

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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)

Title of each class

Common Stock (Par Value \$0.00)

Trading Symbol(s)

HSTM

Name of each exchange on which registered

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

Non-accelerated filer

Emerging growth company

Accelerated filer

Smaller reporting company

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

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

As of April 24, 2023, there were 30,682,518 shares of the registrant's common stock outstanding.

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HEALTHSTREAM, INC.

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

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

	March 31, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 48,836	\$ 46,023
Marketable securities	9,818	7,885
Accounts receivable, net of allowance for doubtful accounts of \$616 and \$544 at March 31, 2023 and December 31, 2022, respectively	41,556	36,730
Accounts receivable - unbilled	5,732	5,980
Prepaid royalties, net of amortization	10,959	9,071
Other prepaid expenses and other current assets	8,207	8,688
Total current assets	125,108	114,377
Property and equipment, net of accumulated depreciation of \$21,326 and \$20,280 at March 31, 2023 and December 31, 2022, respectively	14,689	15,483
Capitalized software development, net of accumulated amortization of \$110,182 and \$105,025 at March 31, 2023 and December 31, 2022, respectively	38,460	37,118
Operating lease right of use assets, net	22,136	22,759
Goodwill	191,102	192,398
Customer-related intangibles, net of accumulated amortization of \$50,679 and \$48,552 at March 31, 2023 and December 31, 2022, respectively	61,080	61,269
Other intangible assets, net of accumulated amortization of \$14,346 and \$12,818 at March 31, 2023 and December 31, 2022, respectively	18,026	20,284
Deferred tax assets	383	383
Deferred commissions	27,122	28,344
Non-marketable equity investments	4,391	4,518
Other assets	662	808
Total assets	\$ 503,159	\$ 497,741
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 20,122	\$ 32,301
Accrued royalties	6,533	5,443
Deferred revenue	94,349	79,469
Total current liabilities	121,004	117,213
Deferred tax liabilities	18,787	17,996
Deferred revenue, noncurrent	2,562	2,937
Operating lease liability, noncurrent	22,572	23,321
Other long-term liabilities	2,195	2,210
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value, 75,000 shares authorized; 30,682 and 30,579 shares issued and outstanding at March 31, 2023 and December 31, 2022, respectively	254,986	254,832
Retained earnings	82,069	80,213
Accumulated other comprehensive loss	(1,016)	(981)
Total shareholders' equity	336,039	334,064
Total liabilities and shareholders' equity	\$ 503,159	\$ 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)

	Three Months Ended	
	March 31, 2023	March 31, 2022
Revenues, net	\$ 68,946	\$ 65,367
Operating costs and expenses:		
Cost of revenues (excluding depreciation and amortization)	23,856	21,998
Product development	11,680	10,412
Sales and marketing	11,728	10,417
Other general and administrative expenses	8,865	9,183
Depreciation and amortization	9,926	9,322
Total operating costs and expenses	66,055	61,332
Operating income	2,891	4,035
Other income (loss), net	250	(276)
Income before income tax provision	3,141	3,759
Income tax provision	518	866
Net income	\$ 2,623	\$ 2,893
Net income per share:		
Basic	\$ 0.09	\$ 0.09
Diluted	\$ 0.09	\$ 0.09
Weighted average shares of common stock outstanding:		
Basic	30,591	30,955
Diluted	30,659	30,976
Dividends declared per share	\$ 0.025	\$ —

See accompanying Notes to the unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	March 31, 2023	March 31, 2022
Net income	\$ 2,623	\$ 2,893
Other comprehensive income, net of taxes:		
Foreign currency translation adjustments	(33)	278
Unrealized loss on marketable securities	(2)	(6)
Total other comprehensive (loss) income	(35)	272
Comprehensive income	<u>\$ 2,588</u>	<u>\$ 3,165</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)

	Three Months Ended March 31, 2023				
	Common Stock		Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount		Income	
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>
	Three Months Ended March 31, 2022				
	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount		Loss	
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>

See accompanying Notes to the unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2023	2022
OPERATING ACTIVITIES:		
Net income	\$ 2,623	\$ 2,893
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,926	9,322
Stock-based compensation	945	774
Amortization of deferred commissions	2,712	2,484
Provision for credit losses	209	6
Deferred income taxes	800	684
Loss on non-marketable equity investments	127	276
Other	(85)	26
Changes in operating assets and liabilities:		
Accounts and unbilled receivables	(4,787)	(5,874)
Prepaid royalties	(1,889)	(2,033)
Other prepaid expenses and other current assets	482	952
Deferred commissions	(1,490)	(2,614)
Other assets	147	79
Accounts payable and accrued expenses	(4,773)	(3,653)
Accrued royalties	1,090	1,877
Deferred revenue	14,504	15,456
Net cash provided by operating activities	<u>20,541</u>	<u>20,655</u>
INVESTING ACTIVITIES:		
Business combinations, net of cash acquired	(6,621)	(22)
Proceeds from maturities of marketable securities	1,000	5,025
Purchases of marketable securities	(2,850)	(2,024)
Payments associated with capitalized software development	(7,566)	(6,305)
Purchases of property and equipment	(879)	(636)
Net cash used in investing activities	<u>(16,916)</u>	<u>(3,962)</u>
FINANCING ACTIVITIES:		
Taxes paid related to net settlement of equity awards	(791)	(497)
Repurchases of common stock	—	(19,726)
Net cash used in financing activities	<u>(791)</u>	<u>(20,223)</u>
Effect of exchange rate changes on cash and cash equivalents	(21)	(5)
Net increase (decrease) in cash and cash equivalents	2,813	(3,535)
Cash and cash equivalents at beginning of period	46,023	46,905
Cash and cash equivalents at end of period	<u>\$ 48,836</u>	<u>\$ 43,370</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 months ended March 31, 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 has reached an inflection point in its efforts to operate according to its single platform strategy, also known as our One HealthStream approach. As of January 1, 2023, the Company’s business is now 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, beginning January 1, 2023, the Company has a single reportable segment, such that the Company is presenting historical financial information on a single segment basis beginning with this Quarterly Report on Form 10-Q for the three months ended March 31, 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.

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

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

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

	Three Months Ended March 31,	
	2023	2022
Subscription services	\$ 66,015	\$ 62,075
Professional services	2,931	3,292
Total revenues, net	<u>\$ 68,946</u>	<u>\$ 65,367</u>

For the three months ended March 31, 2023 and 2022, the Company recognized \$0.2 million and \$6,000, respectively, 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 March 31, 2023 and 2022, we recognized revenues of approximately \$39.1 million and \$34.6 million, respectively, from amounts included in deferred revenue at the beginning of the respective periods. As of March 31, 2023, approximately \$504 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 \$2.7 million and \$2.5 million for the three months ended March 31, 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 March 31, 2023 and 2022, the Company recorded a provision for income taxes of approximately \$0.5 million and \$0.9 million, respectively. The Company's effective tax rate was 16% and 23% for the three months ended March 31, 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 three months ended March 31, 2023, the Company recorded discrete tax benefits of \$53,000, which consisted primarily of a \$133,000 tax benefit associated with stock-based awards. This tax benefit was partially offset by \$80,000 of discrete tax expense related to reserves for uncertain tax positions. During the three months ended March 31, 2022, the Company recorded discrete tax expense of \$0.1 million, which consisted primarily of tax deficiencies associated with stock-based awards.

4. SHAREHOLDERS' EQUITY

Dividends on Common Stock

On February 20, 2023, the Company's Board of Directors ("Board") approved a dividend policy under which the Board declared the initial quarterly dividend in the amount of \$0.025 per share, which will be payable 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 marks 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, payable on June 23, 2023 to holders of record on June 12, 2023.

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

Stock-Based Compensation

The Company has stock awards outstanding under its 2016 Omnibus Incentive Plan and 2022 Omnibus Incentive Plan. The Company accounts for its stock-based compensation plans using the fair-value based method for costs related to share-based payments, including restricted share units (“RSUs”) and stock options. During the three months ended March 31, 2023, the Company issued 45,907 RSUs subject to service-based time vesting, with a weighted average grant date fair value of \$26.25 per share, measured based on the closing fair market value of the Company’s stock on the date of the grant. During the three months ended March 31, 2022, the Company approved the grant of 135,352 RSUs subject to service-based time vesting, of which 35,161 of these RSUs were conditioned upon and subject to shareholder approval of the 2022 Omnibus Incentive Plan submitted to the Company’s shareholders for approval at the annual meeting of the Company’s shareholders held on May 26, 2022. Of these, the 100,191 RSUs that were not conditioned on shareholder approval of the 2022 Omnibus Incentive Plan were granted with a weighted average grant date fair value of \$20.32 per share, measured based on the closing fair market value of the Company’s stock on the date of grant. Applicable accounting standards required that the 35,161 RSUs conditioned upon approval of the 2022 Omnibus Incentive Plan not be valued until the condition was met (that is, at such time that the 2022 Omnibus Incentive Plan was approved by shareholders at the annual meeting of the Company’s shareholders on May 26, 2022).

During the three months ended March 31, 2023, the Company granted 138,000 performance-based RSUs, the vesting of which occurs over a five-year period and is contingent upon continued service and achieving certain performance criteria established by the Compensation Committee 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 three months ended March 31, 2023 with a weighted average grant date fair value of \$26.25 per share, measured based on the closing fair market value of the Company’s stock on the date 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 three months ended March 31, 2022, the Company approved the grant of 91,042 performance-based RSUs, the vesting of which occurs over a five-year period and is contingent upon continued service and achieving certain performance criteria established by the Compensation Committee on an annual basis in increments of 15%, 20%, 20%, 20%, and 25% based on performance in 2022, 2023, 2024, 2025, and 2026, respectively. The performance criteria and measurement date for the second-year tranche, or 18,210 of these performance-based RSUs, is based on 2023 adjusted EBITDA and was established during the three months ended March 31, 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):

	Three Months Ended March 31,	
	2023	2022
Cost of revenues (excluding depreciation and amortization)	\$ 48	\$ 38
Product development	167	125
Sales and marketing	113	83
Other general and administrative	617	528
Total stock-based compensation expense	\$ 945	\$ 774

Share Repurchase Plan

On March 14, 2022, the Company’s Board approved an expansion of the Company’s share repurchase program initially authorized by the Board on November 1, 2021 by authorizing the repurchase of up to an additional \$10.0 million of the Company’s outstanding shares of common stock. The share repurchase expansion program expired on March 13, 2023. Under this program, the Company repurchased a total of 402,050 shares at an aggregate fair value of \$8.1 million, reflecting an average price per share of \$20.19 (excluding the cost of broker commissions). No repurchases occurred during the three months ended March 31, 2023.

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 268,000 and 218,000 for the three months ended March 31, 2023 and 2022, respectively.

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

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

	Three Months Ended March 31,	
	2023	2022
Numerator:		
Net income	\$ 2,623	\$ 2,893
Denominator:		
Weighted-average shares outstanding	30,591	30,955
Effect of dilutive shares	68	21
Weighted-average diluted shares	30,659	30,976
Net income per share:		
Basic	\$ 0.09	\$ 0.09
Diluted	\$ 0.09	\$ 0.09

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):

	March 31, 2023			
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value
Level 2:				
U.S. treasury securities	\$ 9,818	\$ 2	\$ (2)	\$ 9,818
Total	\$ 9,818	\$ 2	\$ (2)	\$ 9,818
	December 31, 2022			
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value
Level 2:				
U.S. treasury securities	\$ 7,882	\$ 3	\$ —	\$ 7,885
Total	\$ 7,882	\$ 3	\$ —	\$ 7,885

The carrying amounts reported in the Condensed Consolidated Balance Sheets approximate fair value based on quoted market prices or alternative pricing sources and models utilizing market observable inputs. As of March 31, 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.

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 three months ended March 31, 2023, respectively, while the developed technology and trade name intangible assets were decreased by \$0.8 million and \$20,000 during the three months ended March 31, 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.

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

8. DEBTRevolving 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.

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 March 31, 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 months ended March 31, 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. As of January 1, 2023, the Company's business is now 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, beginning January 1, 2023, the Company has a single reportable segment, such that the Company is presenting historical financial information on a single segment basis beginning with this Quarterly Report on Form 10-Q for the three months ending March 31, 2023.

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

- Revenues of \$68.9 million in the first quarter of 2023, up 5% from \$65.4 million in the first quarter of 2022, attributable primarily to growth in several of our subscription-based product categories, including contributions from recent acquisitions.
- Operating income of \$2.9 million in the first quarter of 2023, down 28% from \$4.0 million in the first quarter of 2022, which comparison was negatively impacted in the amount of \$1.0 million by the severance charge in the first quarter of 2023 associated with the consolidation of HealthStream's business under a single platform strategy, as further discussed below.
- Net income of \$2.6 million in the first quarter of 2023, down 9% from \$2.9 million in the first quarter of 2022, which comparison was negatively impacted in the amount of \$0.8 million by the severance charge in the first quarter of 2023 associated with HealthStream's consolidation referenced above.
- Earnings per share ("EPS") of \$0.09 per share (diluted) in both the first quarters of 2023 and 2022, which comparison was negatively impacted in the amount of \$0.03 per share (diluted) by the severance charge in the first quarter of 2023 associated with HealthStream's consolidation referenced above.
- Adjusted EBITDA¹ of \$13.7 million in the first quarter of 2023, down 2% from \$14.0 million in the first quarter of 2022, which comparison was negatively impacted in the amount of \$1.0 million by the severance charge in the first quarter of 2023 associated with HealthStream's consolidation referenced above.

¹ Adjusted EBITDA is a non-GAAP financial measure. A reconciliation of adjusted EBITDA to net income and disclosure regarding why we believe adjusted EBITDA provides useful information to investors is included later in this 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 three months ended March 31, 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 three months ended March 31, 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 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 \$68.9 million for the three months ended March 31, 2023, compared to \$65.4 million for the three months ended March 31, 2022. 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 targets (as defined in applicable bonus and equity grant documentation). Adjusted EBITDA was \$13.7 million for the three months ended March 31, 2023, compared to \$14.0 million for the three months ended March 31, 2022, which comparison was negatively impacted in the amount of \$1.0 million by the severance charge in the first quarter of 2023 associated with HealthStream's consolidation referenced above.
- *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 March 31, 2023, we had approximately 5.52 million contracted subscriptions to hStream, compared to 5.13 million as of March 31, 2022.

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 March 31, 2023 Compared to Three Months Ended March 31, 2022

Revenues, net. Revenues increased approximately \$3.5 million, or 5%, to \$68.9 million for the three months ended March 31, 2023 from \$65.4 million for the three months ended March 31, 2022. The revenue growth was attributable to growth in several product categories, including contributions from our recent acquisitions. Subscription revenues increased \$3.9 million, or six percent, but were partially offset by \$0.4 million of declines from professional services revenues.

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

	Three Months Ended March 31,		Percentage Change
	2023	2022	
Subscription services	\$ 66,015	\$ 62,075	6%
Professional services	2,931	3,292	-11%
Total revenues, net	<u>\$ 68,946</u>	<u>\$ 65,367</u>	5%

% of Revenues

Subscription services	96%	95%
Professional services	4%	5%

Cost of Revenues (excluding Depreciation and Amortization). Cost of revenues increased \$1.9 million, or 8%, to \$23.9 million for the three months ended March 31, 2023, from \$22.0 million for the three months ended March 31, 2022. Cost of revenues as a percentage of revenues were 35% and 34% for the three months ended March 31, 2023 and 2022, respectively. The increase 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 contract labor, software expenses, royalties, and cloud hosting.

Product Development. Product development expenses increased \$1.3 million, or 12%, to \$11.7 million for the three months ended March 31, 2023, from \$10.4 million for the three months ended March 31, 2022. Product development expenses as a percentage of revenues were 17% and 16% for the three months ended March 31, 2023 and 2022, respectively. The increase 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 \$1.3 million, or 13%, to \$11.7 million for the three months ended March 31, 2023, from \$10.4 million for the three months ended March 31, 2022. Sales and marketing expenses were 17% and 16% of revenues for the three months ended March 31, 2023 and 2022, respectively. The increase is primarily due to increased personnel costs, including severance costs as noted above, as well as higher travel expense and higher software costs, which were partially offset by a decrease in general marketing expenses.

Other General and Administrative Expenses. Other general and administrative expenses decreased \$0.3 million, or 3%, to \$8.9 million for the three months ended March 31, 2023, from \$9.2 million for the three months ended March 31, 2022. Other general and administrative expenses were 13% and 14% of revenues for the three months ended March 31, 2023 and 2022, respectively. The decrease is primarily due to lower employee recruitment expenses, professional service fees, and software.

Depreciation and Amortization. Depreciation and amortization expense increased \$0.6 million, or 6%, to \$9.9 million for the three months ended March 31, 2023, from \$9.3 million for the three months ended March 31, 2022. This increase is primarily a result of an increase in amortization associated with capitalized software but was partially offset by lower depreciation expense.

Other Income (Loss), Net. Other income (loss), net was income of \$0.3 million for the three months ended March 31, 2023, compared to a loss of \$0.3 for the three months ended March 31, 2022. The increase is primarily the result of interest income earned on cash and investments during the three months ended March 31, 2023 compared to the prior year period.

Income Tax Provision. The Company recorded a provision for income taxes of \$0.5 million for the three months ended March 31, 2023, compared to \$0.9 million the three months ended March 31, 2022. The Company's effective tax rate was 16% for the three months ended March 31, 2023, compared to 23% for the three months ended March 31, 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 March 31, 2023, the Company recorded discrete tax benefits of \$53,000, which consisted primarily of a \$133,000 tax benefit associated with stock-based awards. This tax benefit was partially offset by \$80,000 of discrete tax expense related to uncertain tax positions. During the three months ended March 31, 2022, the Company recorded discrete tax expense of \$0.1 million, primarily related to tax deficiencies associated with stock-based awards.

Net Income. Net income was \$2.6 million and \$2.9 million for the three months ended March 31, 2023 and 2022, respectively. Earnings per share (EPS) was \$0.09 per share (diluted) for both the three months ended March 31, 2023 and 2022.

Adjusted EBITDA was \$13.7 million for the three months ended March 31, 2023, compared to \$14.0 million for the three months ended March 31, 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 targets (as defined in applicable bonus and equity grant documentation).

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).

	Three Months Ended March 31,	
	2023	2022
GAAP net income	\$ 2,623	\$ 2,893
Deferred revenue write-down	50	94
Interest income	(363)	(15)
Interest expense	33	32
Income tax provision	518	866
Stock-based compensation expense	945	774
Depreciation and amortization	9,926	9,322
Adjusted EBITDA	<u>\$ 13,732</u>	<u>\$ 13,966</u>

Liquidity and Capital Resources

Net cash provided by operating activities decreased by \$0.1 million to \$20.5 million during the three months ended March 31, 2023, from \$20.7 million during the three months ended March 31, 2022. Our days sales outstanding ("DSO") was 51 days for the first quarter of 2023 compared to 45 days for the first quarter of 2022. 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, and general corporate expenses.

Net cash used in investing activities was \$16.9 million for the three months ended March 31, 2023, compared to \$4.0 million for the three months ended March 31, 2022. During the three months ended March 31, 2023, the Company spent \$6.6 million for the acquisition of substantially all of the assets of Electronic Education Documentation System, LLC ("eeds") (note: the eeds acquisition was consummated on December 31, 2022, but was funded in January 2023 such that the purchase price for eeds impacted net cash used in investing activities during the three months ended March 31, 2023), invested in marketable securities of \$2.9 million, made payments for capitalized software development of \$7.6 million, and purchased property and equipment of \$0.9 million. These uses of cash were partially offset by \$1.0 million in maturities of marketable securities. During the three months ended March 31, 2022, the Company spent \$22,000 related to a post-closing adjustment for a prior acquisition, invested in marketable securities of \$2.0 million, made payments for capitalized software development of \$6.3 million, and purchased property and equipment of \$0.6 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 \$0.8 million for the three months ended March 31, 2023, compared to \$20.2 million for the three months ended March 31, 2022. The uses of cash for the three months ended March 31, 2023 included \$0.8 million for the payment of employee payroll taxes in relation to the vesting of restricted share units. The uses of cash for the three months ended March 31, 2022 included \$19.7 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 \$4.1 million at March 31, 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 despite the use of cash to fund the acquisition of eeds during the quarter as a result of strong collections coupled with an increase in accounts receivable. The Company's primary source of liquidity as of March 31, 2023 was \$48.8 million of cash and cash equivalents and \$9.8 million of marketable securities. The Company also has a \$65.0 million revolving credit facility, all of which was available for additional borrowing at March 31, 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 will be payable 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 marks 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, payable on June 23, 2023 to holders of record on June 12, 2023. Further, the Company intends to declare and pay two more quarterly cash dividends 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 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 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, 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 March 31, 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 assure you that if we need additional financing that it will be available on terms favorable to us, or at all. Failure to generate sufficient cash flow from operations or raise additional capital when required in sufficient amounts and on terms acceptable to us could harm our business, financial condition, and results of operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to market risk from changes in interest rates, foreign currency risk, and investment risk. We do not have any commodity price risk.

Interest Rate Risk

As of March 31, 2023, and during the three months then ended, the Company had no outstanding debt. We may become subject to interest rate market risk associated with any future borrowings under our revolving credit facility. The interest rate under the revolving credit facility varies depending on the interest rate option selected by the Company plus a margin determined in accordance with a pricing grid. We are also exposed to market risk with respect to our cash and investment balances, which approximated \$58.7 million at March 31, 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 first 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

On March 14, 2022, the Company announced an expansion of the share repurchase program authorized by the Company's Board of Directors under which the Company could purchase up to an additional \$10.0 million of its common stock. Under this program, the Company repurchased 402,050 shares at an aggregate fair value of \$8.1 million, reflecting an average price per share of \$20.19 (excluding the cost of broker commissions). The program expired on March 13, 2023.

The table below sets forth activity under the stock repurchase plan for the three months ended March 31, 2023.

Period	(a) Total number of shares (or units) purchased	(b) Average price paid per share (or unit)(1)	(c) Total number of shares (or units) purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs
Month #1 (January 1 - January 31)	—	\$ —	—	\$ 1,880,642
Month #2 (February 1 - February 28)	—	—	—	1,880,642
Month #3 (March 1 - March 31)	—	—	—	—
Total	—	\$ —	—	\$ —

Item 5. Other Information.

The following information was required to be disclosed in a Current Report on Form 8-K during the period covered by this Quarterly Report on Form 10-Q, but was inadvertently not timely reported by the Company. Instead of filing such information on a separate Current Report on Form 8-K, we have elected to make the following disclosure in this Quarterly Report on Form 10-Q under Item 2.05 of Form 8.K:

Item 2.05 Costs Associated with Exit or Disposal Activities.

In connection with organizing HealthStream's business under a single platform strategy as previously disclosed and as described in this Quarterly Report on Form 10-Q, on February 17, 2023, authorized officers of 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 approximately \$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 expect to incur additional severance charges in the range of \$0.1 million to \$0.2 million associated with these job reductions during the remainder of 2023, the substantial majority of which remaining charges are expected to be incurred during the three months ended June 30, 2023. All of the charges noted above have involved or will involve cash outlays. A portion of these cash outlays were made by the Company during the three months ended March 31, 2023, and the remaining portion of these cash outlays are expected to be made during the remainder of 2023 and in 2024, with the majority of such remaining outlays anticipated to be made during the three months ended June 30, 2023.

Item 6. Exhibits

(a) Exhibits

- 10.1 [HealthStream, Inc. 2023 Cash Incentive Bonus Plan](#)
- 10.2 [Letter Agreement, dated as of February 20, 2023, between HealthStream, Inc. and Michael Sousa](#)
- 10.3 [Form of HealthStream, Inc. Restricted Share Unit Agreement \(Time Based\) under 2022 Omnibus Incentive Plan](#)
- 31.1 [Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 31.2 [Certification of the Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 32.1 [Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 32.2 [Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 101.1 INS Inline XBRL Instance Document – The instant document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
- 101.1 SCH Inline XBRL Taxonomy Extension Schema
- 101.1 CAL Inline XBRL Taxonomy Extension Calculation Linkbase
- 101.1 DEF Inline XBRL Taxonomy Extension Definition Linkbase
- 101.1 LAB Inline XBRL Taxonomy Extension Label Linkbase
- 101.1 PRE Inline XBRL Taxonomy Extension Presentation Linkbase
- 104 The cover page from the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2023, has been formatted in Inline XBRL
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.

April 27, 2023

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

HealthStream, Inc.
2023 Cash Incentive Bonus Plan

Overview:

Pursuant to the HealthStream, Inc. 2022 Omnibus Incentive Plan, the Compensation Committee (the “Committee”) of the Board of Directors of HealthStream, Inc. (the “Company”) hereby establishes this 2023 Cash Incentive Bonus Plan (the “Plan”). The Plan is the cash-based, short-term incentive portion of HealthStream's incentive compensation structure for certain executive officers, as well as the vice presidents, associate vice presidents, senior directors, and directors of the Company (such individuals referred to collectively as “Management”). The purpose of the Plan is to specify appropriate opportunities to earn a cash bonus with respect to the Company’s 2023 fiscal year in order to reward Management for facilitating the Company’s achievement of certain levels of financial performance during fiscal year 2023 and to further align their interests with those of the shareholders of the Company.

Definitions:

- **Annual Bonus** – The annual bonus paid to Management after the Committee determines the applicable financial measure has been achieved.
- **Adjusted EBITDA** – The Company’s Adjusted EBITDA for the 2023 fiscal year calculated as set forth in the “Reconciliation of Non-GAAP Financial Measures” in the Company’s annual report on Form 10-K and as updated under subsequent quarterly filings under Form 10-Q or the Company’s quarterly earnings releases filed under Forms 8-K; provided the following are excluded from the calculation of Adjusted EBITDA: (i) acquisition and divestiture expenses incurred within the calendar year to the extent such expenses are in excess of the amount originally allocated to such purpose in the Company’s 2023 budget; and (ii) Adjusted EBITDA (profit/loss) from acquisitions and divestitures consummated during 2023 (collectively, the “Excluded Expenses”). The Committee has the negative discretion to include the Excluded Expenses in the calculation of Adjusted EBITDA.
- **Incremental Threshold Adjusted EBITDA** – the amount of Adjusted EBITDA before bonuses less Threshold Adjusted EBITDA; as such Threshold Adjusted EBITDA amount is established by the Committee. Incremental Threshold Adjusted EBITDA funds the Threshold Bonus Pool as set forth in the “Payout” section below.
- **Incremental Target Adjusted EBITDA** – the amount of Adjusted EBITDA before bonuses less Target Adjusted EBITDA; as such Target Adjusted EBITDA amount is established by the Committee. Incremental Target EBITDA funds the Target Bonus Pool as set forth below.
- **Incremental Stretch Adjusted EBITDA** – the amount of Adjusted EBITDA before bonuses that is achieved after the Target Bonus Pool is fully funded. The Incremental Stretch Adjusted EBITDA funds the Stretch Bonus Pool as set forth below.

2023 Financial Measure and Plan Principles:

1. **Financial Measure** – Adjusted EBITDA before bonuses will be the financial measure for 2023.
2. **Funding Principle** – The Annual Bonus will be funded: (i) first from the amount of Incremental Threshold Adjusted EBITDA that exceeds Threshold Adjusted EBITDA, (ii) then from the amount of Incremental Target Adjusted EBITDA that exceeds Target Adjusted EBITDA, and (iii) finally, for Executives only from the amount of Incremental Stretch Adjusted EBITDA that exceeds Stretch Adjusted EBITDA.

The Plan

Eligibility

Five groups are eligible for participation in the Plan:

- **Executive Team** – The maximum Annual Bonus (prior to giving effect to any payment of any Stretch Bonus Amount) that (i) the Chief Executive Officer of HealthStream and Executive Vice Presidents shall be eligible to receive under the Plan shall be an amount equal to 40% of such member's base salary; and (ii) Senior Vice Presidents shall be eligible to receive under the Plan shall be an amount equal to 35% of such member's base salary. Unless otherwise excluded below, the Executive Team eligible for participation includes the Chief Executive Officer, Executive Vice Presidents, and Senior Vice Presidents of the Company (collectively, the "Executives").
- **Vice Presidents** – The maximum Annual Bonus that Vice Presidents shall be eligible to receive under the Plan shall be an amount equal to 20% of such Vice President's base salary.
- **Associate Vice Presidents** – The maximum Annual Bonus that Associate Vice Presidents shall be eligible to receive under the Plan shall be an amount equal to 18% of such Associate Vice President's base salary.
- **Senior Directors** - The maximum Annual Bonus that Senior Directors shall be eligible to receive under the Plan shall be an amount equal to 10% of such Senior Director's base salary. For purposes of clarity, Directors do not include members of the Board of Directors, but are management-level employees of the Company.

- **Directors** - The maximum Annual Bonus that Directors shall be eligible to receive under the Plan shall be an amount equal to 8% of such Director's base salary. For purposes of clarity, Directors do not include members of the Board of Directors, but are management-level employees of the Company
- **Employment Requirements** – Participants in the Plan who were employed with the Company through December 31, 2023 shall be eligible to receive bonus payments, if any, under the Plan regardless of whether such employees are employed on the date such payments are actually made. Notwithstanding the foregoing, in the case of death or disability, the participant's pro rata share from January 1, 2023 through the date of participant's death or disability shall be awarded.
- **Exclusions** - Members of the Executive Team with a commission-based incentive compensation plan shall not be eligible to participate in the Plan.

Payout

Payouts under the Plan shall be determined as follows:

1. The Annual Bonus payable to any participant in this Plan will be determined as follows:
 - In the event that Adjusted EBITDA before bonuses is less than or equal to Threshold Adjusted EBITDA, a participant will receive no Annual Bonus.
 - To the extent Incremental Threshold Adjusted funds the Threshold Bonus Pool, a participant will receive a percentage of his or her maximum Annual Bonus payable as set forth above under "The Plan-Eligibility" (the "Maximum Annual Bonus") in an amount between 0% and 35% of the Maximum Annual Bonus payable to such participant, based on the amount of bonus pool that is funded for that range (the "Threshold Bonus Pool"). The Threshold Bonus Pool shall be funded by every dollar of Incremental Threshold Adjusted EBITDA until the Threshold Pool is fully funded. The Threshold Bonus Pool is fully funded at the point in which the Threshold Adjusted EBITDA is reached after bonus payments equal to 35% of the Maximum Annual Bonus for all participants is achieved.
 - In the event that the Threshold Bonus Pool is fully funded, a participant will then be eligible to receive an Annual Bonus in an amount between 36% and 100% of the Maximum Annual Bonus payable to such participant, based on the amount of bonus pool that is funded for that range (the "Target Bonus Pool"). The Target Bonus Pool shall be funded by fifty-eight cents of every dollar of Incremental Target Adjusted EBITDA until the Target Bonus Pool is fully funded. The Target Bonus Pool is fully funded at the point in which the Target Adjusted EBITDA is reached after bonus payments equal to the remaining 65% of the Maximum Bonus Amount (at which point 100% of the Maximum Bonus in the aggregate would be earned); provided Executives shall also be eligible to receive a Stretch Bonus Amount as set forth below.

- Solely for Executives, in the event that Target Bonus Pool is fully funded, each Executive will then be eligible to receive—in addition to her or his Maximum Annual Bonus, which has already been earned—an additional payment (the “Stretch Bonus Amount”) in an amount equal to a percentage between 0% and 10% of the base salary payable to such Executive based on the amount of bonus pool that is funded for that range (the “Stretch Bonus Pool”). The Stretch Bonus Pool shall be funded by fifteen cents of every dollar of Incremental Stretch Adjusted EBITDA until the Stretch Bonus Pool is fully funded. The Stretch Bonus Pool is fully funded at the point in which the Stretch Adjusted EBITDA (as established by the Committee) is reached after bonus payments equal to 10% of each Executives base salary. For purposes of clarity, Executives shall become eligible to begin achieving the Stretch Bonus Amount after 100% of the Maximum Annual Bonus is achieved, and payment for any Stretch Bonus Amount an executive achieves shall be in addition to the 100% Maximum Annual Bonus.
2. Any Annual Bonus payouts made to the Executive Team, Vice President, Associate Vice President, Senior Directors, or Directors pursuant to the Plan shall be payable at such time as bonuses are paid generally to executive officers of the Company.
 3. Any Annual Bonus paid or payable to any recipient pursuant to the Plan shall be subject to forfeiture, repayment, reimbursement or other recoupment (i) to the extent provided in the Company’s current Compensation Recoupment Policy, as it may be amended from time to time (the “Current Recoupment Policy”), (ii) to the extent that such recipient in the future becomes subject to any other recoupment or clawback policy hereafter adopted by the Company, including any such policy (or amended version of the Current Recoupment Policy) adopted by the Company to comply with the requirements of any applicable laws, rules or regulations, including pursuant to final SEC rules and/or final Nasdaq listing standards with respect to recoupment adopted in connection with the Dodd-Frank Wall Street Reform and Consumer Protection Act (such final rules and final Nasdaq listing standards, the “Dodd-Frank Clawback Requirements”) (such policies referenced in clause (i) or this clause (ii), collectively, the “Policies”), and (iii) to the extent otherwise provided under applicable legal requirements, SEC rules or Nasdaq listing standards which impose mandatory recoupment, as in effect from time to time (including pursuant to the Dodd-Frank Clawback Requirements). The Company may utilize any method of recovery specified in the Policies in connection with any such recoupment pursuant to the terms of the Policies.



February 20, 2023

Re: Offer Letter

Dear Michael:

This offer letter will confirm the terms of your offer of employment with HealthStream, Inc. (the "Company") as its Executive Vice President, Enterprise Applications, as well as anticipated increases in responsibilities and potentially changing titles (*e.g.*, Chief Transformation Officer) over the course of the next five-year period. The following describes the general terms of your employment:

1. Position and Responsibilities.

Effective immediately as "Phase 1" of the next five years, you will serve in the position of Executive Vice President, Enterprise Applications. You will also serve as a member of the Company's Executive Team. You are responsible for establishing and leading the development and execution of the growth strategy for HealthStream's Enterprise Applications, beginning with the Scheduling and Credentialing product portfolios. You will merge and integrate existing Credentialing and Scheduling business operations to create a single leadership team and realize synergies across functional areas.

During "Phase 2" of the next five years, which is estimated to begin in 12 to 24 months, you will assume additional responsibilities, such as for additional enterprise applications and/or other corporate roles (*e.g.*, Chief Transformation Officer).

The compensation package set forth in this offer letter is designed to include compensation for the additional responsibilities and/or titles you assume during Phase 2 of the next five years, while granting that compensation to you at the outset of Phase 1. Granting you compensation now for responsibilities and/or titles you are expected to assume in the future is based on the Company's confidence and trust in you over the next five years as well as the Company's desire to incentivize you to remain with the Company for at least another five years.

You will report to the Chief Executive Officer and assume and discharge such responsibilities as are commensurate with your position and as the Chief Executive Officer may direct. During your employment with the Company, you shall devote your full-time attention to your duties and responsibilities and shall perform them faithfully, diligently and completely. In addition, you shall comply with and be bound by the operating policies, procedures and practices of the Company including, without limitation, the Employee Handbook, Code of Conduct, Code of Ethics, and insider trading policies, in effect from time to time during your employment. Moreover, all compensation which has been paid to you or may be payable to you will be subject to recoupment pursuant to, and to the extent provided by, (i) the terms of the Company's Compensation Recoupment Policy (as it may be amended from time to time) (the "Current Recoupment Policy"), (ii) any other recoupment or clawback policy hereafter adopted by the Company, including any such policy (or amended version of the Current Recoupment Policy) adopted by the Company to comply with the requirements of any applicable laws, rules or regulations, including pursuant to final SEC rules and/or final Nasdaq listing standards with respect to recoupment adopted in connection with the Dodd-Frank Wall Street Reform and Consumer Protection Act (such SEC rules and Nasdaq listing standards, the "Dodd-Frank Clawback Requirements") (such policies referenced in clauses (i) and (ii), the "Policies") and (iii) applicable SEC rules and NASDAQ listing requirements as in effect from time to time. The Company may utilize any method of recovery specified in the Policies in connection with any recoupment pursuant to the terms of the Policies.

You acknowledge that you will be required to travel, potentially extensively, in connection with the performance of your duties.

2. Compensation. In consideration for your services, during the term of your employment, you will receive:

- A. Base Salary. Your annual base salary will remain \$375,000.00 (“Base Salary”) through May 1, 2024. Base Salary is payable in accordance with the Company’s prevailing payroll practices.
- B. Cash Bonus Plan. You will be eligible to participate in an annual cash bonus plan (“Bonus Plan”). Under the Bonus Plan you will be eligible to receive a bonus of up to forty (40%) of your Base Salary, assuming achievement of 100% of the target thresholds established annually by the Compensation Committee. You will also be eligible to receive a “stretch bonus” of up to 10% of your Base Salary for exceeding a target determined annually by the Compensation Committee. Each year the Compensation Committee will set the terms of the Bonus Plan, including the annual targets. Annual targets for achieving bonuses may include, among other things, financial targets such as adjusted EBITDA and/or revenue thresholds, and/or other performance-based targets. Any Bonus Plan (i) shall be subject to the terms and conditions set forth therein as well as the applicable Company Equity Plan (“Equity Plan”) adopted by shareholders—currently the 2022 Omnibus Incentive Plan, and (ii) shall be payable at such time as bonuses are paid generally to executive officers of the Company.
- C. Equity Awards –Time-Based Vesting. Each year, you will be eligible to receive an equity award (referred to herein as “Annual Awards”) in the form of restricted stock units (“RSUs”). All Annual Awards shall be subject to the terms and conditions of the agreement under which such awards are granted and the Equity Plan. The issuance and terms of all Annual Awards are subject to approval by the Compensation Committee. For 2023, the Chief Executive Officer intends to recommend to the Compensation Committee that your 2023 Annual Award: (i) be equal to a grant date value of \$150,000.00 total, (ii) be awarded in two semi-annual grants each with a grant date value of \$75,000, and (iii) vest at the anniversary of the grant date according to the following schedule: 20% vest year 1, 25% vest year 2, 25% vest year 3, and 30% vest year 4.
- D. Equity Award – Performance-Based Vesting. You will be eligible to receive a performance-based equity award (referred to herein as the “Performance Award”) upon your acceptance of the position and the Compensation Committee’s approval of such award. The total number of Performance Award RSUs you will be granted is 60,000. The Performance Award will be eligible for vesting annually on the grant date anniversary according to the following schedule: 15% vest year 1, 20% vest year 2, 20% vest year 3, 20% vest year 4, and 25% vest year 5; according to whether the annual performance targets set by the Compensation Committee are met or exceeded for the applicable year. Your Performance Award shall be subject to the terms and conditions of the Equity Plan and the agreement under which such awards are granted.

If you are employed upon a Change of Control as defined in the Equity Plan, all unvested RSUs that are eligible to vest within the 24 months following the Change of Control shall automatically vest and any RSUs that are not eligible to vest within 24 months of the Change of Control shall be forfeited. For example, if a Change of Control occurs after your year 1 RSUs were eligible to vest, but before your year 2 RSUs were eligible to vest, then your year 2 and year 3 RSUs would vest automatically upon the Change of Control, and your years 4 and 5 RSUs would be forfeited. For additional example, if a Change of Control occurs after your year 3 RSUs were eligible to vest, but before your years 4 and 5 RSUs were eligible to vest, then your years 4 and 5 RSUs would automatically vest upon the Change of Control.

Initially, it was contemplated that you would receive one performance-based award of 30,000 RSUs upon accepting the role of EVP, Enterprise Applications and another performance-based award upon your assuming new responsibilities and/or titles (*e.g.*, Chief Transformation Officer). Given your willingness and commitment to assume additional responsibilities and/or titles within the next 12 to 24 months, what was originally contemplated as two staggered grants of 30,000 RSUs are being combined into a single grant of 60,000 RSUs. As such, the 60,000 performance-based shares include compensation for your assumption of additional responsibilities and/or titles over the course of the next five years.

3. Other Benefits. You will be entitled to receive the standard employee benefits made available by the Company to its employees to the full extent of your eligibility. During your employment, you shall be permitted, to the extent eligible, to participate in any group medical, dental, life insurance and disability insurance plans, or similar benefit plan of the Company that is available to employees generally. You shall also be eligible to participate in the Company's 401(k) plan. Participation in any such plans shall be consistent with your rate of compensation to the extent that compensation is a determinative factor with respect to coverage under any such plans. The Company shall reimburse you for all reasonable expenses actually incurred or paid by you in the performance of your services on behalf of the Company subject to the terms of and in accordance with the Company's expense reimbursement policy as from time to time in effect.
4. Restrictive Covenants. You agree that your employment, as described in this offer letter, is contingent upon your execution of, and delivery to the Company of the (i) Notice of Non-Compete, (ii) Non-Competition and Non-Solicitation Agreement and (iii) Trade Secret & Proprietary Information Agreement, each in the form attached hereto as Annex A (the "Restrictive Covenants"), which includes a trailing two-year restriction on competition and solicitation.
5. Conflicting Employment. You agree that, during your employment with the Company, in addition to the restrictions set forth in the Restrictive Covenants, you will not engage in any other employment, occupation, consulting or other business activity directly related to the business in which the Company is now involved or becomes involved during your employment, nor will you engage in any other activities that conflict with your obligations to the Company.
6. At-Will Employment. You acknowledge that your employment with the Company is for an unspecified duration that constitutes at-will employment, and that either you or the Company can terminate this relationship at any time, with or without cause and with or without notice.

7. General Provisions.

- (a) This offer letter and the terms of your employment will be governed by the laws of Tennessee without regard to any conflict of laws.
- (b) This offer letter sets forth the entire agreement and understanding between the Company and you relating to your employment and supersedes all prior verbal discussions between us.
- (c) This agreement will be binding upon your heirs, executors, administrators and other legal representatives and will be for the benefit of the Company and its respective successors and assigns.
- (d) All payments pursuant to this letter will be subject to applicable withholding taxes.
- (e) While your employment will be at-will, the Company's willingness to offer you the employment terms outlined herein is predicated on the understanding that you intend to commit to a minimum of five years of ongoing employment with the Company pursuant to the terms described in this offer letter.

Please acknowledge and confirm your acceptance of this letter by, signing and returning one copy of this offer letter in its entirety to me.

Sincerely,

/s/ Robert A. Frist, Jr. Date: 2/20/2023

Robert A. Frist, Jr.
Chief Executive Officer

OFFER ACCEPTANCE:

I accept the terms of my employment with HealthStream, Inc. as set forth herein and in any attached Annexes. I understand that this offer letter does not constitute a contract of employment for any specified period of time, and that either party, with or without cause and with or without notice, may terminate my employment relationship. I received this offer letter with notice of my pay rate and designated payday in English because I have represented to my employer that this is my primary language.

/s/ Michael Sousa Date: 2/20/2023

Michael Sousa

Annex A

- (i) Notice of Non-Compete;**
- (ii) Non-Competition and Non-Solicitation Agreement; and**
- (iii) Trade Secret & Proprietary Information Agreement**

[see attached]

NOTICE OF NON-COMPETITION AGREEMENT

Date: February 17, 2023

On February 20, 2023, you will start a new position with HealthStream, Inc. (the "Company"). The new position is Executive Vice President, Enterprise Applications. In order to begin your employment in the new position, you will be required to sign the following agreement:

NON-COMPETITION AND NON-SOLICITATION AGREEMENT

A copy of the Non-Competition and Non-Solicitation Agreement ("Non-Compete Agreement") is attached to this Notice. The Non-Compete Agreement will be effective on the date you begin the new position.

The Non-Compete Agreement contains a covenant not to compete that could restrict your options for subsequent employment. Specifically, Section 5 restricts your ability to work for a Competitive Business both during your employment and for one year thereafter, regardless of the reason for your termination from employment with the Company. "Competitive Business" is defined in Section 2.

The Non-Compete Agreement also contains provisions that restrict your ability to solicit customers and employees of the Company both during your employment and for one year thereafter, regardless of the reason for your termination from employment. The Non-Solicitation provisions are in Section 4.

By my signature below, I acknowledge that I received a copy of this Notice on February 20, 2023.

/s/ Michael Sousa 2/20/2023
Michael Sousa Date

NON-COMPETITION AND NON-SOLICITATION AGREEMENT

In order to protect the Trade Secrets of HealthStream and/or any of its corporate parents, subsidiaries, divisions, or affiliates, or the successors or assigns of any of the foregoing (hereinafter referred to as the "Company"), I hereby agree as follows:

1. Trade Secrets.

(a) Definition of Trade Secrets. A "Trade Secret" is the whole or any portion or phase of any scientific or technical information, design, process, procedure, formula, improvement, confidential business or financial information, listing of names, email or mail addresses, or telephone numbers, or other information relating to the business of the Company which is secret and of value.

(b) Protection of Trade Secrets. I acknowledge that I have signed a Trade Secret and Proprietary Information Agreement and I am bound to maintain the confidentiality of Trade Secrets. I also acknowledge that the Company takes additional measures to ensure that its Trade Secrets remain confidential and are not disclosed to third parties without authorization and assurance that the disclosure is limited.

(c) My Access to Trade Secrets. I understand and acknowledge that, during the course of my employment arrangement with the Company and particularly given the high level of my employment, I will be granted access to Trade Secrets.

2. Competitive Business; Restricted Period. I acknowledge that a business engaged in the same or similar business as the Company in the United States or in any country in which I am engaged in business on behalf of the Company shall be a Competitive Business. Thus, Competitive Business shall mean:

(i) one that offers learning, education, training, certification, credentialing, privileging, enrollment, scheduling, or shift management solutions to healthcare organizations or the healthcare workforce; and (ii) any enterprise engaged in any other type of business in which the Company or one of its affiliates is also engaged, or plans to be engaged, so long as I am directly involved in such business or planned business on behalf of the Company or one of its affiliates. I acknowledge that disclosure or use of Trade Secrets to a Competitive Business would be detrimental to the Company and would be difficult to avoid, if not inevitable, if I worked for a Competitive Business during the Restricted Period or solicited employees or customers of the Company on behalf of a Competitive Business during the Restricted Period. The one-year period following the termination of my employment is referred to as the "Restricted Period."

3. Unfair Competition. I acknowledge that the Company has a compelling business interest in preventing unfair competition stemming from the intentional or inadvertent use or disclosure of its Trade Secrets. I further acknowledge that at the time of signing this Agreement, I am a highly compensated employee of the Company with an annual base salary of \$375,000. Based on my compensation and my level of access to the Trade Secrets, the restrictive covenants in this Agreement are reasonable.

4. Non-Solicitation of Employees, Customers. In order to protect the Trade Secrets:

(a) during my employment with the Company and the Restricted Period, I will not, without the express written permission of HealthStream, directly or indirectly solicit, induce, hire, engage, or attempt to hire or engage any employee or independent contractor of the Company, or in any other way interfere with the Company's employment or contractual relations with any of its employees or independent contractors, nor will I solicit, induce, hire, engage or attempt to hire or engage any individual who was an employee of the Company at any time during the one year period immediately prior to the termination of my employment with the Company;

(b) during my employment with the Company and the Restricted Period, I will not, without the express written permission of HealthStream, directly or indirectly contact, call upon or solicit, on behalf of a Competitive Business, any existing or prospective client, or customer of the Company who I serviced, or otherwise developed a relationship with, as a result of my employment with the Company, nor will I attempt to divert or take away from the Company the business of any such client or customer.

5. Non-Competition. In order to protect the Trade Secrets, during my employment with the Company and the Restricted Period, I will not plan, organize, engage in, or be employed by, as a consultant, director, officer, employee, principal, agent, member, owner or partner of any Competitive Business.
6. Injunctive Remedies. I acknowledge and agree that the restrictions contained in this Agreement are reasonably necessary to protect the legitimate business interests of the Company, and that any violation of any of the restrictions will result in immediate and irreparable injury to the Company for which monetary damages will not be an adequate remedy. I further acknowledge and agree that if any such restriction is violated, the Company will be entitled to immediate relief enjoining such violation (including, without limitation, temporary and permanent injunctions, a decree for specific performance, and an equitable accounting of earnings, profits, and other benefits arising from such violation) in any court having jurisdiction over such claim, without the necessity of showing any actual damage or posting any bond or furnishing any other security, and that the specific enforcement of the provisions of this Agreement will not diminish my ability to earn a livelihood or create or impose upon me any undue hardship. I also agree that any request for such relief by the Company shall be in addition to, and without prejudice to, any claim for monetary damages that the Company may elect to assert.
7. Severability Provision. I acknowledge and agree that the restrictions imposed upon me by the terms, conditions, and provisions of this Agreement are fair, reasonable, and reasonably required for the protection of the Company. In the event that any part of this Agreement is deemed invalid, illegal, or unenforceable, all other terms, conditions, and provisions of this Agreement shall nevertheless remain in full force and effect. In the event that the provisions of this Agreement relating to the length of restriction or the scope of restriction shall be deemed to exceed the maximum area, length or scope that a court of competent jurisdiction would deem enforceable, said area, length or scope shall, for purposes of this Agreement, be deemed to be the maximum area, length of time or scope that such court would deem valid and enforceable, and that such court has the authority under this Agreement to rewrite (or "blue-pencil") the restriction(s) at-issue to achieve this intent.
8. Non-Waiver. Any waiver by the Company of my breach of any term, condition, or provision of this Agreement shall not operate or be construed as a waiver of the Company's rights upon any subsequent breach.
9. Waiver of Jury Trial. TO THE MAXIMUM EXTENT PERMITTED BY LAW, I HEREBY KNOWINGLY, VOLUNTARILY, AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN CONNECTION WITH ANY LITIGATION ARISING OUT OF, UNDER, IN CONNECTION WITH, OR IN ANY WAY RELATED TO THIS AGREEMENT. THIS INCLUDES, WITHOUT LIMITATION, ANY LITIGATION CONCERNING ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENT (WHETHER VERBAL OR WRITTEN), OR ACTION OF THE COMPANY OR ME, OR ANY EXERCISE BY THE COMPANY OR ME OF OUR RESPECTIVE RIGHTS UNDER THIS AGREEMENT OR IN ANY WAY RELATING TO THIS AGREEMENT. I FURTHER ACKNOWLEDGE THAT THIS WAIVER IS A MATERIAL INDUCEMENT FOR THE COMPANY TO ISSUE AND ACCEPT THIS AGREEMENT.

10. Continuation of Employment. This Agreement does not constitute a contract of employment or an implied promise to continue my employment or status with the Company; nor does this Agreement affect my rights or the rights of the Company to terminate my employment status at any time with or without cause.
11. Governing Law. This Agreement shall be construed in accordance with and governed for all purposes by the laws and public policy of Tennessee, without regard to principles of conflict of laws.

ACCEPTANCE:

/s/ Michael Sousa Date: 2/20/2023
Name

Name: /s/ Sneha Oakley Title: Vice President, General Counsel Date: 2/20/2023
Witnessed by (Company Representative)

TRADE SECRET AND PROPRIETARY INFORMATION AGREEMENT

In consideration of my employment by HealthStream and/or any of its corporate parents, subsidiaries, divisions, or affiliates, or the successors or assigns of any of the foregoing (hereinafter referred to as the "Company"), I hereby agree as follows:

1. Confidentiality

(a) Trade Secret and Proprietary Information. I understand and acknowledge that, during the course of my employment arrangement with the Company and as a result of my having executed this Trade Secret and Proprietary Information Agreement, I will be granted access to valuable information relating to the Company's business that provides the Company with a competitive advantage, which is not generally known by, nor easily learned or determined by, persons outside the Company (collectively Trade Secret and Proprietary Information). The term Trade Secret and Proprietary Information shall include, but shall not be limited to: (a) specifications, manuals, software in various stages of development; (b) customer and prospect lists, and details of agreements and communications with customers and prospects; (c) sales plans and projections, product pricing information, acquisition, expansion, marketing, financial and other business information and existing and future products and business plans of the Company; (d) sales proposals, demonstrations systems, sales material; (e) research and development; (f) computer programs; (g) sources of supply; (h) identity of specialized consultants and contractors and Trade Secret and Proprietary Information developed by them for the Company; (i) purchasing, operating and other cost data; (j) special customer needs, cost and pricing data; (k) patient information, including without limitation Protected Health Information as defined in 45 C.F.R. 164.501 and (l) employee information (including, but not limited to, personnel, payroll, compensation and benefit data and plans), including all such information recorded in manuals, memoranda, projections, reports, minutes, plans, drawings, sketches, designs, formula books, data, specifications, software programs and records, whether or not legended or otherwise identified by the Company as Trade Secret and Proprietary Information, as well as such information that is the subject of meetings and discussions and not recorded. Trade Secret and Proprietary Information shall not include such information that I can demonstrate (i) is generally available to the public (other than as a result of a disclosure by me), (ii) was disclosed to me by a third party under no obligation to keep such information confidential or (iii) was known by me prior to, and not as a result of, my employment or anticipated employment with the Company; provided, however, that, notwithstanding the preceding sentence, all information set forth in subsections (k) and (l) above shall always be treated as Trade Secret and Proprietary Information, and shall not be deemed in the public domain or nonconfidential under any circumstances.

(b) Duty of Confidentiality. I agree at all times, both during and after my employment with the Company, to hold all of the Company's Trade Secret and Proprietary Information in a fiduciary capacity for the benefit of the Company and to safeguard all such Trade Secret and Proprietary Information. I also agree that I will not directly or indirectly disclose or use any such Trade Secret and Proprietary Information to any third person or entity outside the Company, except as may be necessary in the good faith performance of my duties for the Company. I further agree that, in addition to enforcing this restriction, the Company may have other rights and remedies under the common law or applicable statutory laws relating to the protection of trade secrets. Notwithstanding anything in this Agreement to the contrary, I understand that I may disclose the Company's Trade Secret and Proprietary Information to the extent required by applicable laws or governmental regulations or judicial or regulatory process, provided that I give the Company prompt notice of any and all such requests for disclosure so that it has ample opportunity to take all necessary or desired action, to avoid disclosure.

(c) Intellectual Property and Inventions. I acknowledge that all developments and other intellectual property, including, without limitation, the creation of new products, conferences, training/seminars, publications, programs, methods of organizing information, inventions, discoveries, concepts, ideas, improvements, patents, trademarks, trade names, copyrights, trade secrets, designs, works, reports, computer software, flow charts, diagrams, procedures, data, documentation, and writings and any other intellectual property (collectively referred to as “Developments”) that I, alone or jointly with others, may discover, conceive, create, make, develop, reduce to practice, or acquire at any time during or in connection with my employment with the Company are the sole and exclusive property of the Company. I hereby assign to the Company all rights, titles, and interests in and to all such Developments, and all intellectual property related thereto. I agree to disclose to the Company promptly and fully all future Developments and, at any time upon request and at the expense of the Company, to execute, acknowledge, and deliver to the Company all instruments that the Company shall prepare, to give evidence, and to take any and all other actions that are necessary or desirable in the reasonable opinion of the Company to enable the Company to file and prosecute applications for, and to acquire, maintain, and enforce, all letters patent, trademark registrations, or copyrights covering the Developments in all countries in which the same are deemed necessary by the Company. All data, memoranda, notes, lists, drawings, records, files, investor and client/customer lists, supplier lists, and other documentation (and all copies thereof) made or compiled by me or made available to me concerning the Developments or otherwise concerning the past, present, or planned business of the Company are the property of the Company, and will be delivered to the Company immediately upon the termination of my employment with the Company.

2. Injunctive Remedies. I acknowledge and agree that the restrictions contained in this Agreement are reasonably necessary to protect the legitimate business interests of the Company, and that any violation of any of the restrictions will result in immediate and irreparable injury to the Company for which monetary damages will not be an adequate remedy. I further acknowledge and agree that if any such restriction is violated, the Company will be entitled to immediate relief enjoining such violation (including, without limitation, temporary and permanent injunctions, a decree for specific performance, and an equitable accounting of earnings, profits, and other benefits arising from such violation) in any court having jurisdiction over such claim, without the necessity of showing any actual damage or posting any bond or furnishing any other security, and that the specific enforcement of the provisions of this Agreement will not diminish my ability to earn a livelihood or create or impose upon me any undue hardship. I also agree that any request for such relief by the Company shall be in addition to, and without prejudice to, any claim for monetary damages that the Company may elect to assert.

3. Severability Provision. I acknowledge and agree that the restrictions imposed upon me by the terms, conditions, and provisions of this Agreement are fair, reasonable, and reasonably required for the protection of the Company. In the event that any part of this Agreement is deemed invalid, illegal, or unenforceable, all other terms, conditions, and provisions of this Agreement shall nevertheless remain in full force and effect. In the event that the provisions of any of Sections 1, 2, or 3 of this Agreement relating to the geographic area of restriction, the length of restriction or the scope of restriction shall be deemed to exceed the maximum area, length or scope that a court of competent jurisdiction would deem enforceable, said area, length or scope shall, for purposes of this Agreement, be deemed to be the maximum area, length of time or scope that such court would deem valid and enforceable, and that such court has the authority under this Agreement to rewrite (or “blue-pencil”) the restriction(s) at-issue to achieve this intent.

4. Non-Waiver. Any waiver by the Company of my breach of any term, condition, or provision of this Agreement shall not operate or be construed as a waiver of the Company's rights upon any subsequent breach.

5. Waiver of Jury Trial. TO THE MAXIMUM EXTENT PERMITTED BY LAW, I HEREBY KNOWINGLY, VOLUNTARILY, AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN CONNECTION WITH ANY LITIGATION ARISING OUT OF, UNDER, IN CONNECTION WITH, OR IN ANY WAY RELATED TO THIS AGREEMENT. THIS INCLUDES, WITHOUT LIMITATION, ANY LITIGATION CONCERNING ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENT (WHETHER VERBAL OR WRITTEN), OR ACTION OF THE COMPANY OR ME, OR ANY EXERCISE BY THE COMPANY OR ME OF OUR RESPECTIVE RIGHTS UNDER THIS AGREEMENT OR IN ANY WAY RELATING TO THIS AGREEMENT. I FURTHER ACKNOWLEDGE THAT THIS WAIVER IS A MATERIAL INDUCEMENT FOR THE COMPANY TO ISSUE AND ACCEPT THIS AGREEMENT.

6. Continuation of Employment. This Agreement does not constitute a contract of employment or an implied promise to continue my employment or status with the Company; nor does this Agreement affect my rights or the rights of the Company to terminate my employment status at any time with or without cause.

7. Governing Law. This Agreement shall be construed in accordance with and governed for all purposes by the laws and public policy of Tennessee, without regard to principles of conflict of laws.

TSPI ACCEPTANCE:

/s/ Michael Sousa Date: 2/20/2023
Name

Name: /s/ Sneha Oakley **Title:** Vice President, General Counsel **Date:** 2/20/2023
Witnessed by (Company Representative)

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

This RESTRICTED SHARE UNIT AGREEMENT (this “Agreement”) is made and entered into as of the 22nd day of March, 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:

Aggregate number of Restricted Share Units

Granted hereunder:

Grant Date: March 22, 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. 15% of the RSUs shall vest on the first anniversary of the Grant Date;
- ii. An additional 20% of the RSUs shall vest on the second anniversary of the Grant Date;
- iii. An additional 30% of the RSUs shall vest on the third anniversary of the Grant Date; and
- iv. The remaining 35% of the RSUs shall vest on the fourth 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 employment with the Company for any reason, and Grantee shall forfeit any unvested RSUs as of the date of such termination of employment.

2.5 Withholding Obligations. Prior to the settlement of any RSUs subject to this Award, Grantee shall provide (i) full payment (in cash or by check or by a combination thereof) to satisfy the Withholding Tax Obligation (as defined below) with respect to which the Award or portion thereof shall settle or (ii) subject to compliance with applicable Legal Requirements, indication that the Grantee elects to tender to the Company Shares owned by the Grantee (or by the Grantee and his or her spouse jointly) and purchased and held for the requisite period of time as may be required to avoid the Company’s incurring an adverse accounting charge, based on the Fair Market Value of such Shares on the payment date necessary to satisfy the Withholding Tax Obligation that would otherwise be required to be paid by the Grantee to the Company pursuant to clause (i) of this Section 2.5, or (iii) notwithstanding the foregoing and unless notice to the contrary is given to the Grantee by the Company, the number of Shares that would otherwise be issued to the Grantee upon settlement of the Award (or portion thereof) reduced by a number of Shares having an aggregate Fair Market Value, on the date of such issuance, equal to the payment to satisfy the Withholding Tax Obligation that would otherwise be required to be made by the Grantee to the Company pursuant to clause (i) of this Section 2.5. Any social security calculation or other adjustments discovered after the net Share payment described in clause (iii) of this Section 2.5 hereof will be settled in cash, not in Shares. For the avoidance of doubt, the Company may satisfy the Grantee’s withholding obligation from the Grantee’s other compensation which may be payable by the Company, including any withholding obligation which may not be satisfied through the procedures identified in this Section 2.5. For purposes hereof, the “Withholding Tax Obligation” means the minimum amount necessary to satisfy Federal, state, local or foreign withholding tax requirements, if any, in connection with vesting of the Award; provided, however, that, in the discretion of the Company, the Company may allow the Grantee to withhold an additional amount or additional number of Shares to satisfy an additional amount of withholding taxes up to the maximum individual statutory tax rate in the applicable jurisdiction, but only if such additional withholding, or the discretion to elect such additional withholding, does not result in adverse accounting treatment of this Award to the Company. Vesting of the Award (or portion thereof) will result in taxable compensation reportable on the Grantee’s W-2 in year of vesting.

3. No Right to Continued Service. Nothing in this Agreement or the Plan shall be interpreted or construed to confer upon the Grantee any right to continue service as an officer or employee of the Company.
4. Adjustments. The provisions of Section 4.2 and Section 14.3 of the Plan are hereby incorporated by reference, and the RSUs are subject to such provisions. Any determination made by the Committee pursuant to such provisions shall be made in accordance with the provisions of the Plan and shall be final and binding for all purposes of the Plan and this Agreement.
5. Administration Subject to the Plan. The Grantee hereby acknowledges receipt of a copy of (or an electric link to) the Plan and agrees to be bound by all the terms and provisions thereof. The terms of this Agreement are governed by the terms of the Plan, and in the case of any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan shall govern. The Committee shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee shall be final and binding upon the Grantee, the Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Award.
6. Modification of Agreement. Subject to the restrictions contained in the Plan and applicable law (including compliance with Section 409A of the Code), the Committee may waive any conditions or rights under, amend any terms of, or alter, suspend, discontinue, cancel or terminate, the RSU, prospectively or retroactively.
7. Section 409A. Notwithstanding anything herein to the contrary, to the maximum extent permitted by applicable law, the settlement of the RSUs to be made to the Grantee pursuant to this Agreement is intended to qualify as a "short-term deferral" pursuant to Section 1.409A-1(b) (4) of the Regulations and this Agreement shall be interpreted consistently therewith. However, in any circumstances where the settlement of the RSUs may not so qualify, the Committee shall administer the grant and settlement of such RSUs in strict compliance with Section 409A of the Code. Further, notwithstanding anything herein to the contrary, to the extent that this Award constitutes deferred compensation for purposes of Section 409A of the Code (i) no RSU payable upon the Grantee's termination of service shall be issued, unless Grantee's termination of service constitutes a "separation from service" within the meaning of Section 1.409A-1(h) of the Treasury Regulations and (ii) if at the time of a Grantee's termination of employment with the Company and all "service recipients" (as defined in the applicable provision of the Treasury Regulations), the Grantee is a "specified employee" as defined in Section 409A of the Code, and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of service is necessary in order to prevent the imposition of any accelerated or additional tax under Section 409A of the Code, then the Company will defer the commencement of the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided to the Grantee) to the minimum extent necessary to satisfy Section 409A of the Code until the date that is six months and one day following the Participant's termination of employment with the Company (or the earliest date as is permitted under Section 409A of the Code), if such payment or benefit is payable upon a termination of employment. Each payment of RSUs constitutes a "separate payment" for purposes of Section 409A of the Code. Notwithstanding any other provision of this Agreement or the Plan to the contrary, to the extent that this RSU Agreement constitutes deferred compensation for purposes of Section 409A of the Code, a "Change in Control" for purposes of this Agreement shall mean "change in the ownership of the Company," a "change in the effective control of the Company," or a "change in the ownership of a substantial portion of the Company's assets," as such terms are defined in Section 1.409A-3(i)(5) of the Treasury Regulations. 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 Employment. The grant of the RSU shall not be construed as giving the Grantee the right to be retained in the service of the Company, and the Company may at any time dismiss the Grantee from service, free from any liability or any claim under the Plan.
9. Severability. If any provision of this Agreement is, or becomes, or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any Person or the Award, or would disqualify the Plan or Award under any laws deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Person or Award, and the remainder of the Plan and Award shall remain in full force and effect.

10. Governing Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Tennessee without giving effect to the conflicts of law principles thereof, except to the extent that such laws are preempted by Federal law.
11. Successors in Interest. This Agreement shall inure to the benefit of and be binding upon any successor to the Company. This Agreement shall inure to the benefit of the Grantee's legal representatives. All obligations imposed upon the Grantee and all rights granted to the Company under this Agreement shall be binding upon the Grantee's heirs, executors, administrators and successors.
12. Resolution of Disputes. Any dispute or disagreement which may arise under, or as a result of, or in any way related to, the interpretation, construction or application of this Agreement shall be determined by the Committee. Any determination made hereunder shall be final, binding and conclusive on the Grantee and the Company for all purposes.
13. Notices. All notices required to be given under this Award shall be deemed to be received if delivered or mailed as provided for herein to the parties at the following addresses, or to such other address as either party may provide in writing from time to time.

To the Company: HealthStream, Inc.
500 11th 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:

Name

CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q of HealthStream, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 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: April 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 March 31, 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
April 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 March 31, 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
April 27, 2023