

HEALTHSTREAM INC
Form 10-Q
July 31, 2015
Table of Contents

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

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2015

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.)

209 10th Avenue South, Suite 450

Nashville, Tennessee
(Address of principal executive offices)

37203
(Zip Code)

(615) 301-3100

(Registrant's telephone number, including area code)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 27, 2015, there were 31,639,938 shares of the registrant's common stock outstanding.

Table of Contents

Index to Form 10-Q

HEALTHSTREAM, INC.

	Page Number
Part I. <u>Financial Information</u>	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets June 30, 2015 (Unaudited) and December 31, 2014</u>	1
<u>Condensed Consolidated Statements of Income (Unaudited) Three and Six Months ended June 30, 2015 and 2014</u>	2
<u>Condensed Consolidated Statements of Comprehensive Income (Unaudited) Three and Six Months ended June 30, 2015 and 2014</u>	3
<u>Condensed Consolidated Statement of Shareholders' Equity (Unaudited) Six Months ended June 30, 2015</u>	4
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) Six Months ended June 30, 2015 and 2014</u>	5
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	21
Item 4. <u>Controls and Procedures</u>	21
Part II. <u>Other Information</u>	
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	22
Item 6. <u>Exhibits</u>	22
<u>Signature</u>	23

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****HEALTHSTREAM, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands)**

	June 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 54,493	\$ 81,995
Marketable securities	85,408	38,973
Accounts receivable, net of allowance for doubtful accounts of \$301 and \$331 at June 30, 2015 and December 31, 2014, respectively	33,405	33,167
Accounts receivable unbilled	1,512	1,678
Prepaid royalties, net of amortization	15,607	13,030
Deferred tax assets	1,932	354
Other prepaid expenses and other current assets	6,511	5,414
Total current assets	198,868	174,611
Property and equipment:		
Equipment	29,051	25,133
Leasehold improvements	5,983	5,860
Furniture and fixtures	4,730	4,554
	39,764	35,547
Less accumulated depreciation and amortization	(28,482)	(26,105)
	11,282	9,442
Capitalized software development, net of accumulated amortization of \$20,752 and \$18,114 at June 30, 2015 and December 31, 2014, respectively	13,634	12,706
Goodwill	83,990	41,914
Intangible assets, net of accumulated amortization of \$16,226 and \$13,834 at June 30, 2015 and December 31, 2014, respectively	59,603	14,795
Non-marketable equity investments	2,756	1,757
Other assets	1,217	2,037
Total assets	\$ 371,350	\$ 257,262

LIABILITIES AND SHAREHOLDERS EQUITY

Current liabilities:

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Accounts payable	\$ 3,049	\$ 4,753
Accrued royalties	7,480	9,255
Accrued liabilities	9,658	7,224
Accrued compensation and related expenses	1,831	2,311
Deferred revenue	64,945	53,716
Total current liabilities	86,963	77,259
Deferred tax liabilities, noncurrent	5,654	5,838
Deferred revenue, noncurrent	4,232	3,657
Other long term liabilities	2,598	2,649
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value, 75,000 shares authorized; 31,640 and 27,677 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	274,816	174,926
Accumulated deficit	(2,835)	(7,030)
Accumulated other comprehensive loss	(78)	(37)
Total shareholders' equity	271,903	167,859
Total liabilities and shareholders' equity	\$ 371,350	\$ 257,262

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Three Months		Six Months Ended	
	Ended		June 30,	
	June 30,	June 30,	2015,	2014
	2015	2014	2015	2014
Revenues, net	\$ 52,145	\$ 42,476	\$ 99,301	\$ 80,825
Operating costs and expenses:				
Cost of revenues (excluding depreciation and amortization)	22,432	18,738	42,625	35,663
Product development	5,815	4,294	10,460	7,840
Sales and marketing	10,328	7,251	17,675	14,199
Other general and administrative expenses	6,750	5,361	13,678	10,592
Depreciation and amortization	4,256	2,722	7,509	5,123
Total operating costs and expenses	49,581	38,366	91,947	73,417
Income from operations	2,564	4,110	7,354	7,408
Other income (expense), net	(44)	23	(35)	68
Income before income tax provision	2,520	4,133	7,319	7,476
Income tax provision	1,047	1,769	3,124	3,165
Net income	\$ 1,473	\$ 2,364	\$ 4,195	\$ 4,311
Earnings per share:				
Basic	\$ 0.05	\$ 0.09	\$ 0.15	\$ 0.16
Diluted	\$ 0.05	\$ 0.08	\$ 0.15	\$ 0.15
Weighted average shares of common stock outstanding:				
Basic	29,234	27,567	28,469	27,510
Diluted	29,617	28,043	28,843	27,975

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Net income	\$ 1,473	\$ 2,364	\$ 4,195	\$ 4,311
Other comprehensive income, net of taxes:				
Unrealized gain (loss) on marketable securities	(62)	14	(41)	22
Total other comprehensive income (loss)	(62)	14	(41)	22
Comprehensive income	\$ 1,411	\$ 2,378	\$ 4,154	\$ 4,333

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents**HEALTHSTREAM, INC.****CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY (UNAUDITED)****SIX MONTHS ENDED JUNE 30, 2015****(In thousands)**

	Common Stock		Accumulated	Other	Total
	Shares	Amount	Deficit	Loss	Shareholders
					Equity
Balance at December 31, 2014	27,677	\$ 174,926	\$ (7,030)	\$ (37)	\$ 167,859
Net income			4,195		4,195
Comprehensive loss				(41)	(41)
Issuance of common stock	3,870	98,014			98,014
Stock based compensation		2,347			2,347
Stock donated to Company	(54)				
Common stock issued under stock plans, net of shares withheld for employee taxes	147	(471)			(471)
Balance at June 30, 2015	31,640	\$ 274,816	\$ (2,835)	\$ (78)	\$ 271,903

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2015	2014
OPERATING ACTIVITIES:		
Net income	\$ 4,195	\$ 4,311
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,509	5,123
Deferred income taxes	823	3,165
Stock based compensation expense	2,347	834
Provision for doubtful accounts	119	70
Other	386	752
Changes in operating assets and liabilities:		
Accounts and unbilled receivables	3,055	(3,558)
Prepaid royalties	(2,578)	(3,841)
Other prepaid expenses and other current assets	(424)	(705)
Other assets	820	53
Accounts payable	(1,703)	(992)
Accrued royalties	(1,776)	2,721
Accrued liabilities and accrued compensation and related expenses and other long-term liabilities	645	(520)
Deferred revenue	5,713	14,689
Net cash provided by operating activities	19,131	22,102
INVESTING ACTIVITIES:		
Business combinations, net of cash acquired	(88,075)	(12,501)
Proceeds from maturities of marketable securities	29,915	29,098
Purchases of marketable securities	(76,768)	(32,046)
Payments to acquire equity method investments	(1,000)	(265)
Payments associated with capitalized software development	(3,566)	(2,689)
Purchases of property and equipment	(4,054)	(2,423)
Net cash used in investing activities	(143,548)	(20,826)
FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	98,014	
Proceeds from exercise of stock options	277	462
Proceeds from borrowings under revolving line of credit facility	28,000	
Repayments under revolving line of credit facility	(28,000)	
Payment of earn-outs related to business combinations	(628)	(261)

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Taxes paid related to net settlement of equity awards	(748)	(152)
Net cash provided by financing activities	96,915	49
Net (decrease) increase in cash and cash equivalents	(27,502)	1,325
Cash and cash equivalents at beginning of period	81,995	59,537
Cash and cash equivalents at end of period	\$ 54,493	\$ 60,862
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of common stock in connection with business combination	\$	\$ 2,246

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

HEALTHSTREAM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. 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 significant intercompany transactions have been eliminated in consolidation. Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

The balance sheet at December 31, 2014 is consistent with the audited 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 footnotes thereto for the year ended December 31, 2014 included in the Company's Annual Report on Form 10-K (the Form 10-K), filed with the Securities and Exchange Commission on February 27, 2015, and our Current Report on Form 8-K filed on May 18, 2015 (the Form 8-K) to retrospectively reflect for the periods included in the Form 10-K the addition of HealthStream Provider Solutions as a new reporting segment of the Company which occurred during the first quarter of 2015. The Form 8-K did not modify our previously reported financial statements for the periods included in the Form 10-K other than the change in business segment presentation.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific revenue recognition guidance throughout the Industry Topics of the Accounting Standards Codification. The updated guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also provides for additional disclosures with respect to revenues and cash flows arising from contracts with customers. The standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2017, and early adoption is permitted for the first interim period within annual reporting periods beginning after December 15, 2016. The Company is currently reviewing this standard to assess the impact on its future consolidated financial statements.

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.