be amortized in full during the year ended December 31, 2016.

Advertising

Advertising costs are expensed as incurred. Advertising expense for the year ended December 31, 2015 was $109,250.

Income Taxes

Morrisey, with the consent of its shareholders, has elected to be taxed as an S corporation under the Internal Revenue Code. In lieu of corporation income taxes, the shareholders of an S corporation are taxed on their proportionate share of Morrisey's taxable income. Therefore, no provision or liability for federal income taxes has been included in these financial statements. For the year ended December 31, 2015, the provision for income taxes consisted of state and local taxes that the Company would have been responsible for if it were a stand-alone entity.

Morrisey recognizes the benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. Interest and penalties, if incurred, are recognized in the statement of operations. The Company had no unrecognized tax positions at December 31, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock Based Compensation

Morrisey accounts for the Morrisey Associates, Inc. 1998 Stock Incentive Plan (the “1998 Plan”) using a fair value-based method.

Morrisey amortizes stock-based compensation for awards granted on or after January 1, 2006, on a straight-line basis over the requisite service (vesting) period using the Black-Scholes option pricing model. There was no stock based compensation expense recognized by Morrisey for the year ended December 31, 2015. Accordingly, no allocation was made to the Company.

Significant Customers

Customers are considered significant customers when net revenues to the customer are 10% or greater than total net revenues or when accounts receivable from the customer are greater than 10% of accounts receivable.

Sales to two significant customers totaled 10.6% of revenues in 2015. Amounts due from these customers totaled approximately 25% of accounts receivable as of December 31, 2015.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of the year ended December 31, 2015:

Computer equipment	$ 114,432
Furniture and fixtures	355,964
Leasehold improvements	633,128
Gross property and equipment	1,103,524
Accumulated depreciation and amortization	(835,267)
Property and equipment, net	$ 268,257

Depreciation and amortization expense on property and equipment was $108,986 for the year ended December 31, 2015.

4. OPERATING LEASES

At December 31, 2015, Morrisey was committed under certain non-cancelable building subleases and operating leases expiring through March 31, 2016 and December 1, 2018.

Minimum rent payments under operating leases are recognized on a straight-line basis over the terms of the leases, including any periods of free rent. Management has allocated rent expense of $334,373 to the Company for the year ended December 31, 2015 based on the estimated utilization of square footage by the Company. Such amount is reflected in other general and administrative expenses in the carve-out financial statements. Further, the Company has recorded deferred rent and related allowances totaling $266,990 (of which $91,606 is considered a current liability and $175,384 a long-term liability) as of December 31, 2015 due to the straight-lining of rent expense.

The future minimum aggregate rentals required under the leases in excess of one year have been allocated to the Company based on the estimated utilization of square footage and are as follows:

2016	$260,720
2017	269,181
2018	253,532
Thereafter	—
Total minimum lease payments	$783,433

5. RETIREMENT PLAN

Morrisey sponsors a 401(k) retirement plan covering substantially all employees. The 401(k) plan provides for employee contributions, and Morrisey matches 50% of each employee's contribution, limited to 6% of compensation. Expenses for matching contributions totaling $48,767 have been allocated to the Company for the year ended December 31, 2015. Management allocated such expense on a per employee basis based on the line of business in which the employee worked and, where applicable, the percentage of time spent on such line of business.

6. RELATED PARTY

During the year ended December 31, 2015, Morrisey purchased newsletters, advertising and other miscellaneous office supplies from a company that is wholly owned by a related party of a shareholder and officer of Morrisey. Management allocated $220,116 of these expenses to the Company for the year ended December 31, 2015. Such expenses were allocated based on various methodologies, including percentage of revenue, product line identification and headcount.

7. STOCK OPTION PLAN

Under the 1998 Plan, incentive stock options may be granted to employees and board members of Morrisey for the purchase of up to 100,000 shares of common stock. All options are granted by the board of directors and consist of options to purchase common stock at a purchase price of not less than the fair market value of each share on the date of grant. The options vest immediately.

Stock Option Activity

A summary of activity and various other information relative to stock options for the year ended December 31, 2015 is presented in the table below.

	Common Shares	Weighted-Average Exercise Price
Outstanding at December 31, 2014	1,400	$ 11.51
Granted	—	—
Exercised	—	—
Expired	—	—
Forfeited	—	—
Outstanding at December 31, 2015	1,400	$ 11.51
Exercisable at December 31, 2015.	1,400	$ 11.51

Outstanding and fully vested options at December 31, 2015 had a weighted-average remaining contractual life of five years.

8. DEBT

Morrisey has a $750,000 revolving line of credit with a bank that has a maturity date of December 1, 2016. Advances against the line of credit cannot exceed 75% of accounts receivable less than 90 days old. Interest is payable monthly at the bank's prime rate (3.50% plus 1% at December 31, 2015). There was no balance on the line of credit as of the year ended December 31, 2015. Interest expense incurred by Morrisey on outstanding balances during the year ended December 31, 2015 is considered immaterial to the financial statements of the Company, and no allocation has been made.

9. SUBSEQUENT EVENTS

Morrisey evaluated for subsequent events through August 9, 2016, the date the financial statements were available to be issued. On January 1, 2016, in an effort to facilitate business planning and separate the lines of business, Morrisey underwent a corporate reorganization, whereas Morrisey became a wholly owned subsidiary of Morrisey Holdings, Inc. ("MHI") and another new subsidiary, MorCare, LLC ("MorCare"), was formed by MHI. Morrisey assumed the operations of the Company, whereas MorCare assumed operation of the remaining lines of business.

On August 8, 2016, 100% of the outstanding stock of Morrisey was purchased by Echo, Inc., a wholly owned subsidiary of HealthStream, Inc.

MORRISEY ASSOCIATES, INC.

MORRISEY ASSOCIATES, INC.
CONDENSED BALANCE SHEETS

	June 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Accounts receivable	$ 2,537,535	$ 3,456,635
Unbilled receivable	106,478	—
Prepaid expenses and other current assets	280,070	319,348
Total current assets	2,924,083	3,775,983
Property and equipment, net	247,052	268,257
Capitalized software development, net of accumulated amortization of $2,339,773 and $2,319,536 at June 30, 2016 and December 31, 2015, respectively	20,238	40,475
Intangible assets, net of accumulated amortization of $4,423 and $4,345 at June 30, 2016 and December 31, 2015, respectively	1,757	1,835
Total assets	$ 3,193,130	$ 4,086,550
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 583,860	$ 194,907
Accrued royalties	329,743	221,987
Accrued liabilities	399,748	257,990
Unearned revenue	8,508,436	9,087,415
Total current liabilities	9,821,787	9,762,299
Other long term liabilities	129,581	175,384
Commitments and contingencies	—	—
Invested equity (deficit):		
Accumulated deficit	(6,758,238)	(5,851,133)
Total liabilities and invested equity (deficit)	$ 3,193,130	$ 4,086,550

See accompanying notes to the unaudited condensed financial statements.

MORRISEY ASSOCIATES, INC.
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	Six Months Ended	
	June 30, 2016	June 30, 2015
Revenues, net	$6,857,120	$5,750,301
Operating costs and expenses:		
Cost of revenues (excluding depreciation and amortization)	1,529,770	1,373,537
Product development	662,552	602,898
Sales and marketing	607,699	583,267
Other general and administrative expenses	1,743,792	1,404,181
Depreciation and amortization	72,948	82,619
Total operating costs and expenses	4,616,761	4,046,502
Net income	2,240,359	1,703,799

See accompanying notes to the unaudited condensed financial statements.

MORRISEY ASSOCIATES, INC.
CONDENSED STATEMENT OF INVESTED EQUITY (DEFICIT) (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 2016

	Total Invested Equity (Deficit)
Balance at December 31, 2015	$(5,851,133)
Net income	2,240,359
Deemed distributions	(3,147,464)
Balance at June 30, 2016	$ 6,758,238

See accompanying notes to the unaudited condensed financial statements.

MORRISEY ASSOCIATES, INC.
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended June 30, 2016	2015
OPERATING ACTIVITIES:		
Net income	$ 2,240,359	$ 1,703,799
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	72,948	82,619
Changes in operating assets and liabilities:		
Accounts and unbilled receivables	812,622	506,771
Prepaid expenses and other current assets	39,278	83,276
Accounts payable	388,953	127,567
Accrued liabilities and other long-term liabilities	131,958	(132,479)
Accrued royalties	71,753	(14,103)
Unearned revenue	(578,979)	(437,628)
Net cash provided by operating activities	3,178,892	1,919,822
INVESTING ACTIVITIES:		
Purchases of property and equipment	(31,428)	(34,589)
FINANCING ACTIVITIES:		
Deemed distributions	(3,147,464)	(1,885,233)
Net change in cash	—	—
Cash at beginning of period	—	—
Cash at end of period	$ —	$ —

See accompanying notes to the unaudited condensed financial statements.

1. ORGANIZATION AND BACKGROUND

Morrisey Associates, Inc. (the “Company”) was founded in 1987 and is headquartered in Chicago, Illinois. The Company provides practitioner credentialing and privileging software to healthcare providers.

2. BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“US GAAP”) for interim financial information. Accordingly, condensed 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. Operating results for the six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

The balance sheet at December 31, 2015 is consistent with the Practitioner Credentialing and Privileging Software Operations (A Carve-out of Morrisey Associates, Inc.) audited carve-out 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. Further, the results of operations and statement of cash flows for the six months ended June 30, 2015 have been prepared in accordance with the methods of allocation used in such audited carve-out financial statements. Such presentation reflects the financial position, results of operations and cash flows of the practitioner credentialing and privileging software operations as if it were a standalone entity as of December 31, 2015 and for the year then ended.

Corporate reorganization

The Company became a wholly owned subsidiary of Morrisey Holdings, Inc. (“Morrisey”) pursuant to a corporate reorganization completed on January 1, 2016. Pursuant to such reorganization, certain operations and related assets and liabilities of the Company (which were significant operating assets that remain part of the continuing operations of Morrisey and its subsidiaries) were conveyed to another subsidiary of Morrisey. The Company retained the practitioner credentialing and privileging software operations and related assets and liabilities. The practitioner credentialing and software operations effectively became a standalone entity as a result of such reorganization.

3. INCOME TAXES

As part of the aforementioned corporate reorganization, the shareholders of the Company conferred their stock to Morrisey, such that after such transaction, shareholders held 100% of the stock of Morrisey, and Morrisey held 100% of the stock of the Company. As part of and in conjunction with such transaction, the Company elected Qualified Subchapter S Subsidiary status, whereas prior to such reorganization, the Company was a Subchapter S Corporation. Accordingly, the Company was and remains a disregarded entity for federal income tax purposes. In lieu of corporation income taxes, shareholders are taxed on their proportionate share of the Company’s taxable income. Therefore, no provision or liability for federal income taxes has been included in these financial statements.

The Company recognizes the benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position of an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. Interest and penalties, if incurred, are recognized in the statement of operations. The Company had no unrecognized tax positions at December 31, 2015 and June 30, 2016.

4. STOCK BASED COMPENSATION

The Company accounts for the Morrisey Associates, Inc. 1988 Stock Incentive Plan (the “1998 Plan”) using a fair value-based method.

The Company amortizes stock-based compensation for awards granted on or after January 1, 2016, on a straight-line basis over the requisite service (vesting) period using the Black-Scholes option pricing model. There was no stock based compensation expense recognized by the Company for the six months ended June 30, 2015 and 2016.

5. INVESTED EQUITY (DEFICIT)

Management considers an allocation of historical invested capital, retained earnings and shareholder distributions to be impracticable. Accordingly, the beginning invested deficit balance utilized in preparation of the condensed financial statements was determined on the basis of the excess of liabilities over assets attributable to the Company as of December 31, 2014. The excess of liabilities over assets at December 31, 2015 and June 30, 2016, inclusive of consideration given to income attributable to the Company for the respective periods then ended, has been deemed to be distributions. Such distributions represent intercompany balances that are not expected to be directly recouped by the Company. Accordingly, distributions are not indicative of actual distributions made to shareholders.

6. SUBSEQUENT EVENTS

On August 8, 2016, 100% of the outstanding stock of the Company was purchased by Echo, Inc., a wholly owned subsidiary of HealthStream, Inc.

HEALTHSTREAM, INC.
UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL INFORMATION

The following unaudited pro forma combined condensed financial information is based on the historical financial statements of HealthStream, Inc. (the "Company") and Morrisey Associates, Inc. ("MAI") after giving effect to the acquisition of MAI on August 8, 2016 and the assumptions and adjustments described in the accompanying notes to the unaudited pro forma combined condensed financial information.

The unaudited pro forma combined condensed balance sheet as of June 30, 2016 is presented as if the acquisition of MAI had occurred on June 30, 2016.

The unaudited pro forma combined condensed statements of operations for the year ended December 31, 2015 and the six months ended June 30, 2016, are presented as if the acquisition of MAI had occurred on January 1, 2015.

The preliminary allocation of the purchase price used in the unaudited pro forma combined condensed financial information is based upon preliminary estimates. These preliminary estimates and assumptions are subject to change during the measurement period (up to one year from the acquisition date) as the Company finalizes the valuations of the net tangible and intangible assets acquired in connection with the acquisition of MAI. The Company based the unaudited pro forma combined condensed financial information on available information and on assumptions that management believes are reasonable under the circumstances. Refer to the accompanying "Notes to Unaudited Pro Forma Combined Condensed Financial Information" for a discussion of the assumptions made.

The unaudited pro forma combined condensed financial information has been prepared in conformity with Article 11 of Regulation S-X and is for informational purposes only and does not intend to represent what the Company's results of operations or financial position would have been had the acquisition of MAI occurred at the beginning of the period presented, or to project the results of operations for any future periods. The unaudited pro forma combined condensed financial information does not reflect any cost savings, synergies, or incremental investments which may result from the acquisition.

The unaudited pro forma combined condensed financial information should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2015 filed by the Company with the SEC on February 26, 2016, the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2016 filed by the Company with the SEC on August 1, 2016, the audited carve-out financial statements of Practitioner Credentialing and Privileging Software Operations (a carve-out of Morrisey Associates, Inc.) as of and for the year ended December 31, 2015, included as Exhibit 99.1 of this Current Report on Form 8-K/A, and the unaudited financial statements of MAI as of and for the six months ended June 30, 2016, included as Exhibit 99.2 of this Current Report on Form 8-K/A.

HEALTHSTREAM, INC.
UNAUDITED PRO FORMA COMBINED CONDENSED BALANCE SHEET
JUNE 30, 2016
(in thousands)

	Historical HealthStream	Historical Morrisey	Pro Forma Adjustments	Note 3	Pro Forma Combined
ASSETS					
Current assets:					
Cash and cash equivalents	$ 66,803	$ —	(48,000)	(A)	$ 18,803
Marketable securities	72,006	—	—		72,006
Accounts receivable, net of allowance for doubtful accounts	42,014	2,538	—		44,552
Accounts receivable – unbilled	2,119	106	—		2,225
Prepaid royalties, net of amortization	13,242	154	—		13,396
Other prepaid expenses and other current assets	8,312	126	—		8,438
Total current assets	204,496	2,924	(48,000)		159,420
Property and equipment, net of accumulated depreciation and amortization	11,138	247	(172)	(B)	11,213
Capitalized software feature enhancements, net of accumulated amortization	14,716	20	(20)	(C)	14,716
Goodwill	88,628	—	20,376	(D)	109,004
Intangible assets, net of accumulated amortization	54,266	2	27,398	(E)	81,666
Non-marketable equity investments	3,564	—	—		3,564
Other assets	375	—	—		375
Total assets	$ 377,183	$ 3,193	$ (418)		$379,958
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	$ 1,742	$ 584	$ —		$ 2,326
Accrued royalties	8,134	330	—		8,464
Accrued liabilities	10,960	344	618	(F) (G)	11,922
Accrued compensation and related expenses	1,935	55	—		1,990
Deferred revenue	58,971	8,508	(4,595)	(H)	62,884
Total current liabilities	81,742	9,821	(3,977)		87,586
Deferred tax liabilities	6,295	—	(1,548)	(I)	4,747
Deferred revenue, noncurrent	4,002	—	—		4,002
Other long term liabilities	1,069	130	(130)	(G)	1,069
Commitments and contingencies	—	—	—		—
Total liabilities	93,108	9,951	(5,655)		97,404
Shareholders' equity (deficit):					
Common stock	279,595	—	—		279,595
Retained earnings (accumulated deficit)	4,494	(6,758)	5,237	(F) (J)	2,973
Accumulated other comprehensive loss	(14)	—	—		(14)
Total shareholders' equity (deficit)	284,075	(6,758)	5,237		282,554
Total liabilities and shareholders' equity	$ 377,183	$ 3,193	$ (418)		$379,958

See notes to the unaudited pro forma combined condensed financial information.

HEALTHSTREAM, INC.
UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2015
(in thousands, except per share data)

	Historical		Pro Forma		Pro Forma
	HealthStream	Morrisey	Adjustments	Note 3	Combined
Revenues, net	$ 209,002	$12,844	$ —		$221,846
Operating costs and expenses:					
Cost of revenues (excluding depreciation and amortization)	89,386	2,914	—		92,300
Product development	24,214	1,200	—		25,414
Sales and marketing	35,589	1,403	—		36,992
Other general and administrative expenses	29,259	2,727	—		31,986
Depreciation and amortization	16,997	165	2,691	(B) (C) (E)	19,853
Total operating costs and expenses	195,445	8,409	2,691		206,545
Operating income	13,557	4,435	(2,691)		15,301
Other income (expense), net	162	—	—		162
Income before income tax provision	13,719	4,435	(2,691)		15,463
Income tax provision	5,098	15	683	(K)	5,796
Net income	$ 8,621	$ 4,420	$ (3,374)		$ 9,667
Net income per share, basic	$ 0.29	$ 7.00			$ 0.32
Net income per share, diluted	$ 0.28	$ 7.00			$ 0.32
Weighted average shares of common stock outstanding:					
Basic	30,057	631			30,057
Diluted	30,436	631			30,436

See notes to the unaudited pro forma combined condensed financial information.

HEALTHSTREAM, INC.
UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF OPERATIONS
SIX MONTHS ENDED JUNE 30, 2016
(in thousands, except per share data)

	Historical		Pro Forma		Pro Forma
	HealthStream	Morrisey	Adjustments	Note 3	Combined
Revenues, net	$ 108,871	$ 6,857	$ —		$ 115,728
Operating costs and expenses:					
Cost of revenues (excluding depreciation and amortization)	45,522	1,530	—		47,052
Product development	14,263	663	—		14,926
Sales and marketing	17,558	608	—		18,166
Other general and administrative expenses	16,505	1,744	(232)	(L)	18,017
Depreciation and amortization	10,221	73	1,355	(B) (C) (E)	11,649
Total operating costs and expenses	104,069	4,618	1,123		109,810
Operating income	4,802	2,239	(1,123)		5,918
Other income (expense), net	127	—	—		127
Income before income tax provision	4,929	2,239	(1,123)		6,045
Income tax provision	2,026	—	449	(K)	2,475
Net income	$ 2,903	$ 2,239	$ (1,572)		$ 3,570
Net income per share, basic	$ 0.09	$ 3.55			$ 0.11
Net income per share, diluted	$ 0.09	$ 3.55			$ 0.11
Weighted average shares of common stock outstanding:					
Basic	31,701	631			31,701
Diluted	32,031	631			32,031

See notes to the unaudited pro forma combined condensed financial information.

HEALTHSTREAM, INC.
NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL INFORMATION

1. BASIS OF PRO FORMA PRESENTATION

The unaudited pro forma combined condensed balance sheet as of June 30, 2016 and the unaudited combined condensed statements of operations for the year ended December 31, 2015 and the six months ended June 30, 2016, are based on the historical financial statements of HealthStream, Inc. (the "Company") and Morrisey Associates, Inc. ("MAI"), after giving effect to the acquisition of MAI on August 8, 2016 and the assumptions and adjustments described in the accompanying notes to the unaudited pro forma combined condensed financial information.

The Company accounts for business combinations pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification (ASC) 805, *Business Combinations*. In accordance with ASC 805, the Company uses its best estimates and assumptions to accurately assign fair value to the tangible and intangible assets acquired and liabilities assumed at the acquisition date. Goodwill as of the acquisition date is measured as the excess of purchase consideration over the fair value of net tangible and identifiable intangible assets acquired.

The Company has made significant assumptions and estimates in determining the preliminary estimated purchase price and the preliminary allocation of the estimated purchase price in the unaudited pro forma combined condensed financial statements. These preliminary estimates and assumptions are subject to change during the measurement period (up to one year from the acquisition date) as we finalize the valuations of the net tangible assets, intangible assets and resultant goodwill. The final valuations of identifiable intangible and net tangible assets may change significantly from our preliminary estimates, which could result in material variances between our future financial results and the amounts presented in these unaudited pro forma combined condensed financial statements, including variances in fair values recorded, as well as expenses and cash flows associated with these items.

The unaudited pro forma combined condensed financial information is for informational purposes only and does not intend to represent what the Company's results of operations or financial position would have been had the acquisition of MAI occurred at the beginning of the periods presented, or to project the results of operations for any future periods. The unaudited pro forma combined condensed financial information does not reflect any cost savings, synergies, or incremental investments which may result from the acquisition. The unaudited pro forma combined condensed financial information should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2015, filed by the Company with the SEC on February 26, 2016, the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2016, filed by the Company with the SEC on August 1, 2016 the audited carve-out financial statements of Practitioner Credentialing and Privileging Software Operations (a carve-out of Morrisey Associates, Inc.) as of and for the year ended December 31, 2015, included as Exhibit 99.1 of this Current Report on Form 8-K/A, and the unaudited financial statements of MAI as of and for the six months ended June 30, 2016, included as Exhibit 99.2 of this Current Report on Form 8-K/A.

The unaudited pro forma combined condensed balance sheet is presented to give effect to the acquisition of MAI as if it occurred on June 30, 2016. The unaudited pro forma combined condensed statements of operations for the year ended December 31, 2015 and the six months ended June 30, 2016, are presented to give effect to the acquisition of MAI as if it had occurred on January 1, 2015.

As discussed more fully in the Practitioner Credentialing and Privileging Software Operations (a carve-out of Morrisey Associates, Inc.) carve-out financial statements as of and for the year ended December 31, 2015, included as Exhibit 99.1 of this Current Report on Form 8-K/A, MAI underwent a corporate reorganization on January 1, 2016 in which it became a wholly-owned subsidiary of Morrisey Holdings, Inc. ("MHI). As part of such corporate reorganization, MHI formed another new subsidiary that assumed the operations and related assets and liabilities of MAI unrelated to the practitioner credentialing and privileging software operations which were acquired by the Company through its purchase of MAI pursuant to the Purchase Agreement. The MAI statement of operations for the year ended December 31, 2015 has been prepared to reflect the revenues and expenses directly attributable to the practitioner credentialing and privileging software operations, as well as allocations deemed reasonable by management, to present the carve-out results of operations of the practitioner credentialing and privileging software operations as if it were a separate entity as of and for the year ended December 31, 2015.

2. ACQUISITION OF MORRISEY ASSOCIATES, INC.

On August 8, 2016, Echo, Inc., a wholly-owned subsidiary of the Company, acquired all of the outstanding capital stock of MAI, a provider of credentialing and privileging software for healthcare professionals, for approximately $48.0 million in cash, which the Company funded with cash on hand. The Company acquired MAI to expand its credentialing and privileging product offerings and solutions to healthcare organizations.

As of the completion of the acquisition, MAI had approximately 55 employees and is headquartered in Chicago, Illinois.

A summary of the purchase price is as follows (in thousands):

Cash paid at closing to the seller or other designated parties	$44,120
Cash held in escrow	3,880
Total consideration paid	$48,000

The following table summarizes the preliminary fair value of the assets acquired and liabilities assumed as of the date of acquisition:

(in thousands)	
Accounts receivable, net and unbilled receivable	3,402
Prepaid royalties and other prepaid assets	187
Property and equipment	75
Deferred tax assets	1,548
Goodwill	20,502
Intangible assets	27,400
Accounts payable and accrued liabilities	(1,031)
Deferred revenue	(4,083)
Preliminary net assets acquired	$48,000

The excess of preliminary purchase price over the preliminary fair values of net tangible and intangible assets will be recorded as goodwill. The preliminary fair values of tangible and identifiable intangible assets and deferred revenue are based on management's estimates and assumptions. The preliminary fair values of assets acquired and liabilities assumed are considered preliminary and are based on the information that was available at the time of the acquisition. The preliminary fair values of assets acquired and liabilities assumed are subject to change during the measurement period (up to one year from the acquisition date) as the Company finalizes the valuation of these items. The goodwill balance is primarily attributed to the assembled workforce, additional market opportunities from offering MAI's products, and expected synergies from integrating MAI with other products or other combined functional areas within the Company. The goodwill balance is deductible for U.S. income tax purposes. The net tangible assets include deferred revenue, which was preliminarily adjusted down from a book value at the acquisition date of $9.0 million to an estimated fair value of $4.1 million. The preliminary $4.9 million write-down of deferred revenue will result in lower revenues than would have otherwise been recognized for such services.

The following table sets forth the preliminary components of identifiable intangible assets and their estimated useful lives as of the acquisition date:

(in thousands)	Preliminary fair value	Useful life
Customer relationships	$ 21,400	13 years
Developed technology	5,400	5 years
Trade names	600	6 years
Total preliminary intangible assets subject to amortization	$ 27,400	

3. PRO FORMA ADJUSTMENTS

The following pro forma adjustments are included in the Company's unaudited pro forma combined condensed financial information:

(A) To record cash consideration paid for all of the outstanding stock of MAI.

(B) To record the difference between the historical amounts of MAI's property and equipment and preliminary fair values of these assets and the related decrease in depreciation expense for the historical periods presented.

(C) To record an adjustment to the historical amounts of MAI's capitalized software development to reflect the preliminary fair value of these assets and the related decrease in amortization expense for the historical periods presented.

(D) To record the preliminary estimate of goodwill from the Company's acquisition of MAI.

(E) To eliminate historical intangible assets from MAI and record the preliminary fair values of the identifiable intangible assets acquired in connection with the Company's acquisition of MAI and associated amortization expense.

(in thousands)	Preliminary fair values	Estimated useful life based on preliminary fair values	Annual amortization based on preliminary fair values
Customer relationships	$ 21,400	13 years	$ 1,646
Developed technology	5,400	5 years	1,080
Trade name	600	6 years	100
	$ 27,400		$ 2,826

(F) To accrue and record approximately $700,000 in estimated acquisition related transaction costs incurred by the Company.

(G) To eliminate deferred rent liabilities for certain operating leases assumed by the Company.

(H) To record the differences between the preliminary fair value and historical carrying amounts of MAI's deferred revenues. The preliminary fair values represent amounts equivalent to the estimated costs to fulfill the obligations assumed, plus an appropriate profit margin. The estimated amounts presented for purposes of the unaudited pro forma combined condensed balance sheet are based on the deferred revenue balances of MAI as of June 30, 2016 and do not reflect the actual fair value adjustments that were recorded as of August 8, 2016, (the acquisition date of MAI).

(I) To record a deferred tax asset relating to the acquired deferred revenue.

(J) To eliminate MAI's historical accumulated deficit.

(K) To record the pro forma provision for income taxes at the applicable statutory income tax rates related to the net income of MAI and the effects from the pro forma adjustments.

(L) To eliminate acquisition related transaction costs of $232,000 incurred by the Company during the six months ended June 30, 2016.