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

# FORM 10-Q

**(Mark One)**
☒ **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the quarterly period ended** March 31, 2024

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**Commission File No.: 000-27701**

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

| | |
|---|---|
| **Tennessee**<br>**(State or other jurisdiction of incorporation or organization)** | **62-1443555**<br>**(I.R.S. Employer Identification No.)** |
| **500 11th Avenue North, Suite 1000, Nashville, Tennessee**<br>**(Address of principal executive offices)** | **37203**<br>**(Zip Code)** |

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock (Par Value $0.00) | HSTM | Nasdaq Global Select Market |

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☒ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| 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. ☐

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 22, 2024, there were 30,397,886 shares of the registrant's common stock outstanding.

**Index to Form 10-Q**

**HEALTHSTREAM, INC.**

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## PART I. FINANCIAL INFORMATION

### Item 1. *Financial Statements*

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

| | March 31, 2024 | December 31, 2023 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 52,407 | $ 40,333 |
| Marketable securities | 31,265 | 30,800 |
| Accounts receivable, net of allowance for doubtful accounts of $901 and $781 at March 31, 2024 and December 31, 2023, respectively | 39,635 | 34,346 |
| Accounts receivable - unbilled | 4,419 | 4,100 |
| Prepaid royalties, net of amortization | 10,960 | 10,202 |
| Prepaid software maintenance and subscriptions | 6,609 | 7,397 |
| Other prepaid expenses and other current assets | 2,094 | 3,032 |
| Total current assets | 147,389 | 130,210 |
| | | |
| Property and equipment, net of accumulated depreciation of $20,459 and $19,503 at March 31, 2024 and December 31, 2023, respectively | 12,537 | 13,005 |
| Capitalized software development, net of accumulated amortization of $132,960 and $127,009 at March 31, 2024 and December 31, 2023, respectively | 41,118 | 40,643 |
| Operating lease right of use assets, net | 19,483 | 20,114 |
| Goodwill | 191,072 | 191,379 |
| Customer-related intangibles, net of accumulated amortization of $59,128 and $57,095 at March 31, 2024 and December 31, 2023, respectively | 52,511 | 54,742 |
| Other intangible assets, net of accumulated amortization of $15,750 and $16,603 at March 31, 2024 and December 31, 2023, respectively | 11,939 | 13,289 |
| Deferred commissions | 30,671 | 31,700 |
| Non-marketable equity investments | 4,103 | 4,134 |
| Other assets | 782 | 726 |
| Total assets | $ 511,605 | $ 499,942 |
| | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 5,313 | $ 7,465 |
| Accrued expenses | 16,776 | 22,717 |
| Accrued royalties | 5,713 | 4,556 |
| Deferred revenue | 98,268 | 83,623 |
| Total current liabilities | 126,070 | 118,361 |
| | | |
| Deferred tax liabilities | 16,868 | 16,132 |
| Deferred revenue, noncurrent | 2,076 | 2,169 |
| Operating lease liability, noncurrent | 19,484 | 20,247 |
| Other long-term liabilities | 2,253 | 2,281 |
| | | |
| Shareholders' equity: | | |
| Common stock, no par value, 75,000 shares authorized; 30,398 and 30,298 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively | 249,280 | 249,075 |
| Retained earnings | 96,746 | 92,368 |
| Accumulated other comprehensive loss | (1,172) | (691) |
| Total shareholders' equity | 344,854 | 340,752 |
| Total liabilities and shareholders' equity | $ 511,605 | $ 499,942 |

See accompanying Notes to the unaudited Condensed Consolidated Financial Statements.

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

| | Three Months Ended | |
|---|---|---|
| | March 31, 2024 | March 31, 2023 |
| Revenues, net | $ 72,760 | $ 68,946 |
| Operating costs and expenses: | | |
| Cost of revenues (excluding depreciation and amortization) | 24,617 | 23,856 |
| Product development | 12,032 | 11,680 |
| Sales and marketing | 11,773 | 11,728 |
| Other general and administrative expenses | 8,312 | 8,865 |
| Depreciation and amortization | 10,336 | 9,926 |
| Total operating costs and expenses | 67,070 | 66,055 |
| | | |
| Operating income | 5,690 | 2,891 |
| | | |
| Other income, net | 853 | 250 |
| | | |
| Income before income tax provision | 6,543 | 3,141 |
| Income tax provision | 1,316 | 518 |
| Net income | $ 5,227 | $ 2,623 |
| | | |
| Net income per share: | | |
| Basic | $ 0.17 | $ 0.09 |
| Diluted | $ 0.17 | $ 0.09 |
| | | |
| Weighted average shares of common stock outstanding: | | |
| Basic | 30,313 | 30,591 |
| Diluted | 30,418 | 30,659 |
| Dividends declared per share | $ 0.028 | $ 0.025 |

See accompanying Notes to the unaudited Condensed Consolidated Financial Statements.

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

| | Three Months Ended | |
|---|---|---|
| | **March 31, 2024** | **March 31, 2023** |
| Net income | $ 5,227 | $ 2,623 |
| | | |
| Other comprehensive loss, net of taxes: | | |
| Foreign currency translation adjustments | (476) | (33) |
| Unrealized loss on marketable securities | (5) | (2) |
| Total other comprehensive loss | (481) | (35) |
| Comprehensive income | $ 4,746 | $ 2,588 |

See accompanying Notes to the unaudited Condensed Consolidated Financial Statements.

**HEALTHSTREAM, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)**
**(In thousands, except per share data)**

| | Three Months Ended March 31, 2024 | | | | |
|---|---|---|---|---|---|
| | Common Stock | | Retained Earnings | Accumulated Other Comprehensive Loss | Total Shareholders' Equity |
| | Shares | Amount | | | |
| Balance at December 31, 2023 | 30,298 | $ 249,075 | $ 92,368 | $ (691) | $ 340,752 |
| Net income | — | — | 5,227 | — | 5,227 |
| Other comprehensive loss | — | — | — | (481) | (481) |
| Dividends declared on common stock ($0.028 per share) | — | — | (849) | — | (849) |
| Stock-based compensation | — | 1,060 | — | — | 1,060 |
| Common stock issued under stock plans, net of shares withheld for employee taxes | 100 | (855) | — | — | (855) |
| Balance at March 31, 2024 | 30,398 | $ 249,280 | $ 96,746 | $ (1,172) | $ 344,854 |

| | Three Months Ended March 31, 2023 | | | | |
|---|---|---|---|---|---|
| | Common Stock | | Retained Earnings | Accumulated Other Comprehensive Loss | Total Shareholders' Equity |
| | Shares | Amount | | | |
| Balance at December 31, 2022 | 30,579 | $ 254,832 | $ 80,213 | $ (981) | $ 334,064 |
| Net income | — | — | 2,623 | — | 2,623 |
| Other comprehensive loss | — | — | — | (35) | (35) |
| Dividends declared on common stock ($0.025 per share) | — | — | (767) | — | (767) |
| Stock-based compensation | — | 945 | — | — | 945 |
| Common stock issued under stock plans, net of shares withheld for employee taxes | 103 | (791) | — | — | (791) |
| Balance at March 31, 2023 | 30,682 | $ 254,986 | $ 82,069 | $ (1,016) | $ 336,039 |

See accompanying Notes to the unaudited Condensed Consolidated Financial Statements.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | **2024** | **2023** |
| OPERATING ACTIVITIES: | | |
| Net income | $ 5,227 | $ 2,623 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 10,336 | 9,926 |
| Stock-based compensation | 1,060 | 945 |
| Amortization of deferred commissions | 2,957 | 2,712 |
| Provision for credit losses | 174 | 209 |
| Deferred income taxes | 771 | 800 |
| Loss on equity method investments | 31 | 127 |
| Other | (346) | (85) |
| Changes in operating assets and liabilities: | | |
| Accounts and unbilled receivables | (5,782) | (4,787) |
| Prepaid royalties | (758) | (1,889) |
| Other prepaid expenses and other current assets | 959 | 482 |
| Deferred commissions | (1,928) | (1,490) |
| Other assets | (56) | 147 |
| Accounts payable and accrued expenses | (7,416) | (4,773) |
| Accrued royalties | 1,157 | 1,090 |
| Deferred revenue | 14,552 | 14,504 |
| Net cash provided by operating activities | 20,938 | 20,541 |
| | | |
| INVESTING ACTIVITIES: | | |
| Business combinations, net of cash acquired | — | (6,621) |
| Proceeds from maturities of marketable securities | 14,000 | 1,000 |
| Purchases of marketable securities | (14,124) | (2,850) |
| Proceeds from sale of non-marketable equity investments | 765 | — |
| Payments associated with capitalized software development | (7,019) | (7,566) |
| Purchases of property and equipment | (742) | (879) |
| Net cash used in investing activities | (7,120) | (16,916) |
| | | |
| FINANCING ACTIVITIES: | | |
| Taxes paid related to net settlement of equity awards | (855) | (791) |
| Payment of cash dividends | (849) | — |
| Net cash used in financing activities | (1,704) | (791) |
| | | |
| Effect of exchange rate changes on cash and cash equivalents | (40) | (21) |
| Net increase in cash and cash equivalents | 12,074 | 2,813 |
| Cash and cash equivalents at beginning of period | 40,333 | 46,023 |
| Cash and cash equivalents at end of period | $ 52,407 | $ 48,836 |

See accompanying Notes to the unaudited Condensed Consolidated Financial Statements.

**HEALTHSTREAM, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

## 1. OVERVIEW AND BASIS OF PRESENTATION

***Company Overview***

HealthStream provides primarily Software-as-a-Service ("SaaS") based applications for healthcare organizations—all designed to improve business and clinical outcomes by supporting the people who deliver patient care. The Company is focused on helping individuals and organizations in healthcare meet their ongoing learning, clinical development, credentialing, and scheduling needs. The Company also provides its solutions to nursing schools and nursing students.

The Company is organized and operated according to its One HealthStream approach, with its hStream technology platform at the center of that approach. Increasingly, SaaS-based applications in the Company's diverse ecosystem of solutions utilize the Company's proprietary hStream technology platform to enhance the value proposition for customers by creating interoperability with and among other applications. As used in this Quarterly Report on Form 10-Q ("Form 10-Q"), "HealthStream," "Company," "we," "us," and "our" mean HealthStream, Inc. and its subsidiaries, unless the context indicates otherwise.

***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 intercompany transactions have been eliminated in consolidation. Operating results for the three months ended March 31, 2024 are not necessarily indicative of the results that may be expected for the year ending December 31, 2024.

The Condensed Consolidated Balance Sheet at December 31, 2023 was derived from the audited Consolidated 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 Notes thereto for the year ended December 31, 2023 (included in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 26, 2024).

## 2. RECENT ACCOUNTING PRONOUNCEMENTS

***Accounting Pronouncements Recently Adopted***

In November 2023, the Financial Accounting Standards Board ("FASB") issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*. The new guidance requires disclosures of significant reportable segment expenses that are regularly provided to the chief operating decision maker and other segment items on an interim and annual basis. Entities with a single reportable segment will also be required to apply the disclosure requirements in Accounting Standards Update ("ASU") 2023-07 on an interim and annual basis. ASU 2023-07 will be effective for the Company for annual periods beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. The Company is currently evaluating the impact of adopting ASU 2023-07.

***Recently Issued Accounting Pronouncements Not Yet Adopted***

In December 2023, FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which requires public entities to provide disclosure of disaggregated information in the entity's tax rate reconciliation, as well as disclosure of income taxes paid disaggregated by jurisdiction. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating the impact of adopting ASU 2023-09.

## 3. REVENUE RECOGNITION AND SALES COMMISSIONS

***Revenue Recognition***

Revenues are recognized when control of the promised goods or services is transferred to the customer in an amount that reflects the consideration the Company expects to be entitled in exchange for transferring those goods or services. Revenue is recognized based on the following five step model:

- Identification of the contract with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the Company satisfies a performance obligation

The following table represents revenues disaggregated by revenue source (in thousands). Sales taxes are excluded from revenues.

| | Three Months Ended March 31, | |
|---|---|---|
| | **2024** | **2023** |
| Subscription services | $ 70,205 | $ 66,015 |
| Professional services | 2,555 | 2,931 |
| Total revenues, net | $ 72,760 | $ 68,946 |

For both the three months ended March 31, 2024 and 2023, the Company recognized $0.2 million in impairment losses on receivables and contract assets arising from the Company's contracts with customers.

During the three months ended March 31, 2024 and 2023, the Company recognized revenues of $40.0 million and $39.1 million, respectively, from amounts included in deferred revenue at the beginning of the respective periods. As of March 31, 2024, approximately $514 million of revenue is expected to be recognized from remaining performance obligations under contracts with customers. The Company expects to recognize revenue related to approximately 44% of these remaining performance obligations over the next 12 months, with the remaining amounts recognized thereafter.

***Sales Commissions***

Sales commissions earned by the Company's sales employees are considered incremental and recoverable costs of obtaining a contract with a customer. The Company recorded amortization of deferred commissions of $3.0 million and $2.7 million for the three months ended March 31, 2024 and 2023, respectively, which is included in sales and marketing expenses in the accompanying Condensed Consolidated Statements of Income.

## 4. 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.

The Company computes its interim period provision for income taxes by applying the estimated annual effective tax rate to year-to-date pretax income or loss and adjusts the provision for discrete tax items recorded in the period. During the three months ended March 31, 2024 and 2023, the Company recorded a provision for income taxes of approximately $1.3 million and $0.5 million, respectively.

The Company's effective tax rate was 20% and 16% for the three months ended March 31, 2024 and 2023, respectively. The Company's effective tax rate primarily reflects the statutory corporate income tax rate, the net effect of state taxes, foreign income taxes, the effect of various permanent tax differences, and recognition of discrete tax items. The Company recognizes excess tax benefits and tax deficiencies associated with stock-based awards as a component of its provision for income taxes. During the three months ended March 31, 2024, the Company recorded discrete tax benefits of $17,000, which consisted primarily of a $129,000 tax benefit associated with stock-based awards, partially offset by $112,000 of discrete tax expense related to reserves for uncertain tax positions. During the three months ended March 31, 2023, the Company recorded discrete tax benefits of $53,000, which consisted primarily of a $133,000 tax benefit associated with stock-based awards. This tax benefit was partially offset by $80,000 of discrete tax expense related to reserves for uncertain tax positions.

## 5. SHAREHOLDERS' EQUITY

***Dividends on Common Stock***

During the three months ended March 31, 2024, the Company's Board of Directors ("Board") declared the following quarterly dividend under its dividend policy:

| Dividend Payment Date | Dividend Declaration Date | Dividend Per Share | Record Date | Cash Outlay |
|---|---|---|---|---|
| March 22, 2024 | February 19, 2024 | $ 0.028 | March 11, 2024 | $ 849,000 |

Additionally, on April 22, 2024, the Board declared a quarterly cash dividend of $0.028 per share, payable on May 17, 2024 to holders of record on May 6, 2024.

***Stock-Based Compensation***

The Company has stock awards outstanding under its 2016 Omnibus Incentive Plan and 2022 Omnibus Incentive Plan. The Company accounts for its stock-based compensation plans using the fair-value based method for costs related to share-based payments, including restricted share units ("RSUs") and stock options. During the three months ended March 31, 2024, the Company issued 45,640 RSUs subject to service-based time vesting, with a weighted average grant date fair value of $26.79 per share, measured based on the closing fair market value of the Company's stock on the date of the grant. During the three months ended March 31, 2023, the Company issued 45,907 RSUs subject to service-based time vesting, with a weighted average grant date fair value of $26.25 per share, measured based on the closing fair market value of the Company's stock on the date of grant.

**HEALTHSTREAM, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

During the three months ended March 31, 2023, the Company granted 138,000 performance-based RSUs, the vesting of which occurs over a five-year period and is contingent upon continued service and achieving certain performance criteria established by the compensation committee of the Board (the "Compensation Committee") on an annual basis in increments of 15%, 20%, 20%, 20%, and 25% based on performance in 2023, 2024, 2025, 2026, and 2027, respectively. The performance criteria for the second-year tranche, or 27,600 of these performance-based RSUs, is based on 2024 adjusted EBITDA. The measurement date for these 27,600 performance-based RSUs was established during the three months ended March 31, 2024 with a weighted average grant date fair value of $26.79 per share, measured based on the closing fair market value of the Company's stock on the date the performance criteria was established. The performance criteria for the remaining 89,700 performance-based RSUs has not yet been determined and will be established on an annual basis in 2025, 2026, and 2027, as applicable; therefore, the measurement date for these remaining 89,700 performance-based RSUs cannot be determined until the performance criteria have been established.

During the three months ended March 31, 2022, the Company approved the grant of 91,042 performance-based RSUs, the vesting of which occurs over a five-year period and is contingent upon continued service and achieving certain performance criteria established by the Compensation Committee on an annual basis in increments of 15%, 20%, 20%, 20%, and 25% based on performance in 2022, 2023, 2024, 2025, and 2026, respectively. The performance criteria and measurement date for the third-year tranche, or 18,211 of these performance-based RSUs, is based on 2024 adjusted EBITDA and was established during the three months ended March 31, 2024 with a grant date fair value of $26.79 per share, measured based on the closing fair market value of the Company's stock on the date the performance criteria was established. The performance criteria for the remaining 40,967 performance-based RSUs has not yet been determined and will be established on an annual basis in 2025 and 2026, as applicable; therefore, the measurement date for these remaining 40,967 performance-based RSUs cannot be determined until the performance criteria have been established.

Total stock-based compensation expense recognized in the Condensed Consolidated Statements of Income is as follows (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2024 | 2023 |
| Cost of revenues (excluding depreciation and amortization) | $ 53 | $ 48 |
| Product development | 197 | 167 |
| Sales and marketing | 136 | 113 |
| Other general and administrative | 674 | 617 |
| Total stock-based compensation expense | $ 1,060 | $ 945 |

***Share Repurchase Plan***

On September 13, 2023, the Company announced that the Board authorized a share repurchase program to repurchase up to $10.0 million of the Company's outstanding shares of common stock. The share repurchase program expired according to its terms on March 31, 2024. Under this program, the Company repurchased a total of 404,188 shares at an aggregate fair value of $8.9 million, reflecting an average price per share of $22.07 (excluding the cost of broker commissions). No repurchases occurred under this program during the three months ended March 31, 2024.

**6. 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 available to common shareholders for the period by the weighted average number of potentially dilutive common and common equivalent shares outstanding during the period. Common equivalent shares are composed of incremental common shares issuable upon the exercise of stock options and RSUs subject to vesting. The dilutive effect of common equivalent shares is included in diluted earnings per share by application of the treasury stock method. The total number of common equivalent shares excluded from the calculations of diluted earnings per share, due to their anti-dilutive effect or contingent performance conditions, was approximately 176,000 and 268,000 for the three months ended March 31, 2024 and 2023, respectively.

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

| | Three Months Ended March 31, | |
|---|---|---|
| | **2024** | **2023** |
| Numerator: | | |
| Net income | $ 5,227 | $ 2,623 |
| Denominator: | | |
| Weighted-average shares outstanding | 30,313 | 30,591 |
| Effect of dilutive shares | 105 | 68 |
| Weighted-average diluted shares | 30,418 | 30,659 |
| | | |
| Net income per share: | | |
| Basic | $ 0.17 | $ 0.09 |
| Diluted | $ 0.17 | $ 0.09 |

**7. MARKETABLE SECURITIES**

The fair value of marketable securities, which were all classified as available for sale and which the Company does not intend to sell nor will the Company be required to sell prior to recovery of their amortized cost basis, included the following (in thousands):

| | March 31, 2024 | | | |
|---|---|---|---|---|
| | **Adjusted Cost** | **Unrealized Gains** | **Unrealized Losses** | **Fair Value** |
| Level 2: | | | | |
| U.S. treasury securities | $ 31,261 | $ 6 | $ (2) | $ 31,265 |
| Total | $ 31,261 | $ 6 | $ (2) | $ 31,265 |

| | December 31, 2023 | | | |
|---|---|---|---|---|
| | **Adjusted Cost** | **Unrealized Gains** | **Unrealized Losses** | **Fair Value** |
| Level 2: | | | | |
| U.S. treasury securities | $ 30,791 | $ 10 | $ (1) | $ 30,800 |
| Total | $ 30,791 | $ 10 | $ (1) | $ 30,800 |

The carrying amounts reported in the Condensed Consolidated Balance Sheets approximate fair value based on quoted market prices or alternative pricing sources and models utilizing market observable inputs. As of March 31, 2024, the Company did not recognize any allowance for credit impairments on its available for sale securities. All investments in marketable securities are classified as current assets on the Condensed Consolidated Balance Sheets because the underlying securities mature within one year from the balance sheet date.

**HEALTHSTREAM, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

## 8. DEBT

Revolving Credit Facility

On October 6, 2023, the Company entered into an Amended and Restated Revolving Credit Agreement ("Revolving Credit Facility"), amending the Revolving Credit Facility dated as of November 24, 2014, as amended, with certain lenders party thereto from time to time, and Truist, as Administrative Agent for the lenders. Under the Revolving Credit Facility, the Company may borrow up to $50.0 million, which includes a $5.0 million swingline sub-facility and a $5.0 million letter of credit sub-facility, as well as an accordion feature that allows the Company to increase the Revolving Credit Facility by a total of up to $25.0 million, subject to securing additional commitments from existing lenders or new lending institutions. The Revolving Credit Facility has a maturity date of October 6, 2026.

The Company's obligations under the Revolving Credit Facility are unsecured. In addition, if the Company forms or acquires any domestic subsidiaries, the loans and other obligations under the Revolving Credit Facility will be guaranteed by such domestic subsidiaries.

At the Company’s election, the borrowings under the Revolving Credit Facility, other than the swingline loans, bear interest at either (1) a base rate defined as the highest of (a) the rate which the Administrative Agent announces from time to time as its prime lending rate, as in effect from time to time, or (b) the Federal Funds Rate, as in effect from time to time, plus one-half of one percent (0.50%) per annum (any changes in such rates to be effective as of the date of any change in such rate), plus in each case an applicable margin that varies with the company’s funded debt leverage ratio; or (2) a term secured overnight financing rate (“SOFR”) defined as the greater of (a)(i) the forward-looking term rate based on SOFR determined as of the reference time for such interest period with a term equivalent to such interest period plus (ii) a term SOFR adjustment equal to 0.10% per annum and (b) zero, plus, in each case, an applicable margin that varies with the Company’s consolidated total leverage ratio. The Company’s borrowings under the swingline loans bear interest at the base rate plus the applicable margin. The initial applicable margin for base rate loans is 0.50% and the initial applicable margin SOFR loans is 1.50%. The applicable margins will be adjusted quarterly, in each case two (2) business days after the Administrative Agent's receipt of the Company's quarterly financial statements. The Company is also required to pay a commitment fee accruing on the unused revolving commitment, which fee initially is 20 basis points per annum and a letter of credit fee, accruing at a rate per annum equal to the applicable margin for SOFR loans then in effect on the daily average amount of such lender’s letter of credit exposure.

Principal is payable in full at maturity on October 6, 2026, and there are no scheduled principal payments prior to maturity. Interest on base rate loans and swingline loans is payable quarterly in arrears, and interest on SOFR loans is payable at the end of each interest period, and in the case of interest periods longer than three months, on each day which occurs every three months after the initial date of such interest period.

The purpose of the Revolving Credit Facility is for general working capital needs, permitted acquisitions (as defined in the Amended and Restated Revolving Credit Agreement), and for stock repurchase and/or redemption transactions that the Company may authorize.

In addition, the Revolving Credit Facility required the Company to meet certain financial tests, including, without limitation:

- a funded debt leverage ratio (consolidated debt/consolidated EBITDA) of not greater than 3.0 to 1.0; and

- an interest coverage ratio (consolidated EBITDA/consolidated interest expense) of not less than 3.0 to 1.0.

In addition, the Revolving Credit Facility contains certain customary affirmative and negative covenants that, among other things, restrict additional indebtedness, liens and encumbrances, changes to the character of the Company’s business, acquisitions, asset dispositions, mergers and consolidations, sale or discount of receivables, creation or acquisitions of additional subsidiaries, and other matters customarily restricted in such agreements.

As of March 31, 2024, the Company was in compliance with all covenants. There were no balances outstanding on the Revolving Credit Facility as of or during the three months ended March 31, 2024.

**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 Form 10-Q and our audited Consolidated Financial Statements and the Notes thereto for the year ended December 31, 2023, appearing in our Annual Report on Form 10-K that was filed with the Securities and Exchange Commission (“SEC”) on February 26, 2024 (the “2023 Form 10-K”). Statements contained in this Form 10-Q that are not historical facts 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 set forth above and the risks set forth under the caption Part I, Item 1A. Risk Factors in our 2023 Form 10-K and other disclosures in our 2023 Form 10-K, earnings releases, and other filings with the SEC from time to time, as well as other cautionary statements contained elsewhere in this Form 10-Q, including our critical accounting policies and estimates as discussed in this Form 10-Q and our 2023 Form 10-K. We undertake no obligation to update or revise any forward-looking statements. You should read this Form 10-Q and the documents that we reference in this Form 10-Q and have filed as exhibits to this Form 10-Q completely and with the understanding that our actual future results may be materially different from what we currently expect.

**Business Overview**

HealthStream provides primarily SaaS based applications for healthcare organizations—all designed to improve business and clinical outcomes by supporting the people who deliver patient care. We are focused on helping individuals and organizations in healthcare meet their ongoing learning, clinical development, credentialing, and scheduling needs. We also provide our solutions to nursing schools and nursing students.

Our business is managed and organized around a single platform strategy, also referred to as our One HealthStream approach. At the center of this single platform strategy is our hStream technology platform. By enabling our applications through hStream, we believe that stand-alone applications, which already provide a powerful value proposition on their own, are beginning to leverage each other to more efficiently and effectively empower our customers to manage their business and improve their outcomes. Further, the Company’s internal structure and executive leadership are likewise shaped by the organizing principle of a single platform, including with regard to technology, operations, accounting, internal reporting (including the nature of information reviewed by our key decision makers), organizational structure, compensation, performance assessment, and resource allocation.

Significant financial metrics for the first quarter of 2024 are set forth in the bullets below.

- Revenues of $72.8 million in the first quarter of 2024, up 6% from $68.9 million in the first quarter of 2023
- Operating income of $5.7 million in the first quarter of 2024, up 97% from $2.9 million in the first quarter of 2023
- Net income of $5.2 million in the first quarter of 2024, up 99% from $2.6 million in the first quarter of 2023
- Earnings per share (“EPS”) of $0.17 per share (diluted) in the first quarter of 2024, up from $0.09 per share (diluted) in the first quarter of 2023
- Adjusted EBITDA[1] of $17.1 million in the first quarter of 2024, up 24% from $13.7 million in the first quarter of 2023

[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 Form 10-Q.

**Recent Developments**

Macroeconomic conditions in the U.S. continue to be challenging in various respects, including as the result of ongoing inflationary pressures, elevated interest rate levels, challenging labor market conditions, and uncertain geopolitical conditions. In this regard, we have experienced in certain recent periods, and believe that many of our customers have experienced, increased labor, supply chain, capital, and other expenditures associated with current inflationary pressures. These conditions impacting the U.S. economy and our customers in the healthcare industry have adversely affected, and may continue to adversely impact, our business and results of operations.

While the COVID-19 pandemic continues to cause some level of uncertainty, the impact of the pandemic itself on public health and economic conditions has significantly lessened and normalized to the point of reaching an endemic stage. As our business is focused on providing solutions to healthcare organizations, we continue to closely monitor any developments related to COVID-19 and remain prepared to modify our operating approaches to address COVID 19-related developments or other public health related events as they may arise.

**Key Financial Metrics**

Our management utilizes the following financial metrics in connection with managing our business.

- *Revenues, net*. Revenues, net, reflect income generated by the sales of goods and services related to our operations and, for businesses acquired prior to the adoption of ASU 2021-08 on January 1, 2022, reflects deferred revenue write-downs associated with fair value accounting for such acquired businesses. Revenues, net, were $72.8 million for the three months ended March 31, 2024, compared to $68.9 million for the three months ended March 31, 2023. Management utilizes revenue in connection with managing our business and believes that this metric provides useful information to investors as a key indicator of the growth and success of our products.

- *Adjusted EBITDA*. Adjusted EBITDA, calculated as set forth below under “Reconciliation of Non-GAAP Financial Measures,” is utilized by our management in connection with managing our business and provides useful information to investors because adjusted EBITDA reflects net income adjusted for certain GAAP accounting, non-cash, and/or non-operating items, as more specifically set forth below, which may not fully reflect the underlying operating performance of our business. We also believe that adjusted EBITDA is useful to investors to assess the Company’s ongoing operations. Additionally, certain short-term cash incentive bonuses and performance-based equity award grants are based on the achievement of adjusted EBITDA (as defined in applicable bonus and equity grant documentation) targets. Adjusted EBITDA was $17.1 million for the three months ended March 31, 2024, compared to $13.7 million for the three months ended March 31, 2023.

- *Capital Expenditures*. Capital expenditures represent cash payments incurred for purchases of property and equipment and during the development phase for projects to develop software and content. Capital expenditures were $7.8 million for the three months ended March 31, 2024 compared to $8.4 million for the three months ended March 31, 2023. Management utilizes this metric in connection with managing the allocation of capitalized expenditures in which the Company invests related to the development of its products and believes that this metric is a key indicator of investment in products relative to their current and expected performance.

- *Net Income*. Net income represents revenues, net less all expenses. Net income was $5.2 million for the three months ended March 31, 2024, compared to $2.6 million for the three months ended March 31, 2023. Management utilizes net income in connection with managing our business, including with regard to our capital deployment strategies.

**Critical Accounting Policies and Estimates**

The Company's Condensed Consolidated Financial Statements are prepared in accordance with 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 and related disclosures. 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
- Goodwill

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 where management's judgment in selecting among available alternatives would not produce a materially different result. See Notes to the Consolidated Financial Statements in our 2023 Form 10-K and the Notes to the Condensed Consolidated Financial Statements herein which contain 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 2023 Form 10-K.

**Three Months Ended March 31, 2024 Compared to Three Months Ended March 31, 2023**

*Revenues, net.* Revenues increased $3.8 million, or 6%, to $72.8 million for the three months ended March 31, 2024 from $68.9 million for the three months ended March 31, 2023. Subscription revenues increased $4.2 million, or 6%, but were partially offset by $0.4 million of declines from professional services revenues.

A comparison of revenues by revenue source is as follows (in thousands):

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | **2024** | **2023** | **Percentage Change** |
| Subscription services | $ 70,205 | $ 66,015 | 6% |
| Professional services | 2,555 | 2,931 | -13% |
| Total revenues, net | $ 72,760 | $ 68,946 | 6% |
| | | | |
| **% of Revenues** | | | |
| Subscription services | 96% | 96% | |
| Professional services | 4% | 4% | |

*Cost of Revenues (excluding Depreciation and Amortization).* Cost of revenues increased $0.7 million, or 3%, to $24.6 million for the three months ended March 31, 2024, from $23.9 million for the three months ended March 31, 2023. Cost of revenues as a percentage of revenues were 34% and 35% for the three months ended March 31, 2024 and 2023, respectively. The increase in expense is primarily associated with higher costs for cloud hosting, royalties, and software, which were partially offset by a reduction in labor costs. Labor costs recognized during the three months ended March 31, 2023 included severance costs incurred in connection with the Company's previously disclosed restructuring under a single platform strategy.

*Product Development.* Product development expenses increased $0.3 million, or 3%, to $12.0 million for the three months ended March 31, 2024, from $11.7 million for the three months ended March 31, 2023. Product development expenses as a percentage of revenues were 17% for both the three months ended March 31, 2024 and 2023. The increase in expense is primarily due to an increase in labor costs, partially offset by an increase in labor capitalized for internally developed software.

*Sales and Marketing.* Sales and marketing expenses, including personnel costs, increased $45,000 to $11.8 million for the three months ended March 31, 2024, from $11.7 million for the three months ended March 31, 2023. Sales and marketing expenses were 16% and 17% of revenues for the three months ended March 31, 2024 and 2023, respectively. The increase in expense is primarily due to increases in general marketing expenses, travel expenses, and commissions, which were partially offset by a decrease in labor costs.

*Other General and Administrative Expenses.* Other general and administrative expenses decreased $0.6 million, or 6%, to $8.3 million for the three months ended March 31, 2024, from $8.9 million for the three months ended March 31, 2023. Other general and administrative expenses were 11% and 13% of revenues for the three months ended March 31, 2024 and 2023, respectively. The decrease is primarily due to lower labor costs and professional service fees, which were partially offset by higher software expenses.

*Depreciation and Amortization.* Depreciation and amortization expense increased $0.4 million, or 4%, to $10.3 million for the three months ended March 31, 2024, from $9.9 million for the three months ended March 31, 2023. This increase is primarily a result of an increase in amortization associated with capitalized software.

*Other Income, Net*. Other income, net was $0.9 million for the three months ended March 31, 2024, compared to $0.3 million for the three months ended March 31, 2023. The increase is primarily the result of an increase in interest income earned on cash and investments during the three months ended March 31, 2024.

*Income Tax Provision.* The Company recorded a provision for income taxes of $1.3 million for the three months ended March 31, 2024, compared to $0.5 million for the three months ended March 31, 2023. The Company's effective tax rate was 20% for the three months ended March 31, 2024, compared to 16% for the three months ended March 31, 2023. The Company's effective tax rate primarily reflects the statutory corporate income tax rate, the net effect of state taxes, foreign income taxes, the effect of various permanent tax differences, and recognition of discrete tax items. During the three months ended March 31, 2024, the Company recorded discrete tax benefits of $17,000, which consisted primarily of a $129,000 tax benefit associated with stock-based awards, partially offset by $112,000 of discrete tax expense related to reserves for uncertain tax positions. During the three months ended March 31, 2023, the Company recorded discrete tax benefits of $53,000, which consisted primarily of a $133,000 tax benefit associated with stock-based awards. This tax benefit was partially offset by $80,000 of discrete tax expense related to uncertain tax positions.

*Net Income.* Net income was $5.2 million and $2.6 million for the three months ended March 31, 2024 and 2023, respectively. EPS was $0.17 per share (diluted) and $0.09 per share (diluted) for the three months ended March 31, 2024 and 2023, respectively.

Adjusted EBITDA was $17.1 million for the three months ended March 31, 2024, compared to $13.7 million for the three months ended March 31, 2023. See "Reconciliation of Non-GAAP Financial Measures" below for our reconciliation of adjusted EBITDA to the most directly comparable measure under US GAAP and disclosure regarding why we believe adjusted EBITDA provides useful information to investors.

**Reconciliation of Non-GAAP Financial Measures**

This Form 10-Q presents adjusted EBITDA, which is a non-GAAP financial measure used by management in analyzing our 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, and changes in fair value of, including gains (losses) on the sale of, non-marketable equity investments ("adjusted EBITDA") is a useful measure for evaluating the operating performance of the Company because adjusted EBITDA reflects net income adjusted for certain GAAP accounting, non-cash, and/or non-operating items which may not, in any such case, fully reflect the underlying operating performance of our business. In addition, as discussed below, for periods ended on or prior to December 31, 2023, adjusted EBITDA excludes the impact of deferred revenue write-downs associated with fair value accounting for acquired businesses. We believe that adjusted EBITDA is useful to investors to assess the Company's ongoing operating performance and to compare the Company's operating performance between periods. Additionally, certain short-term cash incentive bonuses and performance-based equity awards are based on the achievement of adjusted EBITDA (as defined in applicable bonus and equity grant documentation) targets.

As previously disclosed, prior to the Company early adopting ASU 2021-08 effective January 1, 2022, following the completion of any acquisition by the Company, the Company was required to record the acquired deferred revenue at fair value as defined in GAAP, which typically resulted in a write-down of the acquired deferred revenue. In connection therewith, management determined that including an adjustment in the definition of adjusted EBITDA for the impact of the deferred revenue write-downs associated with fair value accounting for businesses acquired prior to the January 1, 2022 effective date of the Company's adoption of ASU 2021-08 (the "Pre-2022 Acquisitions") provided useful information to investors because the deferred revenue write-down recognized in periods after any such Pre-2022 Acquisition could, given the nature of this non-cash accounting impact, cause our GAAP financial results during such periods to not fully reflect our underlying operating performance. Following the adoption of ASU 2021-08, contracts acquired in an acquisition completed on or after January 1, 2022 have been measured as if the Company had originated the contract (rather than the contract being measured at fair value) such that, for such acquisitions, the Company no longer records deferred revenue write-downs associated with acquired businesses. With respect to periods ended on or prior to December 31, 2023, the Company has included an adjustment in the calculation of adjusted EBITDA for the impact of deferred revenue write-downs associated with the Pre-2022 Acquisitions consistent with this prior accounting standard, given the ongoing impact of such deferred revenue on the Company's financial results under GAAP over this time period. With respect to periods beginning on or after January 1, 2024, the Company is no longer recognizing any deferred revenue write-downs associated with the Pre-2022 Acquisitions under GAAP, and accordingly such deferred revenue write-downs are no longer an adjustment in connection with the calculation of adjusted EBITDA for periods beginning on and after January 1, 2024.

Adjusted EBITDA is a non-GAAP financial measure and should not be considered as a measure of financial performance under GAAP. Because adjusted EBITDA is not a measurement determined in accordance with GAAP, adjusted EBITDA is susceptible to varying calculations. Accordingly, adjusted EBITDA, as presented, may not be comparable to other similarly titled measures of other companies and has limitations as an analytical tool.

A reconciliation of adjusted EBITDA to the most directly comparable GAAP measure, net income, is set forth below (in thousands).

| | Three Months Ended March 31, | |
|---|---|---|
| | **2024** | **2023** |
| Net income | $ 5,227 | $ 2,623 |
| Deferred revenue write-down | — | 50 |
| Interest income | (904) | (363) |
| Interest expense | 24 | 33 |
| Income tax provision | 1,316 | 518 |
| Stock-based compensation expense | 1,060 | 945 |
| Depreciation and amortization | 10,336 | 9,926 |
| Adjusted EBITDA | $ 17,059 | $ 13,732 |

**Liquidity and Capital Resources**

Net cash provided by operating activities increased by $0.4 million to $20.9 million during the three months ended March 31, 2024, from $20.5 million during the three months ended March 31, 2023. The increase in net cash provided by operating activities is primarily due to higher cash collections compared to the prior year period. Our days sales outstanding ("DSO") was 46 days for the first quarter of 2024 compared to 51 days for the first quarter of 2023. The Company calculates DSO by dividing the average accounts receivable balance for the quarter by average daily revenues for the quarter. The Company’s primary sources of cash were receipts generated from the sales of our products and services. 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, income tax payments, and general corporate expenses.

Net cash used in investing activities was $7.1 million for the three months ended March 31, 2024, compared to $16.9 million for the three months ended March 31, 2023. During the three months ended March 31, 2024, the Company invested in marketable securities of $14.1 million, made payments for capitalized software development of $7.0 million, and purchased property and equipment of $0.7 million. These uses of cash were partially offset by $14.0 million in maturities of marketable securities and $0.8 million received upon the settlement and release of escrowed proceeds related to a prior sale of a non-marketable equity investment. During the three months ended March 31, 2023, the Company spent $6.6 million for the acquisition of substantially all of the assets of Electronic Education Documentation System, LLC ("eeds") (note: the eeds acquisition was consummated on December 31, 2022, but was funded in January 2023 such that the purchase price for eeds impacted net cash used in investing activities during the three months ended March 31, 2023), invested in marketable securities of $2.9 million, made payments for capitalized software development of $7.6 million, and purchased property and equipment of $0.9 million. These uses of cash were partially offset by $1.0 million in maturities of marketable securities.

Net cash used in financing activities was approximately $1.7 million for the three months ended March 31, 2024, compared to $0.8 million for the three months ended March 31, 2023. The uses of cash for the three months ended March 31, 2024 included $0.8 million for the payment of cash dividends and $0.9 million for the payment of employee payroll taxes in relation to the vesting of restricted share units. The uses of cash for the three months ended March 31, 2023 included $0.8 million for the payment of employee payroll taxes in relation to the vesting of restricted share units.

Our balance sheet reflects positive working capital of $21.3 million at March 31, 2024, compared to positive working capital of $11.8 million at December 31, 2023. The increase in working capital is primarily a result of an increase in cash and cash equivalents. The Company’s primary source of liquidity as of March 31, 2024 was $52.4 million of cash and cash equivalents and $31.3 million of marketable securities.

On October 6, 2023, the Company entered into a new revolving credit facility, which amended and replaced our prior revolving credit facility. There currently are no outstanding borrowings under our revolving credit facility. For additional information regarding our revolving credit facility, see Note 8 to the Condensed Consolidated Financial Statements included herein.

On September 13, 2023, the Company announced a share repurchase program approved by the Company's Board under which the Company was authorized to purchase up to $10.0 million of the Company's outstanding shares of common stock. The share repurchase program expired according to its terms on March 31, 2024, and no repurchases occurred during the three months ended March 31, 2024. During the term of this program, the Company repurchased a total of 404,188 shares under this program at an aggregate fair value of $8.9 million, based on an average price per share of $22.07 (excluding the cost of broker commissions). We may elect in the future to adopt a new share repurchase program.

On February 20, 2023, we announced that our Board approved a quarterly dividend policy. Under this dividend policy, our Board declared, and the Company paid, quarterly cash dividends on our common stock at the rate of $0.025 per share during the year ended December 31, 2023. In addition, on February 19, 2024, our Board approved a quarterly dividend under this dividend policy at a rate of $0.028 per share, which was paid on March 22, 2024 to the holders of record of our common stock on March 11, 2024. Moreover, on April 22, 2024, the Board approved a quarterly cash dividend of $0.028 per share, which will be payable on May 17, 2024 to holders of record of our common stock on May 6, 2024.

The dividend policy and the declaration and payment of each quarterly cash dividend will be subject to our Board’s continuing determination that the policy and the declaration and payment of dividends thereunder are in the best interests of our stockholders and are in compliance with applicable law and our credit agreement. Our Board retains the power to modify, suspend, or cancel the dividend policy and quarterly dividends thereunder in any manner and at any time that our Board may deem necessary or appropriate.

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 working capital needs, new product development, dividend payments, any repurchases of shares we may elect to make under any future share repurchase program, and capital expenditures for at least the next 12 months and for the foreseeable future thereafter.

In addition, the Company's growth strategy includes acquiring businesses or making strategic investments in businesses that complement or enhance our business. It is anticipated that future acquisitions or strategic investments, if any, would be effected through cash consideration, stock consideration, or a combination of both. The issuance of our stock as consideration for an acquisition or to raise additional capital could have a dilutive effect on earnings per share and could adversely affect our stock price. Our revolving credit facility contains financial covenants and availability calculations designed to set a maximum leverage ratio of outstanding debt to adjusted EBITDA and an interest coverage ratio of adjusted EBITDA to interest expense. Therefore, the maximum borrowings against our new revolving credit facility would be dependent on the covenant calculations at the time of borrowing. As of March 31, 2024, we were in compliance with all covenants under our revolving credit facility. There can be no assurance that amounts available for borrowing under our revolving credit facility will be sufficient to consummate any possible acquisitions, and we cannot provide assurance 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, foreign currency risk, and investment risk. We do not have any commodity price risk.

### Interest Rate Risk

As of March 31, 2024, and during the three months then ended, 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 varies depending on the interest rate option selected by the Company plus a margin determined in accordance with a pricing grid. We are also exposed to market risk with respect to our cash and investment balances, which approximated $83.7 million at March 31, 2024. Assuming a hypothetical 10% decrease in interest rates for invested balances, interest income from cash and investments would decrease on an annualized basis by approximately $0.4 million.

### Foreign Currency Risk

We have foreign currency risks related to our revenue and operating expenses denominated in currencies other than the US dollar, including Canadian dollar, New Zealand dollar, and Australian dollar. Increases or decreases in our foreign-denominated revenue from movements in foreign exchange rates are often partially offset by the corresponding increases or decreases in our foreign-denominated operating expenses.

To the extent that our international operations grow, our risks associated with fluctuation in currency rates will become greater, and we will continue to assess our approach to managing this risk. In addition, currency fluctuations or a weakening US dollar can increase the costs of our international operations. To date, we have not entered into any foreign currency hedging contracts although we may do so in the future.

### Investment Risk

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.

We have an investment portfolio that includes strategic investments in privately held companies, which primarily include early-stage companies. We primarily invest in healthcare technology companies that we believe can help expand our ecosystem. We may continue to make these types of strategic investments as opportunities arise that we find attractive. We may experience additional volatility to our Consolidated Financial Statements due to changes in market prices, observable price changes, and impairments to our strategic investments. These changes could be material based on market conditions and events.

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 Form 10-Q. 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 SEC'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 officer 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 first quarter of 2024 that has materially affected, or that is reasonably likely to materially affect, HealthStream's internal control over financial reporting.

**PART II - OTHER INFORMATION**

**Item 1.** ***Legal Proceedings***

None.

**Item 1A.** ***Risk Factors***

There have been no material changes to the risk factors previously disclosed in Part I, Item 1A of the 2023 Form 10-K.

**Item 2.** ***Unregistered Sales of Equity Securities and Use of Proceeds***

On September 13, 2023, the Company announced a share repurchase program approved by the Company's Board under which the Company was authorized to purchase up to $10.0 million of its common stock. During the term of this program, the Company repurchased 404,188 shares under this program at an aggregate fair value of $8.9 million, reflecting an average price per share of $22.07 (excluding the cost of broker commissions). The share repurchase program expired according to its term on March 31, 2024.

The table below sets forth activity under the stock repurchase plan for the three months ended March 31, 2024.

| Period | (a) Total number of shares (or units) purchased | (b) Average price paid per share (or unit)(1) | (c) Total number of shares (or units) purchased as part of publicly announced plans or programs | (d) Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs |
|---|---|---|---|---|
| Month #1 (January 1 - January 31) | — | $ — | — | $ 1,079,336 |
| Month #2 (February 1 - February 29) | — | — | — | 1,079,336 |
| Month #3 (March 1 - March 31) | — | — | — | — |
| Total | — | $ — | — | $ — |

**Item 5.** ***Other Information***

None. Without limiting the generality of the foregoing, during the three months ended March 31, 2024, no director or officer of the Company adopted or terminated any "Rule 10b5-1 trading arrangement," or any "non-Rule 10b-5 trading arrangement," as such terms are defined in Item 408 of Regulation S-K.

**Item 6.** ***Exhibits***

(a)Exhibits

| | |
|---|---|
| 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 |
| 99 | HealthStream, Inc. Amended and Restated Compensation Recoupment Policy (referenced as Exhibit 97 in exhibit index of Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on February 26, 2024, where hyperlink was inadvertently omitted) |
| 101.1 INS | Inline XBRL Instance Document – The instant document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| 101.1 SCH | Inline XBRL Taxonomy Extension Schema |
| 101.1 CAL | Inline XBRL Taxonomy Extension Calculation Linkbase |
| 101.1 DEF | Inline XBRL Taxonomy Extension Definition Linkbase |
| 101.1 LAB | Inline XBRL Taxonomy Extension Label Linkbase |
| 101.1 PRE | Inline XBRL Taxonomy Extension Presentation Linkbase |
| 104 | The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2024, has been formatted in Inline XBRL |

**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.

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| | | HEALTHSTREAM, INC. |
| April 25, 2024 | By: | /s/ Scott A. Roberts |
| | | Scott A. Roberts<br>Chief Financial Officer |

EXHIBIT 31.1

**CERTIFICATION**

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 25, 2024

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

EXHIBIT 31.2

**CERTIFICATION**

I, Scott A. Roberts, 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 25, 2024

/s/ Scott A. Roberts

Scott A. Roberts
Chief Financial Officer

**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, 2024, 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 25, 2024

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, 2024, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Scott A. Roberts, 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/ Scott A. Roberts
Scott A. Roberts
Chief Financial Officer
April 25, 2024

**HealthStream, Inc.**
**Amended and Restated Compensation Recoupment Policy**

**1. Purpose.** The purpose of this Amended and Restated Compensation Recoupment Policy of the Company (as amended from time to time, the "Policy"), dated as of July 24, 2023 (the "Adoption Date") is to describe the circumstances in which current and former Executive Officers will be required to repay or return Erroneously Awarded Compensation to the Company. The Company has adopted this Policy to comply with Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as codified by Section 10D of the Exchange Act, Exchange Act Rule 10D-1 promulgated thereunder, and the rules and requirements of Nasdaq (including Nasdaq Listing Rule 5608) (such legal requirements, and rules and requirements of Nasdaq, collectively, the "SEC/Nasdaq Clawback Rules"). Each Executive Officer shall be required to sign and return to the Company the acknowledgment to this Policy in the form attached hereto as Exhibit A pursuant to which such Executive Officer will agree to be bound by the terms and comply with this Policy.

**2. Administration.** This Policy shall be administered by the Committee. The Committee is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate, or advisable for the administration of this Policy, and any such determinations made by the Committee shall be in the Committee's sole discretion, and shall be final and binding on all affected individuals. Except as otherwise required by applicable legal requirements or the rules and requirements of the Nasdaq, any determinations of the Committee hereunder need not be uniform with respect to one or more Executive Officers (whether current or former).

**3. Definitions.** For purposes of this Policy, the following capitalized terms shall have the meanings set forth below:

(a) "Accounting Restatement" shall mean an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement (i) to correct an error in previously issued financial statements that is material to the previously issued financial statements (a "Big R" restatement), or (ii) that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (a "little r" restatement).

(b) "Board" shall mean the Board of Directors of the Company.

(c) "Clawback Eligible Incentive Compensation" shall mean all Incentive-Based Compensation Received by any current or former Executive Officer on or after the Nasdaq Effective Date, provided that:

(i) such Incentive-Based Compensation is Received after such individual began serving as an Executive Officer;

(ii) such individual served as an Executive Officer at any time during the performance period for such Incentive-Based Compensation;

(iii) such Incentive-Based Compensation is Received while the Company has a class of securities listed on Nasdaq; and

(iv) such Incentive-Based Compensation is Received during the applicable Clawback Period.

(d) “Clawback Period” shall mean, with respect to any Accounting Restatement, the three completed fiscal years of the Company immediately preceding the Restatement Date and any transition period (that results from a change in the Company’s fiscal year) of less than nine months within or immediately following those three completed fiscal years.

(e) “Committee” shall mean the Compensation Committee of the Board.

(f) “Common Stock” shall mean the common stock, no par value, of the Company.

(g) “Company” shall mean HealthStream, Inc., a Tennessee corporation.

(h) “Company Group” shall mean the Company, together with each of its direct and indirect subsidiaries.

(i) “Erroneously Awarded Compensation” shall mean, with respect to any current or former Executive Officer in connection with any Accounting Restatement, the amount of Clawback Eligible Incentive Compensation Received by such current or former Executive Officer that exceeds the amount of Clawback Eligible Incentive Compensation that otherwise would have been Received by such current or former Executive Officer had such Clawback Eligible Incentive Compensation been determined based on the restated amounts as reflected in connection with such Accounting Restatement, computed without regard to any taxes paid.

(j) “Exchange Act” means the Securities Exchange Act of 1934, as amended.

(k) “Executive Officer” shall mean any officer as defined in Rule 10D-1(d) (or any successor provision thereof) under the Exchange Act.

(l) “Financial Reporting Measures” shall mean measures that are determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements, and any other measures that are derived wholly or in part from such measures. For purposes of this Policy, stock price and total shareholder return (and any measures that are derived wholly or in part from stock price or total shareholder return) shall be considered Financial Reporting Measures. For the avoidance of doubt, a Financial Reporting Measure need not be presented within the Company’s financial statements or included in a filing with the SEC.

(m) “Incentive-Based Compensation” shall mean any compensation that is granted, earned or vested based wholly or in part upon the attainment of a Financial Reporting Measure.

(n) “Nasdaq” shall mean the Nasdaq Stock Market.

(o) “Nasdaq Effective Date” shall mean December 1, 2023.

(p) “Received” shall mean when Incentive-Based Compensation is received, and Incentive-Based Compensation shall be deemed received in the Company’s fiscal period during which the Financial Reporting Measure specified in the Incentive-Based Compensation award is attained, even if payment or grant of the Incentive-Based Compensation occurs after the end of that period.

(q) “Restatement Date” shall mean the earlier to occur of (i) the date the Board, a committee of the Board or the officers of the Company authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement, or (ii) the date a court, regulator or other legally authorized body directs the Company to prepare an Accounting Restatement.

(r) "SEC" shall mean the U.S. Securities and Exchange Commission.

**4. Recoupment of Erroneously Awarded Compensation.**

(a) In the event that the Company is required to prepare an Accounting Restatement, (i) the Committee shall determine the amount of any Erroneously Awarded Compensation for each applicable current or former Executive Officer (whether or not such individual is serving as an Executive Officer at such time) (the "Applicable Executives") in connection with such Accounting Restatement, and (ii) the Company will provide notice to such Applicable Executive and reasonably promptly require the recoupment of such Erroneously Awarded Compensation from any such Applicable Executive, and any such Applicable Executive shall surrender such Erroneously Awarded Compensation to the Company, at such time(s), and via such method(s), as determined by the Committee in accordance with the terms of this Policy.

(b) For Incentive-Based Compensation based on (or derived from) stock price or total shareholder return where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in the applicable Accounting Restatement, (i) such amount shall be determined by the Committee based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or total shareholder return upon which the Incentive-Based Compensation was Received, and (ii) the Company will maintain documentation of the determination of that reasonable estimate and provide such documentation to Nasdaq.

(c) The Committee shall determine, in its sole discretion, the method(s) for recouping any Erroneously Awarded Compensation from any Applicable Executive, which may include one or more of the following:

(i) requiring one or more cash payments to the Company Group from such Applicable Executive, including, but not limited to, the repayment of cash Incentive-Based Compensation previously paid by the Company Group to such Applicable Executive;

(ii) seeking recovery of any gain realized on the vesting, exercise, settlement, sale, transfer or other disposition of any equity-based awards previously made by the Company to such Applicable Executive and/or otherwise requiring the delivery to the Company of shares of Common Stock held by such Applicable Executive;

(iii) withholding, reducing or eliminating future cash compensation (including cash incentive payments), future equity awards and/or other benefits or amounts otherwise to be paid or awarded by the Company Group to such Applicable Executive;

(iv) offsetting amounts against compensation or other amounts otherwise payable by the Company Group to such Applicable Executive;

(v) cancelling, adjusting or offsetting against some or all outstanding vested or unvested equity awards of the Company held by such Applicable Executive; and/or

(vi) taking any other remedial and recovery actions with respect to such Applicable Executive permitted by applicable legal requirements and the rules and regulations of Nasdaq, as determined by the Committee.

(d) Notwithstanding anything herein to the contrary, the Company shall not be required to recover Erroneously Awarded Compensation from any Applicable Executive pursuant to the terms of this Policy if (1) the Committee determines that such recovery would be impracticable, and (2) any of the following conditions is met:

(i) the direct expenses paid to a third party to assist in enforcing the Policy would exceed the amount to be recovered, provided that, before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on expense of enforcement pursuant to this clause (i), the Company has (x) made a reasonable attempt to recover such Erroneously Awarded Compensation, (y) documented such reasonable attempt(s) to recover, and (z) provided such documentation to Nasdaq;

(ii) recovery would violate home country law where that law was adopted prior to November 28, 2022, provided that, before determining that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on violation of home country law, the Company has obtained an opinion of home country counsel, acceptable to Nasdaq, that recovery would result in such a violation, has provided copy of the opinion is provided to Nasdaq; or

(iii) recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company Group, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder.

5. **No Indemnification, Etc.** The Company Group shall not (x) indemnify any current or former Executive Officer against (i) the loss of any Erroneously Awarded Compensation that is repaid, returned or recovered pursuant to the terms of this Policy, or (y) pay or reimburse any current or former Executive Officers for insurance premiums to recover losses incurred under this Policy.

**6. Supersedure.** This Policy will supersede any provisions in (x) any agreement, plan or other arrangement, and (y) any organizational documents of any entity that is part of Company Group that, in any such case, would have the effect of (a) prohibiting or otherwise restricting the Company Group's right to recover the amount of any Erroneously Awarded Compensation as provided herein, including, without limitation, in connection with exercising any right of setoff as provided herein, and/or (b) requiring or providing for indemnification to the extent that such indemnification is prohibited under Section 5 above.

**7. Amendment; Termination; Interpretation.** The Board, on the Committee's recommendation, may amend or terminate this Policy at any time, subject to compliance with all applicable legal requirements and the rules and requirements of Nasdaq. It is intended that this Policy be interpreted in a manner that is consistent with the SEC/Nasdaq Clawback Rules. This Policy amends and restates the compensation recoupment policy of the Company (the "Prior Policy") in its entirety, and the Prior Policy will be of no further force and effect; provided, however, that, notwithstanding the foregoing, to the extent that there is any recoupment event under the Prior Policy arising from a restatement (as described in clause (i) of the Prior Policy) that (x) is not within the scope of this Policy, and (y) relates to compensation associated with a performance period of the Company ending prior to the Nasdaq Effective Date, the terms of the Prior Policy will continue in effect in accordance with the terms thereof in connection therewith.

**8. Other Recoupment Rights; No Additional Payments.**

(a) Any right of recoupment under this Policy is in addition to, and not in lieu of, any other remedies or rights of recoupment that may be available to the Company Group pursuant to (i) the terms of any recoupment provisions in any employment agreement, incentive or equity compensation plan or award or other agreement, (ii) any other legal requirements, including, but not limited to, Section 304 of Sarbanes-Oxley Act of 2002 (subject to Section 8(b) of this Policy below), and (iii) any other legal rights or remedies available to the Company.

(b) Notwithstanding anything herein to the contrary, to the extent that the Committee determines that any Erroneously Awarded Compensation includes any amounts that have been actually reimbursed to the Company Group from any Applicable Executive pursuant to Section 304 of the Sarbanes-Oxley Act (any such amounts that have been reimbursed to the Company Group, the "Applicable SOX Recoupment Amount"), in order to prevent duplicative recovery, the amount of any Erroneously Awarded Compensation to be recovered from any such Applicable Executive shall be reduced by the Applicable SOX Recoupment Amount.

**9. Successors.** This Policy shall be binding and enforceable against all current and former Executive Officers and their beneficiaries, heirs, executors, administrators or other legal representatives.

**Exhibit A**

**Form of Acknowledgment**

By signing below, the undersigned acknowledges and confirms that the undersigned has received and reviewed a copy of the HealthStream, Inc. Amended and Restated Compensation Recoupment Policy (as such policy may be amended from time to time, the "Policy"). Capitalized terms used but not otherwise defined in this acknowledgment shall have the meanings ascribed to such terms in the Policy.

By signing this acknowledgment, the undersigned acknowledges and agrees that (i) the undersigned is and will continue to be subject to the Policy and that the Policy will apply both during and after the undersigned's employment with the Company Group, and (ii) the undersigned will abide by the terms of the Policy, including, without limitation, by returning the amount of any Erroneously Awarded Compensation to the Company Group to the extent required by the Policy.

______________________________
Signature

______________________________
Print Name

______________________________
Date