

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 June 30, 2023

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  
(State or other jurisdiction of  
incorporation or organization)

62-1443555  
(I.R.S. Employer  
Identification No.)

500 11th Avenue North, Suite 1000,  
Nashville, Tennessee  
(Address of principal executive offices)

37203  
(Zip Code)

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

| <u>Title of each class</u>      | <u>Trading Symbol(s)</u> | <u>Name of each exchange on which registered</u> |
|---------------------------------|--------------------------|--|
| Common Stock (Par Value \$0.00) | HSTM                     | Nasdaq 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 | <input type="checkbox"/> | Accelerated filer         | <input checked="" type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/>            |
| Emerging growth company | <input type="checkbox"/> |                           |                                     |

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 July 24, 2023, there were 30,686,568 shares of the registrant's common stock outstanding.

**Index to Form 10-Q**  
**HEALTHSTREAM, INC.**

|          | <b>Page<br/>Number</b>   |
|----------|--|
| Part I.  | <u><a href="#">Financial Information</a></u>   |
| Item 1.  | <u><a href="#">Financial Statements</a></u>  |
|          | <u><a href="#">Condensed Consolidated Balance Sheets (Unaudited) – June 30, 2023 and December 31, 2022</a></u>                                   |
|          | <u><a href="#">Condensed Consolidated Statements of Income (Unaudited) – Three and Six Months ended June 30, 2023 and 2022</a></u>               |
|          | <u><a href="#">Condensed Consolidated Statements of Comprehensive Income (Unaudited) – Three and Six Months ended June 30, 2023 and 2022</a></u> |
|          | <u><a href="#">Condensed Consolidated Statement of Shareholders' Equity (Unaudited) – Three and Six Months ended June 30, 2023 and 2022</a></u>  |
|          | <u><a href="#">Condensed Consolidated Statements of Cash Flows (Unaudited) – Six Months ended June 30, 2023 and 2022</a></u>                     |
|          | <u><a href="#">Notes to Condensed Consolidated Financial Statements (Unaudited)</a></u>  |
| Item 2.  | <u><a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a></u>                                     |
| Item 3.  | <u><a href="#">Quantitative and Qualitative Disclosures about Market Risk</a></u>  |
| Item 4.  | <u><a href="#">Controls and Procedures</a></u>   |
| Part II. | <u><a href="#">Other Information</a></u>   |
| Item 1A. | <u><a href="#">Risk Factors</a></u>  |
| Item 6.  | <u><a href="#">Exhibits</a></u>  |
|          | <u><a href="#">SIGNATURE</a></u>   |

---

**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

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

|  | June 30,<br>2023 | December 31,<br>2022 |
|--|------------------|----------------------|
| <b>ASSETS</b>  |                  |                      |
| Current assets:  |                  |                      |
| Cash and cash equivalents  | \$ 25,805        | \$ 46,023            |
| Marketable securities  | 30,158           | 7,885                |
| Accounts receivable, net of allowance for doubtful accounts of \$625 and \$544 at June 30, 2023 and December 31, 2022, respectively                        | 35,010           | 36,730               |
| Accounts receivable - unbilled   | 5,869            | 5,980                |
| Prepaid royalties, net of amortization   | 9,881            | 9,071                |
| Other prepaid expenses and other current assets  | 11,290           | 8,688                |
| Total current assets   | 118,013          | 114,377              |
| Property and equipment, net of accumulated depreciation of \$22,364 and \$20,280 at June 30, 2023 and December 31, 2022, respectively                      | 14,461           | 15,483               |
| Capitalized software development, net of accumulated amortization of \$115,618 and \$105,025 at June 30, 2023 and December 31, 2022, respectively          | 38,950           | 37,118               |
| Operating lease right of use assets, net   | 21,477           | 22,759               |
| Goodwill   | 191,346          | 192,398              |
| Customer-related intangibles, net of accumulated amortization of \$52,807 and \$48,552 at June 30, 2023 and December 31, 2022, respectively                | 58,925           | 61,269               |
| Other intangible assets, net of accumulated amortization of \$15,936 and \$12,818 at June 30, 2023 and December 31, 2022, respectively                     | 16,439           | 20,284               |
| Deferred tax assets  | 383              | 383                  |
| Deferred commissions   | 28,709           | 28,344               |
| Non-marketable equity investments  | 4,277            | 4,518                |
| Other assets   | 494              | 808                  |
| Total assets   | \$ 493,474       | \$ 497,741           |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                  |                      |
| Current liabilities:   |                  |                      |
| Accounts payable and accrued expenses  | \$ 22,147        | \$ 32,301            |
| Accrued royalties  | 5,236            | 5,443                |
| Deferred revenue   | 81,768           | 79,469               |
| Total current liabilities  | 109,151          | 117,213              |
| Deferred tax liabilities   | 17,480           | 17,996               |
| Deferred revenue, noncurrent   | 2,256            | 2,937                |
| Operating lease liability, noncurrent  | 21,801           | 23,321               |
| Other long-term liabilities  | 2,167            | 2,210                |
| Commitments and contingencies  |                  |                      |
| Shareholders' equity:  |                  |                      |
| Common stock, no par value, 75,000 shares authorized; 30,686 and 30,579 shares issued and outstanding at June 30, 2023 and December 31, 2022, respectively | 256,073          | 254,832              |
| Retained earnings  | 85,435           | 80,213               |
| Accumulated other comprehensive loss   | (889)            | (981)                |
| Total shareholders' equity   | 340,619          | 334,064              |
| Total liabilities and shareholders' equity   | \$ 493,474       | \$ 497,741           |

See accompanying Notes to the unaudited Condensed Consolidated Financial Statements.

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

|  | <b>Three Months Ended</b> |                      | <b>Six Months Ended</b> |                      |
|--|---------------------------|----------------------|-------------------------|----------------------|
|  | <b>June 30, 2023</b>      | <b>June 30, 2022</b> | <b>June 30, 2023</b>    | <b>June 30, 2022</b> |
| Revenues, net  | \$ 69,198                 | \$ 65,638            | \$ 138,144              | \$ 131,005           |
| Operating costs and expenses:                              |                           |                      |                         |                      |
| Cost of revenues (excluding depreciation and amortization) | 23,567                    | 22,234               | 47,424                  | 44,232               |
| Product development  | 11,031                    | 10,583               | 22,711                  | 20,995               |
| Sales and marketing  | 11,307                    | 10,869               | 23,035                  | 21,287               |
| Other general and administrative expenses                  | 9,063                     | 9,579                | 17,927                  | 18,760               |
| Depreciation and amortization                              | 10,222                    | 9,420                | 20,148                  | 18,742               |
| Total operating costs and expenses                         | 65,190                    | 62,685               | 131,245                 | 124,016              |
| Operating income   | 4,008                     | 2,953                | 6,899                   | 6,989                |
| Other income, net  | 492                       | 679                  | 742                     | 402                  |
| Income before income tax provision                         | 4,500                     | 3,632                | 7,641                   | 7,391                |
| Income tax provision                                       | 367                       | 549                  | 885                     | 1,415                |
| Net income   | <u>\$ 4,133</u>           | <u>\$ 3,083</u>      | <u>\$ 6,756</u>         | <u>\$ 5,976</u>      |
| Net income per share:                                      |                           |                      |                         |                      |
| Basic  | <u>\$ 0.13</u>            | <u>\$ 0.10</u>       | <u>\$ 0.22</u>          | <u>\$ 0.19</u>       |
| Diluted  | <u>\$ 0.13</u>            | <u>\$ 0.10</u>       | <u>\$ 0.22</u>          | <u>\$ 0.19</u>       |
| Weighted average shares of common stock outstanding:       |                           |                      |                         |                      |
| Basic  | <u>30,684</u>             | <u>30,491</u>        | <u>30,638</u>           | <u>30,723</u>        |
| Diluted  | <u>30,775</u>             | <u>30,512</u>        | <u>30,717</u>           | <u>30,744</u>        |
| Dividends declared per share                               | <u>\$ 0.025</u>           | <u>\$ —</u>          | <u>\$ 0.050</u>         | <u>\$ —</u>          |

See accompanying Notes to the unaudited Condensed Consolidated Financial Statements.

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

|  | <b>Three Months Ended</b> |                      | <b>Six Months Ended</b> |                      |
|--|---------------------------|----------------------|-------------------------|----------------------|
|  | <b>June 30, 2023</b>      | <b>June 30, 2022</b> | <b>June 30, 2023</b>    | <b>June 30, 2022</b> |
| Net income                                       | \$ 4,133                  | \$ 3,083             | \$ 6,756                | \$ 5,976             |
| Other comprehensive income (loss), net of taxes: |                           |                      |                         |                      |
| Foreign currency translation adjustments         | 177                       | (782)                | 144                     | (505)                |
| Unrealized (loss) gain on marketable securities  | (50)                      | 2                    | (52)                    | (3)                  |
| Total other comprehensive income (loss)          | 127                       | (780)                | 92                      | (508)                |
| Comprehensive income                             | <u>\$ 4,260</u>           | <u>\$ 2,303</u>      | <u>\$ 6,848</u>         | <u>\$ 5,468</u>      |

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)

|  | <b>Six Months Ended June 30, 2023</b> |                   |                          |   |                                   |
|--|---------------------------------------|-------------------|--------------------------|---|-----------------------------------|
|  | <b>Common Stock</b>                   |                   | <b>Retained Earnings</b> | <b>Accumulated Other Comprehensive Loss</b> | <b>Total Shareholders' Equity</b> |
|  | <b>Shares</b>                         | <b>Amount</b>     |                          |   |                                   |
| Balance at December 31, 2022   | 30,579                                | \$ 254,832        | \$ 80,213                | \$ (981)                                    | \$ 334,064                        |
| Net income   | —                                     | —                 | 2,623                    | —   | 2,623                             |
| 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  | <u>30,682</u>                         | <u>\$ 254,986</u> | <u>\$ 82,069</u>         | <u>\$ (1,016)</u>                           | <u>\$ 336,039</u>                 |
| Net income   | —                                     | —                 | 4,133                    | —   | 4,133                             |
| Comprehensive income   | —                                     | —                 | —                        | 127   | 127                               |
| Dividends declared on common stock (\$0.025 per share)                           | —                                     | —                 | (767)                    | —   | (767)                             |
| Stock-based compensation   | —                                     | 1,093             | —                        | —   | 1,093                             |
| Common stock issued under stock plans, net of shares withheld for employee taxes | 4                                     | (6)               | —                        | —   | (6)                               |
| Balance at June 30, 2023   | <u>30,686</u>                         | <u>\$ 256,073</u> | <u>\$ 85,435</u>         | <u>\$ (889)</u>                             | <u>\$ 340,619</u>                 |

|  | <b>Six Months Ended June 30, 2022</b> |                   |                          |  |                                   |
|--|---------------------------------------|-------------------|--------------------------|--|-----------------------------------|
|  | <b>Common Stock</b>                   |                   | <b>Retained Earnings</b> | <b>Accumulated Other Comprehensive Income (Loss)</b> | <b>Total Shareholders' Equity</b> |
|  | <b>Shares</b>                         | <b>Amount</b>     |                          |  |                                   |
| Balance at December 31, 2021   | 31,327                                | \$ 270,791        | \$ 68,122                | \$ 106   | \$ 339,019                        |
| Net income   | —                                     | —                 | 2,893                    | —  | 2,893                             |
| Comprehensive income   | —                                     | —                 | —                        | 272  | 272                               |
| Stock-based compensation   | —                                     | 774               | —                        | —  | 774                               |
| Common stock issued under stock plans, net of shares withheld for employee taxes | 83                                    | (497)             | —                        | —  | (497)                             |
| Repurchase of common stock   | (892)                                 | (19,889)          | —                        | —  | (19,889)                          |
| Balance at March 31, 2022  | <u>30,518</u>                         | <u>\$ 251,179</u> | <u>\$ 71,015</u>         | <u>\$ 378</u>  | <u>\$ 322,572</u>                 |
| Net income   | —                                     | —                 | 3,083                    | —  | 3,083                             |
| Comprehensive loss   | —                                     | —                 | —                        | (780)  | (780)                             |
| Issuance of common stock in acquisition  | 209                                   | 4,084             | —                        | —  | 4,084                             |
| Stock-based compensation   | —                                     | 917               | —                        | —  | 917                               |
| Common stock issued under stock plans, net of shares withheld for employee taxes | 2                                     | (1)               | —                        | —  | (1)                               |
| Repurchase of common stock   | (159)                                 | (3,143)           | —                        | —  | (3,143)                           |
| Balance at June 30, 2022   | <u>30,570</u>                         | <u>\$ 253,036</u> | <u>\$ 74,098</u>         | <u>\$ (402)</u>                                      | <u>\$ 326,732</u>                 |

See accompanying Notes to the unaudited Condensed Consolidated Financial Statements.

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

|   | <b>Six Months Ended June 30,</b> |                  |
|---|----------------------------------|------------------|
|   | <b>2023</b>                      | <b>2022</b>      |
| <b>OPERATING ACTIVITIES:</b>  |                                  |                  |
| Net income  | \$ 6,756                         | \$ 5,976         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                  |                  |
| Depreciation and amortization   | 20,148                           | 18,742           |
| Stock-based compensation  | 2,038                            | 1,691            |
| Amortization of deferred commissions  | 5,464                            | 5,029            |
| Provision for credit losses   | 371                              | 444              |
| Deferred income taxes   | (490)                            | 1,089            |
| Gain on sale of fixed assets  | —                                | (25)             |
| Loss on non-marketable equity investments   | 241                              | 500              |
| Change in fair value of non-marketable equity investments                         | —                                | (943)            |
| Other   | (342)                            | 37               |
| Changes in operating assets and liabilities:                                      |                                  |                  |
| Accounts and unbilled receivables   | 1,460                            | (2)              |
| Prepaid royalties   | (810)                            | (521)            |
| Other prepaid expenses and other current assets                                   | (2,408)                          | (651)            |
| Deferred commissions  | (5,830)                          | (6,192)          |
| Other assets  | 315                              | 52               |
| Accounts payable and accrued expenses   | (2,835)                          | (2,644)          |
| Accrued royalties   | (207)                            | (342)            |
| Deferred revenue  | 1,618                            | 5,741            |
| Net cash provided by operating activities   | <u>25,489</u>                    | <u>27,981</u>    |
| <b>INVESTING ACTIVITIES:</b>  |                                  |                  |
| Business combinations, net of cash acquired                                       | (6,621)                          | (4,009)          |
| Proceeds from maturities of marketable securities                                 | 10,000                           | 5,025            |
| Purchases of marketable securities  | (31,983)                         | (2,024)          |
| Payments associated with capitalized software development                         | (13,309)                         | (11,817)         |
| Proceeds from sale of fixed assets  | —                                | 26               |
| Purchases of property and equipment   | (1,382)                          | (1,181)          |
| Net cash used in investing activities   | <u>(43,295)</u>                  | <u>(13,980)</u>  |
| <b>FINANCING ACTIVITIES:</b>  |                                  |                  |
| Taxes paid related to net settlement of equity awards                             | (797)                            | (498)            |
| Repurchases of common stock   | —                                | (23,137)         |
| Payment of cash dividends   | (1,534)                          | —                |
| Net cash used in financing activities   | <u>(2,331)</u>                   | <u>(23,635)</u>  |
| Effect of exchange rate changes on cash and cash equivalents                      | (81)                             | (55)             |
| Net decrease in cash and cash equivalents   | (20,218)                         | (9,689)          |
| Cash and cash equivalents at beginning of period                                  | 46,023                           | 46,905           |
| Cash and cash equivalents at end of period  | <u>\$ 25,805</u>                 | <u>\$ 37,216</u> |

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. We are focused on helping healthcare organizations meet their ongoing clinical development, talent management, training, education, assessment, competency management, safety and compliance, scheduling, and provider credentialing, privileging, and enrollment needs. The Company is organized and operated according to our One HealthStream approach, with our hStream technology platform at the center of that approach. Increasingly, SaaS based applications in our diverse ecosystem of solutions utilize our proprietary hStream technology platform to enhance their value proposition by creating interoperability with and among other applications. As used in this Report, “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 and six months ended June 30, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023.

The Condensed Consolidated Balance Sheet at December 31, 2022 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, 2022 (included in the Company’s Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 28, 2023).

### ***Consolidated Segment Information***

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 facilitating interoperability among our applications, as well as third party applications, we believe that our hStream technology platform is allowing stand-alone applications to leverage each other to more efficiently and effectively empower our customers to manage their business and improve their outcomes.

As indicated in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022, filed on February 28, 2023, the Company reached an inflection point in its efforts to operate according to its single platform strategy, One HealthStream. Since January 1, 2023, the Company’s business has been organized and managed around a consolidated, enterprise approach, including with regard to technology, operations, accounting, internal reporting (including the nature of information reviewed by our key decision maker), organization structure, compensation, performance assessment, and resource allocation.

As the result of these developments, the Company determined that Workforce Solutions and Provider Solutions were no longer separate operating segments or separate reportable segments as of January 1, 2023, such that the Company would no longer present two reportable segments for periods beginning on and after this date. As such, since January 1, 2023, the Company has had a single reportable segment, such that the Company is presenting historical financial information on a single segment basis in this Quarterly Report on Form 10-Q for the three and six months ended June 30, 2023. For purposes of reporting historical 2022 results in this Quarterly Report on Form 10-Q, we are reporting comparable performance on a consolidated basis unless otherwise indicated.

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

## 2. 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.

|                       | <u>Three Months Ended June 30,</u> |                  | <u>Six Months Ended June 30,</u> |                   |
|-----------------------|------------------------------------|------------------|----------------------------------|-------------------|
|                       | <u>2023</u>                        | <u>2022</u>      | <u>2023</u>                      | <u>2022</u>       |
| Subscription services | \$ 66,506                          | \$ 62,471        | \$ 132,521                       | \$ 124,546        |
| Professional services | 2,692                              | 3,167            | 5,623                            | 6,459             |
| Total revenues, net   | <u>\$ 69,198</u>                   | <u>\$ 65,638</u> | <u>\$ 138,144</u>                | <u>\$ 131,005</u> |

For the three months ended June 30, 2023 and 2022, the Company recognized \$0.2 million and \$0.4 million in impairment losses on receivables and contract assets arising from the Company's contracts with customers, respectively. For both the six months ended June 30, 2023 and 2022, the Company recognized \$0.4 million in impairment losses on receivables and contract assets arising from the Company's contracts with customers.

Deferred revenue represents contract liabilities that are recorded when cash payments are received or are due in advance of our satisfaction of performance obligations. During the three months ended June 30, 2023 and 2022, we recognized revenues of approximately \$43.6 million and \$40.0 million, respectively, from amounts included in deferred revenue at the beginning of the respective periods. During the six months ended June 30, 2023 and 2022, we recognized revenues of approximately \$62.1 million and \$56.0 million, respectively, from amounts included in deferred revenue at the beginning of the respective periods. As of June 30, 2023, approximately \$511 million of revenue is expected to be recognized from remaining performance obligations under contracts with customers. We expect 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 our sales force are considered incremental and recoverable costs of obtaining a contract with a customer. The Company recorded amortization of deferred commissions of approximately \$2.8 million and \$2.5 million for the three months ended June 30, 2023 and 2022, and \$5.5 million and \$5.0 million for the six months ended June 30, 2023 and 2022, respectively, which is included in sales and marketing expenses in the accompanying Condensed Consolidated Statements of Income.

## 3. 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 June 30, 2023 and 2022, the Company recorded a provision for income taxes of approximately \$0.4 million and \$0.5 million, respectively. During the six months ended June 30, 2023 and 2022, the Company recorded a provision for income taxes of \$0.9 million and \$1.4 million, respectively. The Company's effective tax rate was 12% and 19% for the six months ended June 30, 2023 and 2022, respectively. The Company's effective tax rate primarily reflects the statutory corporate income tax rate, the net effect of state taxes, foreign income taxes, and the effect of various permanent tax differences. 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 six months ended June 30, 2023, the Company recorded discrete tax benefits of \$0.5 million, which consisted primarily of tax benefits associated with changes in state apportionment rules in Tennessee upon the enactment of the Tennessee Works Tax Act, in the amount of \$0.6 million, and stock-based awards, in the amount of \$0.1 million, partially offset by \$0.2 million of discrete tax expense related to reserves for uncertain tax positions. During the six months ended June 30, 2022, the Company recorded discrete tax benefits of \$0.1 million, which consisted primarily of a \$0.2 million tax benefit associated with a nontaxable gain of \$0.9 million recognized from the change in fair value of our previously held minority interest in CloudCME, LLC. This tax benefit was partially offset by \$0.1 million of excess tax deficiencies associated with stock-based awards.

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

#### 4. SHAREHOLDERS' EQUITY

##### *Dividends on Common Stock*

On February 20, 2023, the Company's Board of Directors ("Board") approved a dividend policy, marking the first quarterly cash dividend policy adopted by the Company ("Dividend Policy"). During the six months ended June 30, 2023, the Board declared the following quarterly dividends under the Dividend Policy:

| <b>Dividend Payment Date</b> | <b>Dividend Declaration Date</b> | <b>Dividend Per Share</b> | <b>Record Date</b> | <b>Cash Outlay</b>  |
|------------------------------|----------------------------------|---------------------------|--------------------|---------------------|
| April 28, 2023               | February 20, 2023                | \$ 0.025                  | April 17, 2023     | \$ 767,000          |
| June 23, 2023                | April 24, 2023                   | 0.025                     | June 12, 2023      | 767,000             |
| <b>Total dividends</b>       |                                  | <b>\$ 0.050</b>           |                    | <b>\$ 1,534,000</b> |

Additionally, on July 24, 2023, the Board approved the Company's third quarterly cash dividend of \$0.025 per share, payable on September 29, 2023 to holders of record on September 18, 2023.

##### *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 six months ended June 30, 2023, the Company issued 72,923 RSUs subject to service-based time vesting, with a weighted average grant date fair value of \$25.36 per share, measured based on the closing fair market value of the Company's stock on the date of the grant. During the six months ended June 30, 2022, the Company approved the grant of 137,055 RSUs subject to service-based time vesting, with a weighted average grant date fair value of \$20.27 per share, measured based on the closing fair market value of the Company's stock on the date of grant.

During the six months ended June 30, 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 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 first-year tranche, or 20,700 of these performance-based RSUs, is based on 2023 adjusted EBITDA. The measurement date for these 20,700 performance-based RSUs was established during the first quarter of 2023 with a 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 the performance criteria was established. The performance criteria for the remaining 117,300 performance-based RSUs has not yet been determined and will be established on an annual basis in 2024, 2025, 2026, and 2027, as applicable; therefore, the measurement date for these remaining 117,300 performance-based RSUs cannot be determined until the performance criteria have been established.

During the six months ended June 30, 2022, the Company granted 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 for the second-year tranche, or 18,210 of these performance-based RSUs, is based on 2023 adjusted EBITDA. The measurement date for these 18,210 performance-based RSUs was established during the first quarter of 2023 with a 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 the performance criteria was established. The performance criteria for the remaining 59,178 performance-based RSUs has not yet been determined and will be established on an annual basis in 2024, 2025, and 2026, as applicable; therefore, the measurement date for these remaining 59,178 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):

|  | <b>Three Months Ended June 30,</b> |               | <b>Six Months Ended June 30,</b> |                 |
|--|------------------------------------|---------------|----------------------------------|-----------------|
|  | <b>2023</b>                        | <b>2022</b>   | <b>2023</b>                      | <b>2022</b>     |
| Cost of revenues (excluding depreciation and amortization) | \$ 50                              | \$ 45         | \$ 99                            | \$ 82           |
| Product development  | 187                                | 151           | 354                              | 276             |
| Sales and marketing  | 131                                | 101           | 243                              | 184             |
| Other general and administrative                           | 725                                | 620           | 1,342                            | 1,149           |
| <b>Total stock-based compensation expense</b>              | <b>\$ 1,093</b>                    | <b>\$ 917</b> | <b>\$ 2,038</b>                  | <b>\$ 1,691</b> |

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

**5. 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 225,000 and 228,000 for the three months ended June 30, 2023 and 2022, respectively, and 246,000 and 223,000 for the six months ended June 30, 2023 and 2022, respectively.

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

|                                     | <b>Three Months Ended June 30,</b> |             | <b>Six Months Ended June 30,</b> |             |
|-------------------------------------|------------------------------------|-------------|----------------------------------|-------------|
|                                     | <b>2023</b>                        | <b>2022</b> | <b>2023</b>                      | <b>2022</b> |
| <b>Numerator:</b>                   |                                    |             |                                  |             |
| Net income                          | \$ 4,133                           | \$ 3,083    | \$ 6,756                         | \$ 5,976    |
| <b>Denominator:</b>                 |                                    |             |                                  |             |
| Weighted-average shares outstanding | 30,684                             | 30,491      | 30,638                           | 30,723      |
| Effect of dilutive shares           | 91                                 | 21          | 79                               | 21          |
| Weighted-average diluted shares     | 30,775                             | 30,512      | 30,717                           | 30,744      |
| <b>Net income per share:</b>        |                                    |             |                                  |             |
| Basic                               | \$ 0.13                            | \$ 0.10     | \$ 0.22                          | \$ 0.19     |
| Diluted                             | \$ 0.13                            | \$ 0.10     | \$ 0.22                          | \$ 0.19     |

**6. 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):

|                          | <b>June 30, 2023</b>     |                         |                          |                   |
|--------------------------|--------------------------|-------------------------|--------------------------|-------------------|
|                          | <b>Adjusted Cost</b>     | <b>Unrealized Gains</b> | <b>Unrealized Losses</b> | <b>Fair Value</b> |
| <b>Level 2:</b>          |                          |                         |                          |                   |
| U.S. treasury securities | \$ 30,207                | \$ 2                    | \$ (51)                  | \$ 30,158         |
| <b>Total</b>             | <b>\$ 30,207</b>         | <b>\$ 2</b>             | <b>\$ (51)</b>           | <b>\$ 30,158</b>  |
|                          | <b>December 31, 2022</b> |                         |                          |                   |
|                          | <b>Adjusted Cost</b>     | <b>Unrealized Gains</b> | <b>Unrealized Losses</b> | <b>Fair Value</b> |
| <b>Level 2:</b>          |                          |                         |                          |                   |
| U.S. treasury securities | \$ 7,882                 | \$ 3                    | \$ —                     | \$ 7,885          |
| <b>Total</b>             | <b>\$ 7,882</b>          | <b>\$ 3</b>             | <b>\$ —</b>              | <b>\$ 7,885</b>   |

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 June 30, 2023, the Company did not recognize any allowance for credit impairments on its available for sale debt 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)**

**7. BUSINESS COMBINATIONS**

On December 31, 2022, the Company acquired substantially all of the assets of Electronic Education Documentation System, LLC (d/b/a eeds) ("eeds"), an Asheville, North Carolina-based healthcare technology company offering a SaaS-based continuing education (CME/CE) management system for healthcare organizations, for approximately \$6.6 million in cash, reflecting customary purchase price adjustments made to the purchase price paid of \$7.0 million. After the filing of the Company's Annual Report on Form 10-K for the year ended December 31, 2022 on February 28, 2023, the Company received an updated valuation report for the acquisition from a third-party valuation firm. Based on the results of that valuation report, the Company has estimated the fair value of the customer relationships, developed technology, non-compete, and trade name intangible assets to be \$2.6 million, \$1.9 million, \$0.2 million, and \$0.1 million, respectively. As a result, the fair value of the customer relationships and non-compete intangible assets were increased by \$2.0 million and \$0.1 million during the six months ended June 30, 2023, respectively, while the developed technology and trade name intangible assets were decreased by \$0.8 million and \$20,000 during the six months ended June 30, 2023, respectively, due to this new information, with a corresponding decrease to goodwill of \$1.3 million for the net change in the fair value of identifiable intangible assets.

**8. DEBT**

Revolving Credit Facility

On October 28, 2020, the Company entered into a Third Amendment to Revolving Credit Agreement ("Revolving Credit Facility"), amending the Revolving Credit Facility dated as of November 24, 2014 with Truist Bank, successor by merger to SunTrust Bank ("Truist"), extending the maturity date to October 28, 2023. Under the Revolving Credit Facility, the Company may borrow up to \$65.0 million, which includes a \$5.0 million swing line 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.

At the Company's election, the borrowings under the Revolving Credit Facility bear interest at either (1) a rate per annum equal to the highest of Truist's prime rate or 0.5% in excess of the Federal Funds Rate or 1.0% in excess of one-month LIBOR (the "Base Rate"), plus an applicable margin, or (2) the one, two, three, or six-month per annum LIBOR for deposits in the applicable currency (the "Eurocurrency Rate"), as selected by the Company, plus an applicable margin. The applicable margin for Eurocurrency Rate loans depends on the Company's funded debt leverage ratio and varies from 1.50% to 1.75%. The applicable margin for Base Rate loans depends on the Company's funded debt leverage ratio and varies from 0.50% to 0.75%. Commitment fees and letter of credit fees are also payable under the Revolving Credit Facility. Principal is payable in full at maturity on October 28, 2023, and there are no scheduled principal payments prior to maturity. The Company is required to pay a commitment fee ranging between 20 and 30 basis points per annum of the average daily unused portion of the Revolving Credit Facility, depending on the Company's funded debt leverage ratio. The obligations under the Revolving Credit Facility are guaranteed by each of the Company's subsidiaries. As of June 30, 2023, the LIBOR interest rate benchmark has been phased out, triggering a Benchmark Transition Event as defined by the Company's Revolving Credit Facility. Accordingly, should the Company elect to borrow from its Revolving Credit Facility, LIBOR will be replaced with the Benchmark Replacement (as defined by the Revolving Credit Facility) for purposes of calculating an interest rate and the Revolving Credit Facility will be amended to reflect the same; until such Benchmark Replacement is implemented, loans requested by the Company under the Revolving Credit Facility must be made as Base Rate loans, as described above.

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

The Revolving Credit Facility contains certain 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.

In addition, the Revolving Credit Facility requires 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.

As of June 30, 2023, the Company was in compliance with all covenants. There were no balances outstanding on the Revolving Credit Facility as of or during the three and six months ended June 30, 2023.

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

### **Special Cautionary Notice Regarding Forward-Looking Statements**

You should read the following discussion and analysis in conjunction with our Condensed Consolidated Financial Statements and related Notes included elsewhere in this report and our audited Consolidated Financial Statements and the Notes thereto for the year ended December 31, 2022, appearing in our Annual Report on Form 10-K that was filed with the Securities and Exchange Commission ("SEC") on February 28, 2023 (the "2022 Form 10-K"). Statements contained in this Quarterly Report on 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 2022 Form 10-K and other disclosures in our 2022 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 report, including our critical accounting policies and estimates as discussed in this report and our 2022 Form 10-K. We undertake no obligation to update or revise any forward-looking statements. You should read this report and the documents that we reference in this report and have filed as exhibits to this report completely and with the understanding that our actual future results may be materially different from what we 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 healthcare organizations meet their ongoing clinical development, talent management, training, education, assessment, competency management, safety and compliance, scheduling, and provider credentialing, privileging, and enrollment needs.

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 facilitating interoperability among our applications, as well as third party applications, we believe that our hStream technology platform is allowing stand-alone applications to leverage each other to more efficiently and effectively empower our customers to manage their business and improve their outcomes.

As indicated in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, filed on February 28, 2023, the Company has reached an inflection point in its efforts to operate according to its One HealthStream approach. Since January 1, 2023, the Company's business has been organized and managed around a consolidated, enterprise approach, including with regard to technology, operations, accounting, internal reporting (including the nature of information reviewed by our key decision maker), organization structure, compensation, performance assessment, and resource allocation.

As the result of these developments, the Company determined that Workforce Solutions and Provider Solutions were no longer separate operating segments or separate reportable segments as of January 1, 2023, such that the Company would no longer present two reportable segments for periods beginning on and after this date. As such, since January 1, 2023, the Company has had a single reportable segment, such that the Company is presenting historical financial information on a single segment basis in this Quarterly Report on Form 10-Q for the three and six months ended June 30, 2023.

Significant financial metrics for the second quarter of 2023 are set forth in the bullets below.

- Revenues of \$69.2 million in the second quarter of 2023, up 5% from \$65.6 million in the second quarter of 2022, attributable primarily to growth in several of our subscription-based product categories, including contributions from recent acquisitions
- Operating income of \$4.0 million in the second quarter of 2023, up 36% from \$3.0 million in the second quarter of 2022
- Net income of \$4.1 million in the second quarter of 2023, up 34% from \$3.1 million in the second quarter of 2022
- Earnings per share (“EPS”) of \$0.13 per share (diluted) in the second quarter of 2023 and \$0.10 per share (diluted) in the second quarter of 2022
- Adjusted EBITDA<sup>1</sup> of \$15.3 million in the second quarter of 2023, up 17% from \$13.1 million in the second quarter of 2022

<sup>1</sup> 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 report.

## COVID-19 Pandemic and Other Recent Developments

The impact of the COVID-19 pandemic continues to cause uncertainty and potential economic volatility, including with regard to our healthcare customers and our business. However, the impact of the pandemic itself on public health and economic conditions has significantly lessened and conditions have normalized since the height of the pandemic in 2020 and 2021, potentially to the point of reaching an endemic stage.

Our business is focused on providing solutions to healthcare organizations, and as such the pandemic's adverse impact on healthcare organizations has resulted in an adverse impact on our Company. We believe that certain developments related to the pandemic negatively impacted our business in 2021 and to a lesser extent in 2022 and the six months ended June 30, 2023. In particular, sales cycles in 2021 and 2022 were delayed or postponed such that declines in sales bookings by customers over this period resulted in a negative impact to revenue and earnings in 2022 and the six months ended June 30, 2023 and may continue to result in a negative impact (to a lesser extent) to revenue and earnings for a portion of the remainder of 2023. Earlier in the pandemic, such impacts on our healthcare organization customers were more frequently associated with the need to focus on providing critical care to pandemic victims and the negative economic impact many of our healthcare organization customers experienced from being forced to temporarily reduce or discontinue services, like elective surgeries, from which they derive revenue. More recently, such impacts on healthcare customers appear to be associated with the cessation of or significant reduction in governmental funds such customers have received or anticipate receiving through earlier federal stimulus and relief measures, including the Public Health Emergency Fund, the Paycheck Protection Program, and the Provider Relief Fund.

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, disruptions to global supply networks, challenging labor market conditions, and potential instability in the banking system. Such negative macroeconomic conditions have adversely affected, and may continue to adversely affect, us and our customers in the healthcare industry. In particular, we have experienced, and believe that some of our customers have experienced, increased labor, supply chain, capital, and other expenditures associated with current inflationary pressures and labor market conditions.

## Key Business Metrics

Our management utilizes the following financial and non-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 \$69.2 million and \$138.1 million for the three and six months ended June 30, 2023, respectively, compared to \$65.6 million and \$131.0 million for the three and six months ended June 30, 2022, respectively. 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, 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 \$15.3 million and \$29.1 million for the three and six months ended June 30, 2023, respectively, compared to \$13.1 million and \$27.1 million for the three and six months ended June 30, 2022, respectively.
- *hStream Subscriptions.* hStream subscriptions are determined as the number of subscriptions under contract for hStream, our proprietary technology platform that enables healthcare organizations and their respective workforces to connect to and gain value from the HealthStream ecosystem of applications, tools, and content. Management utilizes hStream subscriptions in connection with managing our business and believes that this metric provides useful information to investors as a measure of our progress in growing the value of our customer base. At June 30, 2023, we had approximately 5.59 million contracted subscriptions to hStream, compared to 5.30 million as of June 30, 2022.

**Consolidation Program**

As previously disclosed, the Company approved a consolidation program involving the elimination of 33 job roles during the first quarter of 2023, many of which job roles were duplicative as a result of several areas of consolidation. In connection with these job reductions, we incurred severance charges in the amount of \$1.0 million during the three months ended March 31, 2023. In addition, while these job reductions were completed during the three months ended March 31, 2023, we incurred related severance charges in the amount of \$0.1 million during the three months ended June 30, 2023, and expect to incur additional related severance charges in the aggregate amount of up to \$40,000 during the remainder of 2023.

**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 2022 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 2022 Form 10-K.

**Three Months Ended June 30, 2023 Compared to Three Months Ended June 30, 2022**

*Revenues, net.* Revenues increased approximately \$3.6 million, or 5%, to \$69.2 million for the three months ended June 30, 2023 from \$65.6 million for the three months ended June 30, 2022. The revenue growth was attributable to growth in several product categories, including \$0.8 million, or 1%, of contributions from our recent acquisitions. Subscription revenues increased \$4.1 million, or 6%, but were partially offset by \$0.5 million of declines from professional services revenues.

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

|                       | Three Months Ended June 30, |                  |                   |
|-----------------------|-----------------------------|------------------|-------------------|
|                       | 2023                        | 2022             | Percentage Change |
| Subscription services | \$ 66,506                   | \$ 62,471        | 6%                |
| Professional services | 2,692                       | 3,167            | -15%              |
| Total revenues, net   | <u>\$ 69,198</u>            | <u>\$ 65,638</u> | 5%                |
| <b>% of Revenues</b>  |                             |                  |                   |
| Subscription services | 96%                         | 95%              |                   |
| Professional services | 4%                          | 5%               |                   |

*Cost of Revenues (excluding Depreciation and Amortization).* Cost of revenues increased \$1.4 million, or 6%, to \$23.6 million for the three months ended June 30, 2023, from \$22.2 million for the three months ended June 30, 2022. Cost of revenues as a percentage of revenues were 34% for both the three months ended June 30, 2023 and 2022. The increase in expense is primarily associated with higher costs for royalties and cloud hosting, as well as increased contract labor and software expenses.

*Product Development.* Product development expenses increased \$0.4 million, or 4%, to \$11.0 million for the three months ended June 30, 2023, from \$10.6 million for the three months ended June 30, 2022. Product development expenses as a percentage of revenues were 16% for both the three months ended June 30, 2023 and 2022. The increase in expense is primarily due to increased personnel costs, contract labor, and software costs, which were partially offset by an increase in labor capitalized for internally developed software.

*Sales and Marketing.* Sales and marketing expenses, including personnel costs, increased \$0.4 million, or 4%, to \$11.3 million for the three months ended June 30, 2023, from \$10.9 million for the three months ended June 30, 2022. Sales and marketing expenses were 16% and 17% of revenues for the three months ended June 30, 2023 and 2022, respectively. The increase in expense is primarily due to increases in sales commissions, which were partially offset by a decrease in general marketing expenses.

*Other General and Administrative Expenses.* Other general and administrative expenses decreased \$0.5 million, or 5%, to \$9.1 million for the three months ended June 30, 2023, from \$9.6 million for the three months ended June 30, 2022. Other general and administrative expenses were 13% and 15% of revenues for the three months ended June 30, 2023 and 2022, respectively. The decrease is primarily due to lower bad debt expense, general office expenses, professional service fees, and software expenses.

*Depreciation and Amortization.* Depreciation and amortization expense increased \$0.8 million, or 9%, to \$10.2 million for the three months ended June 30, 2023, from \$9.4 million for the three months ended June 30, 2022. This increase is primarily a result of an increase in amortization associated with capitalized software.

*Other Income, Net.* Other income, net was \$0.5 million for the three months ended June 30, 2023, compared to \$0.7 million for the three months ended June 30, 2022. The decrease is primarily the result of the \$0.9 million gain recorded during the three months ended June 30, 2022 due to the change in fair value of our previously held minority interest in CloudCME, LLC that was remeasured upon acquiring the remaining ownership interest of CloudCME during such period, partially offset by an increase in interest income earned on cash and investments during the three months ended June 30, 2023.

*Income Tax Provision.* The Company recorded a provision for income taxes of \$0.4 million for the three months ended June 30, 2023, compared to \$0.5 million for the three months ended June 30, 2022. The Company's effective tax rate was 8% for the three months ended June 30, 2023, compared to 15% for the three months ended June 30, 2022. 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 June 30, 2023, the Company recorded discrete tax benefits of \$0.5 million, which consisted primarily of tax benefits in the amount of \$0.6 million resulting from changes in apportionment rules in Tennessee upon the enactment of the Tennessee Works Tax Act, partially offset by \$0.1 million of discrete tax expense related to reserves for uncertain tax positions. During the three months ended June 30, 2022, the Company recorded discrete tax benefits of \$0.2 million, which consisted primarily of a \$0.2 million tax benefit associated with a nontaxable gain of \$0.9 million recognized from the change in fair value of our previously held minority interest in CloudCME, LLC as noted above.

*Net Income.* Net income was \$4.1 million and \$3.1 million for the three months ended June 30, 2023 and 2022, respectively. Earnings per share (EPS) were \$0.13 per share (diluted) and \$0.10 per share (diluted) for the three months ended June 30, 2023 and 2022, respectively.

Adjusted EBITDA was \$15.3 million for the three months ended June 30, 2023, compared to \$13.1 million for the three months ended June 30, 2022. 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.

**Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022**

*Revenues, net.* Revenues increased approximately \$7.1 million, or 5%, to \$138.1 million for the six months ended June 30, 2023, from \$131.0 million for the six months ended June 30, 2022. The revenue growth was attributable to growth in several product categories, including contributions from our recent acquisitions. Subscription revenues increased \$8.0 million, or 6%, but were partially offset by \$0.9 million of declines from professional services revenues.

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

|                       | <b>Six Months Ended June 30,</b> |                   | <b>Percentage<br/>Change</b> |
|-----------------------|----------------------------------|-------------------|------------------------------|
|                       | <b>2023</b>                      | <b>2022</b>       |                              |
| Subscription services | \$ 132,521                       | \$ 124,546        | 6%                           |
| Professional services | 5,623                            | 6,459             | -13%                         |
| Total revenues, net   | <u>\$ 138,144</u>                | <u>\$ 131,005</u> | 5%                           |
| <b>% of Revenues</b>  |                                  |                   |                              |
| Subscription services | 96%                              | 95%               |                              |
| Professional services | 4%                               | 5%                |                              |

*Cost of Revenues (excluding Depreciation and Amortization).* Cost of revenues increased \$3.2 million, or 7%, to \$47.4 million for the six months ended June 30, 2023, from \$44.2 million for the six months ended June 30, 2022. Cost of revenues as a percentage of revenues were 34% for both the six months ended June 30, 2023 and 2022. The increase in expense is primarily associated with personnel costs, including severance costs associated with the elimination of 33 job roles as part of the consolidation of HealthStream's business under a single platform strategy. In addition, we experienced higher costs for royalties, cloud hosting, contract labor, and software expenses.

*Product Development.* Product development expenses increased \$1.7 million, or 8%, to \$22.7 million for the six months ended June 30, 2023, from \$21.0 million for the six months ended June 30, 2022. Product development expenses as a percentage of revenues were 16% for both the six months ended June 30, 2023 and 2022. The increase in expense is primarily due to increased personnel costs, including severance costs as noted above, and an increase in contract labor, which were partially offset by an increase in labor capitalized for internally developed software.

*Sales and Marketing.* Sales and marketing expenses, including personnel costs, increased \$1.7 million, or 8%, to \$23.0 million for the six months ended June 30, 2023, from \$21.3 million for the six months ended June 30, 2022. Sales and marketing expenses were 17% and 16% of revenues for the six months ended June 30, 2023 and 2022, respectively. The increase is primarily due to increased personnel costs, including severance costs as noted above, as well as higher sales commissions and travel costs, which were partially offset by a decrease in general marketing expenses.

*Other General and Administrative Expenses.* Other general and administrative expenses decreased \$0.8 million, or 4%, to \$17.9 million for the six months ended June 30, 2023, from \$18.8 million for the six months ended June 30, 2022. Other general and administrative expenses were 13% and 14% of revenues for the six months ended June 30, 2023 and 2022, respectively. The decrease is primarily due to lower employee recruitment and onboarding expenses, professional service fees, software expenses, and general office expenses, which were partially offset by an increase in stock-based compensation.

*Depreciation and Amortization.* Depreciation and amortization expense increased \$1.4 million, or 7%, to \$20.1 million for the six months ended June 30, 2023, from \$18.7 million for the six months ended June 30, 2022. This increase is primarily a result of an increase in amortization associated with capitalized software, partially offset by lower depreciation expense.

*Other Income, Net.* Other income, net was \$0.7 million for the six months ended June 30, 2023, compared to \$0.4 million for the six months ended June 30, 2022. The increase is primarily the result of an increase in interest income earned on cash and investments during the six months ended June 30, 2023 compared to the prior year period coupled with a reduction in losses recorded on equity method investments, partially offset by the \$0.9 million gain recorded due to the change in fair value of our previously held minority interest in CloudCME, LLC during the six months ended June 30, 2022 that was remeasured upon acquiring the remaining ownership interest of CloudCME, LLC such 2022 period.

*Income Tax Provision.* The Company recorded a provision for income taxes of \$0.9 million for the six months ended June 30, 2023, compared to \$1.4 million the six months ended June 30, 2022. The Company's effective tax rate was 12% for the six months ended June 30, 2023, compared to 19% for the six months ended June 30, 2022. 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 six months ended June 30, 2023, the Company recorded discrete tax benefits of \$0.5 million, which consisted primarily of tax benefits in the amount of \$0.6 million resulting from changes in apportionment rules in Tennessee upon the enactment of the Tennessee Works Tax Act, and stock-based awards, in the amount of \$0.1 million, partially offset by \$0.2 million of discrete tax expense related to reserves for uncertain tax positions. During the six months ended June 30, 2022, the Company recorded discrete tax benefits of \$0.1 million, which consisted primarily of a \$0.2 million tax benefit associated with a nontaxable gain of \$0.9 million recognized from the change in fair value of our previously held minority interest in CloudCME, LLC as noted above. This tax benefit was partially offset by \$0.1 million of excess tax deficiencies associated with stock-based awards.

*Net Income.* Net income was \$6.8 million and \$6.0 million for the six months ended June 30, 2023 and 2022, respectively. Earnings per share (EPS) were \$0.22 per share (diluted) and \$0.19 per share (diluted) for the six months ended June 30, 2023 and 2022, respectively.

Adjusted EBITDA was \$29.1 million for the six months ended June 30, 2023, compared to \$27.1 million for the six months ended June 30, 2022. 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 Quarterly Report on 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 excluding the impact of the deferred revenue write-downs associated with fair value accounting for acquired businesses (as discussed in greater detail below) and 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. We also 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, 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 noted above, the definition of adjusted EBITDA includes an adjustment for the impact of the deferred revenue write-downs associated with fair value accounting for acquired businesses. 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. When the Company was required to record a write-down of deferred revenue, it resulted in lower recognized revenue, operating income, and net income in subsequent periods. Revenue for any such acquired business was deferred and was typically recognized over a one-to-two year period following the completion of any particular acquisition, so our GAAP revenues for this one-to-two year period would not reflect the full amount of revenues that would have been reported if the acquired deferred revenue was not written down to fair value. Management believes that including an adjustment in the definition of adjusted EBITDA for the impact of the deferred 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 provides useful information to investors because the deferred revenue write-down recognized in periods after an acquisition may, 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 and thus adjusting for this amount may assist in comparing the Company's results of operations between periods. Following the adoption of ASU 2021-08, contracts acquired in an acquisition completed on or after January 1, 2022 are 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 (for acquisitions completed prior to January 1, 2022, the Company continues to record deferred revenue write-downs associated with fair value accounting for periods on and after January 1, 2022 consistent with past practice). At the current time, the Company intends to continue to include an adjustment in the definition of adjusted EBITDA for the impact of deferred revenue write-downs from business acquired prior to January 1, 2022 given the ongoing impact of such deferred revenue on our financial results.

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 is set forth below (in thousands).

|   | <b>Three Months Ended June 30,</b> |                  | <b>Six Months Ended June 30,</b> |                  |
|---|------------------------------------|------------------|----------------------------------|------------------|
|   | <b>2023</b>                        | <b>2022</b>      | <b>2023</b>                      | <b>2022</b>      |
| GAAP net income   | \$ 4,133                           | \$ 3,083         | \$ 6,756                         | \$ 5,976         |
| Deferred revenue write-down                               | 48                                 | 83               | 98                               | 177              |
| Interest income   | (550)                              | (16)             | (913)                            | (31)             |
| Interest expense  | 33                                 | 33               | 65                               | 65               |
| Income tax provision                                      | 367                                | 549              | 885                              | 1,415            |
| Stock-based compensation expense                          | 1,093                              | 917              | 2,038                            | 1,691            |
| Depreciation and amortization                             | 10,222                             | 9,420            | 20,148                           | 18,742           |
| Change in fair value of non-marketable equity investments | —                                  | (943)            | —                                | (943)            |
| Adjusted EBITDA   | <u>\$ 15,346</u>                   | <u>\$ 13,126</u> | <u>\$ 29,077</u>                 | <u>\$ 27,092</u> |

## Liquidity and Capital Resources

Net cash provided by operating activities decreased by \$2.5 million to \$25.5 million during the six months ended June 30, 2023, from \$28.0 million during the six months ended June 30, 2022. The decrease in net cash provided by operating activities is primarily due to \$2.6 million of income tax payments made during the six months ended June 30, 2023 compared to \$0.4 million in the prior year period. Our days sales outstanding ("DSO") increased to 50 days for the second quarter of 2023 from 45 days for the second quarter of 2022 due to certain customers delaying payments longer than usual. 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 \$43.3 million for the six months ended June 30, 2023, compared to \$14.0 million for the six months ended June 30, 2022. During the six months ended June 30, 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 six months ended June 30, 2023), invested in marketable securities of \$32.0 million, made payments for capitalized software development of \$13.3 million, and purchased property and equipment of \$1.4 million. These uses of cash were partially offset by \$10.0 million in maturities of marketable securities. During the six months ended June 30, 2022, the Company spent \$3.9 million to acquire the remaining ownership interest in CloudCME on a net cash basis and spent \$62,000 related to post-closing adjustments for prior acquisitions for a net cash outflow of \$4.0 million for business combinations, invested in marketable securities of \$2.0 million, made payments for capitalized software development of \$11.8 million, and purchased property and equipment of \$1.2 million. These uses of cash were partially offset by \$5.0 million in maturities of marketable securities.

Net cash used in financing activities was approximately \$2.3 million for the six months ended June 30, 2023, compared to \$23.6 million for the six months ended June 30, 2022. The uses of cash for the six months ended June 30, 2023 included \$1.5 million for the payment of cash dividends and \$0.8 million for the payment of employee payroll taxes in relation to the vesting of restricted share units. The uses of cash for the six months ended June 30, 2022 included \$23.1 million for repurchases of common stock and \$0.5 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 \$8.9 million at June 30, 2023, compared to negative working capital of \$2.8 million at December 31, 2022. The increase in working capital is primarily a result of an increase in cash and cash equivalents and marketable securities in the aggregate, despite the use of cash to fund the acquisition of eeds, which resulted in a corresponding decrease in accrued liabilities. The Company's primary source of liquidity as of June 30, 2023 was \$25.8 million of cash and cash equivalents and \$30.2 million of marketable securities. The Company also has a \$65.0 million revolving credit facility, all of which was available for additional borrowing at June 30, 2023. The revolving credit facility expires on October 28, 2023, unless earlier renewed or amended.

On November 30, 2021, the Company announced a share repurchase program approved by the Company's Board of Directors under which the Company was authorized to purchase up to \$20.0 million of its common stock. This share repurchase program concluded on March 8, 2022, when the maximum dollar amount authorized under the program was expended. During the three months ended March 31, 2022 the Company repurchased 649,739 shares of common stock pursuant to this share repurchase program at an aggregate fair value of \$14.9 million, reflecting an average price per share of \$22.92 (excluding the cost of broker commissions).

On March 14, 2022, the Board approved an expansion of the Company's share repurchase program by authorizing the repurchase of up to an additional \$10.0 million of the Company's outstanding shares of common stock. The share repurchase program expired on March 13, 2023, and no repurchases occurred during the three months ended March 31, 2023. Under this program, the Company repurchased a total of 402,050 shares at an aggregate fair value of \$8.1 million, based on an average price per share of \$20.19 (excluding the cost of broker commissions), including 242,647 shares purchased during the three months ended March 31, 2022, at an aggregate fair value of \$5.0 million, based on an average per share price of \$20.52 (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 dividend policy under which we intend to pay quarterly cash dividends on our common stock, at an initial rate of \$0.025 per share per fiscal quarter. We also announced that our Board declared the initial quarterly dividend under the new policy in the amount of \$0.025 per share, which was paid on April 28, 2023 to the holders of record of all of the issued and outstanding shares of common stock as of the close of business on April 17, 2023. This marked the first quarterly cash dividend policy adopted by the Company. On April 24, 2023, the Board approved the Company's second quarterly cash dividend of \$0.025 per share, which was paid on June 23, 2023 to holders of record on June 12, 2023. On July 24, 2023, the Board approved the Company's third quarterly cash dividend of \$0.025 per share, payable on September 29, 2023 to holders of record on September 18, 2023. Further, the Company intends to declare and pay one more quarterly cash dividend in 2023. 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, 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 revolving credit facility would be dependent on the covenant calculations at the time of borrowing. As of June 30, 2023, we were in compliance with all covenants. 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 June 30, 2023, and during the three and six 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 \$56.0 million at June 30, 2023. 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 \$0.2 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 Quarterly Report. Based on that evaluation, the chief executive officer and principal financial officer have concluded that HealthStream’s disclosure controls and procedures were effective to ensure that the information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the 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 second quarter of 2023 that has materially affected, or that is reasonably likely to materially affect, HealthStream’s internal control over financial reporting.

#### **PART II - OTHER INFORMATION**

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

There have been no material changes to the risk factors previously disclosed in the 2022 Form 10-K.

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

None. Without limiting the generality of the foregoing, the Company did not purchase any shares of common stock of the Company during the three months ended June 30, 2023.

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

None. Without limiting the generality of the foregoing, during the three months ended June 30, 2023, 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(a) of Regulation S-K.

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

###### (a) Exhibits

|           |   |
|-----------|---|
| 10.1      | <a href="#">Form of HealthStream, Inc. Restricted Share Unit Agreement (Non-Employee Director) under 2022 Omnibus Incentive Plan</a>  |
| 31.1      | <a href="#">Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>  |
| 31.2      | <a href="#">Certification of the Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>  |
| 32.1      | <a href="#">Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>  |
| 32.2      | <a href="#">Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>  |
| 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 June 30, 2023, has been formatted in Inline XBRL<br>Management contract of compensatory plan or arrangement |

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HEALTHSTREAM, INC.

July 27, 2023

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

**HEALTHSTREAM, INC.**  
**RESTRICTED SHARE UNIT AGREEMENT**

This RESTRICTED SHARE UNIT AGREEMENT (this “Agreement”) is made and entered into as of the 6th day of June, 2023 (the “Grant Date”), between HealthStream, Inc., a Tennessee corporation (together with its Subsidiaries and Affiliates, the “Company”), and [Name] (the “Grantee”). Capitalized terms not otherwise defined herein shall have the meaning ascribed to such terms in the HealthStream, Inc. 2022 Omnibus Incentive Plan (the “Plan”).

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

WHEREAS, the Compensation Committee of the Board of Directors of the Company, including any subcommittee formed pursuant to Section 3.3 of the Plan (the “Committee”) has determined that it would be to the advantage and best interest of the Company and its shareholders to grant an award of the Restricted Share Units provided for herein to the Grantee as an incentive for increased efforts during his or her term of service or employment with the Company or its Subsidiaries or Affiliates, and has advised the Company thereof and instructed the undersigned officers to award said Restricted Share Units;

NOW, THEREFORE, the parties hereto agree as follows:

**RESTRICTED SHARE UNIT GRANT**

|   |              |
|---|--------------|
| Grantee:  | [Name]       |
| Aggregate number of Restricted Share Units Granted hereunder: | [RSUs]       |
| Grant Date:   | June 6, 2023 |

1. **Grant of Restricted Share Unit Award.**

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

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

2. **Vesting and Payment.**

2.1 Vesting. Except as provided in Section 2.2, the RSUs subject to this Award shall vest as follows:

- (i) 1/3 of the RSUs shall vest on the first anniversary of the Grant Date;
- (ii) An additional 1/3 of the RSUs shall vest on the second anniversary of the Grant Date; and
- (iii) The remaining 1/3 of the RSUs shall vest on the third anniversary of the Grant Date.

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

2.3 Settlement. The Grantee shall be entitled to settlement of the RSUs subject to this Award at the time that such RSUs vest pursuant to Section 2.1 or Section 2.2, as applicable. Such settlement shall be made as promptly as practicable thereafter (but in no event after the fifteenth day following the applicable vesting date, or in the case of a Change in Control, the Change in Control) through the issuance of Shares equal to the number of such vested RSUs. Any settlement of RSUs granted pursuant to this Award shall be made in Shares as evidenced by a “book entry” (i.e., a computerized or manual entry) in the records of the Company or its designated agent in the name of the Grantee who has become vested in such Shares (or, if requested by Grantee, a stock certificate evidencing such Shares). Notwithstanding the foregoing, if this Award vests in connection with a Change in Control and the Shares issuable in connection with such vesting subsequently have been converted into or have otherwise been transferred in exchange for other consideration in connection with such Change in Control, Grantee will be entitled to receive such other consideration in lieu of the converted or transferred Shares. The Grantee will not be entitled to any dividend equivalent or voting rights with regard to the RSUs.

2.4 Termination. Except as otherwise provided by the Committee, this Award shall not become vested as to any RSUs that have not vested as of the time of the Grantee’s termination of service with the Company for any reason, and Grantee shall forfeit any unvested RSUs as of the date of such termination of service.

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

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

5. **Administration Subject to the Plan.** The Grantee hereby acknowledges receipt of a copy of (or an electric link to) the Plan and agrees to be bound by all the terms and provisions thereof. The terms of this Agreement are governed by the terms of the Plan, and in the case of any inconsistency

between the terms of this Agreement and the terms of the Plan, the terms of the Plan shall govern. The Committee shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee shall be final and binding upon the Grantee, the Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Award.

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

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

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

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

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

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

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

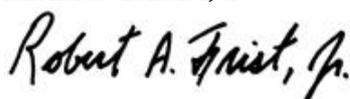
13. Notices. All notices required to be given under this Award shall be deemed to be received if delivered or mailed as provided for herein to the parties at the following addresses, or to such other address as either party may provide in writing from time to time.

To the Company: HealthStream, Inc.  
500 11<sup>th</sup> Avenue North, Suite 1000  
Nashville TN 37203

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

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

HEALTHSTREAM, INC.:



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

**GRANTEE:**

---

**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: July 27, 2023

/s/ ROBERT A. FRIST, JR.

Robert A. Frist, Jr.  
Chief Executive Officer

**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: July 27, 2023

/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 June 30, 2023, 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  
July 27, 2023

**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 June 30, 2023, 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  
July 27, 2023