

HEALTHSTREAM INC
Form 10-Q
November 02, 2016
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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 September 30, 2016
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 November 2, 2016, there were 31,739,741 shares of the registrant's common stock outstanding.

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

	September 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 39,820	\$ 82,010
Marketable securities	60,747	66,976
Accounts receivable, net of allowance for doubtful accounts of \$603 and \$303 at September 30, 2016 and December 31, 2015, respectively	46,166	36,348
Accounts receivable unbilled	2,296	1,998
Prepaid royalties, net of amortization	16,466	14,036
Other prepaid expenses and other current assets	7,584	8,169
Total current assets	173,079	209,537
Property and equipment, net	10,403	12,471
Capitalized software development, net of accumulated amortization of \$29,717 and \$24,130 at September 30, 2016 and December 31, 2015, respectively	15,749	13,955
Goodwill	109,796	83,073
Intangible assets, net of accumulated amortization of \$14,038 and \$8,685 at September 30, 2016 and December 31, 2015, respectively	80,771	55,966
Non-marketable equity investments	3,289	3,640
Other assets	964	927
Total assets	\$ 394,051	\$ 379,569
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 3,675	\$ 4,616
Accrued royalties	13,885	9,053
Accrued liabilities	10,623	7,003
Accrued compensation and related expenses	2,028	3,308
Deferred revenue	65,029	65,098
Total current liabilities	95,240	89,078

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Deferred tax liabilities	4,909	4,763
Deferred revenue, noncurrent	6,735	4,350
Other long term liabilities	778	1,058
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value, 75,000 shares authorized; 31,739 and 31,647 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	280,759	278,799
Retained earnings	5,657	1,591
Accumulated other comprehensive loss	(27)	(70)
Total shareholders' equity	286,389	280,320
Total liabilities and shareholders' equity	\$ 394,051	\$ 379,569

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 Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues, net	\$ 58,367	\$ 53,835	\$ 167,237	\$ 153,136
Operating costs and expenses:				
Cost of revenues (excluding depreciation and amortization)	24,889	23,126	70,410	65,752
Product development	7,261	6,195	21,524	16,654
Sales and marketing	10,285	8,377	27,843	26,052
Other general and administrative expenses	8,891	7,173	25,396	20,851
Depreciation and amortization	5,755	4,639	15,976	12,148
Total operating costs and expenses	57,081	49,510	161,149	141,457
Operating income	1,286	4,325	6,088	11,679
Other income (expense), net	337	28	465	(7)
Income before income tax provision	1,623	4,353	6,553	11,672
Income tax provision	461	1,739	2,487	4,862
Net income	\$ 1,162	\$ 2,614	\$ 4,066	\$ 6,810
Earnings per share:				
Basic	\$ 0.04	\$ 0.08	\$ 0.13	\$ 0.23
Diluted	\$ 0.04	\$ 0.08	\$ 0.13	\$ 0.23
Weighted average shares of common stock outstanding:				
Basic	31,739	31,643	31,714	29,527
Diluted	32,107	32,029	32,050	29,905

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		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net income	\$ 1,162	\$ 2,614	\$ 4,066	\$ 6,810
Other comprehensive income, net of taxes:				
Unrealized gain (loss) on marketable securities	(13)	31	43	(10)
Total other comprehensive income (loss)	(13)	31	43	(10)
Comprehensive income	\$ 1,149	\$ 2,645	\$ 4,109	\$ 6,800

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents**HEALTHSTREAM, INC.****CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY (UNAUDITED)****NINE MONTHS ENDED SEPTEMBER 30, 2016****(In thousands)**

	Common Stock		Retained	Accumulated Other Comprehensive	Total
	Shares	Amount	Earnings	Loss	Shareholders Equity
Balance at December 31, 2015	31,647	\$ 278,799	\$ 1,591	\$ (70)	\$ 280,320
Net income			4,066		4,066
Comprehensive income (loss)				43	43
Stock based compensation		1,516			1,516
Tax benefits from equity awards		661			661
Common stock issued under stock plans, net of shares withheld for employee taxes	92	(217)			(217)
Balance at September 30, 2016	31,739	\$ 280,759	\$ 5,657	\$ (27)	\$ 286,389

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2016	2015
OPERATING ACTIVITIES:		
Net income	\$ 4,066	\$ 6,810
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,976	12,148
Deferred income taxes	791	123
Stock based compensation expense	1,516	2,787
Excess tax benefits from equity awards	(661)	(3,721)
Provision for doubtful accounts	340	184
(Gain) loss on non-marketable equity investments	(134)	98
Other	846	938
Changes in operating assets and liabilities:		
Accounts and unbilled receivables	(6,855)	2,649
Prepaid royalties	(2,291)	(946)
Other prepaid expenses and other current assets	(326)	(595)
Other assets	(36)	288
Accounts payable	(454)	(2,501)
Accrued royalties	4,415	(1,251)
Accrued liabilities and accrued compensation and related expenses and other long-term liabilities	(444)	3,082
Deferred revenue	(1,766)	5,426
Net cash provided by operating activities	14,983	25,519
INVESTING ACTIVITIES:		
Business combinations, net of cash acquired	(53,078)	(88,075)
Proceeds from maturities of marketable securities	88,197	38,440
Purchases of marketable securities	(82,771)	(77,774)
Payments to acquire equity method investments		(1,000)
Payments to acquire cost method investments		(1,000)
Proceeds from sale of long lived assets	975	
Payments associated with capitalized software development	(7,070)	(5,329)
Purchases of property and equipment	(3,870)	(6,012)
Net cash used in investing activities	(57,617)	(140,750)
FINANCING ACTIVITIES:		
Proceeds from issuance of common stock		98,014

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Proceeds from exercise of stock options	94	328
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		(633)
Excess tax benefits from equity awards	661	3,721
Taxes paid related to net settlement of equity awards	(311)	(753)
Net cash provided by financing activities	444	100,677