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HEALTHSTREAM INC

FORM 10-Q
(Quarterly Report)

Filed 08/01/11 for the Period Ending 06/30/11

Address	209 10TH AVE SOUTH STE 450 NASHVILLE, TN 37203
Telephone	6153013100
CIK	0001095565
Symbol	HSTM
SIC Code	7370 - Computer Programming, Data Processing, And
Industry	Computer Services
Sector	Technology
Fiscal Year	12/31

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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 June 30, 2011

Commission File No.: 000-27701

HealthStream, Inc.

(Exact name of registrant as specified in its charter)

Tennessee	**62-1443555**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
209 10th Avenue South, Suite 450 **Nashville, Tennessee**	**37203**
(Address of principal executive offices)	(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 ☐ Smaller reporting company ☑
(Do not check if a 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 28, 2011, 22,118,685 shares of the registrant's common stock were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements*

HEALTHSTREAM, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 24,447,300	$ 17,867,860
Investments in short-term marketable securities	2,011,564	5,703,192
Restricted cash	1,380	84,528
Interest receivable	48,870	51,226
Accounts receivable, net of allowance for doubtful accounts of $146,686 and $156,723 at June 30, 2011 and December 31, 2010, respectively	12,594,657	11,069,108
Accounts receivable — unbilled	1,202,532	1,314,025
Deferred tax assets, current	3,436,671	3,436,671
Prepaid royalties, net of amortization	2,059,751	3,145,297
Other prepaid expenses and other current assets	1,799,378	1,598,874
Total current assets	47,602,103	44,270,781
Property and equipment:		
Equipment	14,958,043	14,347,683
Leasehold improvements	3,713,470	2,737,715
Furniture and fixtures	2,096,734	2,027,535
	20,768,247	19,112,933
Less accumulated depreciation and amortization	(15,857,115)	(15,287,579)
	4,911,132	3,825,354
Capitalized software development, net of accumulated amortization of $6,995,727 and $5,886,594 at June 30, 2011 and December 31, 2010, respectively	7,843,957	4,332,705
Goodwill	21,146,864	21,146,864
Intangible assets, net of accumulated amortization of $8,494,185 and $8,043,328 at June 30, 2011 and December 31, 2010, respectively	2,392,957	2,843,814
Deferred tax assets, noncurrent	3,274,474	5,346,536
Other assets	137,401	244,649
Total assets	$ 87,308,888	$ 82,010,703
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 727,628	$ 2,374,621
Accrued liabilities	3,879,348	4,120,786
Accrued compensation and related expenses	1,225,007	1,506,245
Deferred revenue	19,913,709	16,740,454
Capital lease obligations	2,210	4,362
Total current liabilities	25,747,902	24,746,468
Other long-term liabilities	476,779	473,897
Commitments and contingencies	—	—
Shareholders' equity:		
Common stock, no par value, 75,000,000 shares authorized; 22,061,685 and 21,805,235 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively	98,160,825	97,227,198
Accumulated deficit	(37,075,264)	(40,431,443)
Accumulated other comprehensive loss	(1,354)	(5,417)
Total shareholders' equity	61,084,207	56,790,338
Total liabilities and shareholders' equity	$ 87,308,888	$ 82,010,703

See accompanying notes to the condensed consolidated financial statements.

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

	Three Months Ended June 30, 2011	2010
Revenues, net	$21,050,859	$16,660,469
Operating costs and expenses:		
Cost of revenues (excluding depreciation and amortization)	7,638,306	5,906,377
Product development	1,911,233	1,722,929
Sales and marketing	4,356,488	3,049,817
Other general and administrative expenses	2,684,318	2,398,065
Depreciation and amortization	1,354,683	1,235,918
Total operating costs and expenses	17,945,028	14,313,106
Income from operations	3,105,831	2,347,363
Other income (expense):		
Interest and other income	8,638	5,784
Interest and other expense	(12,796)	(10,101)
Total other expense, net	(4,158)	(4,317)
Income before income tax provision	3,101,673	2,343,046
Income tax provision	1,271,251	995,337
Net income	$ 1,830,422	$ 1,347,709
Net income per share:		
Basic	$ 0.08	$ 0.06
Diluted	$ 0.08	$ 0.06
Weighted average shares of common stock outstanding:		
Basic	22,001,911	21,795,558
Diluted	23,350,247	22,432,931

See accompanying notes to the condensed consolidated financial statements.

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

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Revenues, net	$39,556,594	$31,497,721
Operating costs and expenses:		
Cost of revenues (excluding depreciation and amortization)	14,708,094	11,368,360
Product development	3,697,481	3,249,094
Sales and marketing	7,864,132	6,010,686
Other general and administrative expenses	5,226,489	4,483,934
Depreciation and amortization	2,397,557	2,626,260
Total operating costs and expenses	33,893,753	27,738,334
Income from operations	5,662,841	3,759,387
Other income (expense):		
Interest and other income	38,165	8,499
Interest and other expense	(22,165)	(21,317)
Total other income (expense), net	16,000	(12,818)
Income before income tax provision	5,678,841	3,746,569
Income tax provision	2,322,662	1,591,996
Net income	$ 3,356,179	$ 2,154,573
Net income per share:		
Basic	$ 0.15	$ 0.10
Diluted	$ 0.14	$ 0.10
Weighted average shares of common stock outstanding:		
Basic	21,919,622	21,735,661
Diluted	23,159,827	22,281,538

See accompanying notes to the condensed consolidated financial statements.

HEALTHSTREAM, INC.
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 2011

	Common Stock		Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount			
Balance at December 31, 2010	21,805,235	$97,227,198	$(40,431,443)	$ (5,417)	$56,790,338
Net income	—	—	3,356,179	—	3,356,179
Unrealized gain on investments in marketable securities	—	—	—	4,063	4,063
Stock based compensation expense	—	373,829	—	—	373,829
Exercise of stock options	256,450	559,798	—	—	559,798
Balance at June 30, 2011	22,061,685	$98,160,825	$(37,075,264)	$ (1,354)	$61,084,207

See accompanying notes to the condensed consolidated financial statements.

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

	Six Months Ended June 30, 2011	2010
OPERATING ACTIVITIES:		
Net income	$ 3,356,179	$ 2,154,573
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,397,557	2,626,260
Stock based compensation expense	373,829	332,550
Deferred income taxes	2,072,062	1,591,996
Provision for doubtful accounts	20,000	—
Changes in operating assets and liabilities:		
Accounts and unbilled receivables	(1,434,056)	(366,881)
Restricted cash	83,148	29,281
Prepaid royalties	1,085,546	610,328
Other prepaid expenses and other current assets	(313,631)	(480,018)
Other assets	179,878	93,740
Accounts payable	(1,646,993)	(1,012,814)
Accrued liabilities and accrued compensation and related expenses and other long-term liabilities	(519,794)	(874,796)
Deferred revenue	3,173,255	3,189,759
Net cash provided by operating activities	8,826,980	7,893,978
INVESTING ACTIVITIES:		
Proceeds from maturities of investments in marketable securities	8,350,868	—
Purchases of investments in marketable securities	(4,727,704)	—
Payments associated with capitalized software development	(4,620,385)	(1,021,710)
Purchases of property and equipment	(1,807,965)	(509,947)
Net cash used in investing activities	(2,805,186)	(1,531,657)
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	559,798	435,050
Payments on note payable	—	(306,942)
Payments on capital lease obligations	(2,152)	(5,837)
Net cash provided by financing activities	557,646	122,271
Net increase in cash and cash equivalents	6,579,440	6,484,592
Cash and cash equivalents at beginning of period	17,867,860	12,287,059
Cash and cash equivalents at end of period	$24,447,300	$18,771,651

See accompanying notes to the condensed consolidated financial statements.

HEALTHSTREAM, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

The balance sheet at December 31, 2010 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, 2010 (included in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 23, 2011).

2. 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.

During the six months ended June 30, 2011 and 2010, the Company recorded a provision for income taxes of $2,322,662 and $1,591,996, respectively. The Company's effective tax rate for the six months ended June 30, 2011 and 2010 was 41.0% and 42.5%, respectively. The Company's effective tax rate primarily reflects the statutory corporate income tax rate, the net effect of state taxes, and the effect of various immaterial permanent tax differences.

3. STOCK BASED COMPENSATION

The Company maintains two stock incentive plans. The Company accounts for its stock based compensation plans using the fair-value based method for costs related to share-based payments, including stock options. During the six months ended June 30, 2011, the Company granted 354,750 stock options with a weighted average grant date fair value of $4.66. During the six months ended June 30, 2010, the Company granted 319,000 stock options with a weighted average grant date fair value of $2.07. The fair value of stock based awards granted during the six months ended June 30, 2011 and 2010 was estimated using the Black Scholes option pricing model, with the assumptions as follows:

	Six Months Ended June 30,	
	2011	2010
Risk-free interest rate	2.37 - 2.39%	2.39 - 2.49%
Expected dividend yield	0.0%	0.0%
Expected life	5 - 7 years	5 - 7 years
Expected forfeiture rate	0-5%	0-10%
Volatility	50%	55%

Total stock based compensation expense recorded for the three and six months ended June 30, 2011 and 2010, which is recorded in the condensed consolidated statements of income, is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Cost of revenues (excluding depreciation and amortization)	$ 8,744	$ 9,634	$ 19,910	$ 18,768
Product development	36,783	31,865	76,346	63,952
Sales and marketing	34,261	42,274	82,197	86,052
Other general and administrative	104,247	85,997	195,376	163,778
Total stock based compensation expense	$184,035	$169,770	$373,829	$332,550

HEALTHSTREAM, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. NET INCOME PER SHARE

Basic net income 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 net income per share is computed by dividing the net income for the period by the weighted average number of common and common equivalent shares outstanding during the period. Common equivalent shares, composed of incremental common shares issuable upon the exercise of stock options and warrants, escrowed or restricted shares, and shares subject to vesting are included in diluted net income per share only to the extent these shares are dilutive. Common equivalent shares are dilutive when the average market price during the period exceeds the exercise price of the underlying shares. The total number of common equivalent shares excluded from the calculations of diluted net income per share, due to their anti-dilutive effect, was approximately 0.4 million for both the three and six months ended June 30, 2011, and approximately 0.4 million and 0.6 million for the three and six months ended June 30, 2010, respectively.

The following table sets forth the computation of basic and diluted net income per share for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Numerator:				
Net income	$ 1,830,422	$ 1,347,709	$ 3,356,179	$ 2,154,573
Denominator:				
Weighted average shares outstanding:				
Basic	22,001,911	21,795,558	21,919,622	21,735,661
Employee stock options	1,348,336	637,373	1,240,205	545,877
Diluted	23,350,247	22,432,931	23,159,827	22,281,538
Net income per share:				
Basic	$ 0.08	$ 0.06	$ 0.15	$ 0.10
Diluted	$ 0.08	$ 0.06	$ 0.14	$ 0.10

5. COLLABORATIVE ARRANGEMENT

On June 23, 2010, the Company announced the formation of SimVentures, a collaborative arrangement between HealthStream and Laerdal Medical Corporation (Laerdal Medical). The Company receives 50 percent of the profits or losses generated from the collaborative arrangement. A legal entity was not formed as part of the collaborative arrangement; therefore, the Company accounts for SimVentures as a collaborative arrangement in accordance with applicable accounting guidance. During the first quarter of 2011, the Company acquired fifty percent ownership in Laerdal Medical's Advanced Video System (AVS) product for $3.5 million in cash. AVS is a product that enables users of advanced patient simulators to easily capture video, audio, data logs, and "patient" responses. The AVS product is now jointly owned through SimVentures. During the second quarter of 2011, SimVentures launched SimStore™, one of the components of SimCenter™ that offers healthcare providers an opportunity to sample and purchase simulation scenarios to use in their simulation training activities. During the six months ended June 30, 2011, the Company recorded approximately $148,000 of revenues and $498,000 of expenses related to the collaborative arrangement. The expenses are primarily recorded in the product development, sales and marketing and depreciation and amortization categories within the condensed consolidated statements of income. The Company also recorded approximately $3.9 million of capitalized software development for SimVentures during 2011, comprised of the $3.5 million paid for the AVS product and $392,000 associated with SimStore ™ .

6. BUSINESS SEGMENTS

The Company primarily provides services to healthcare organizations, and to a lesser extent, to pharmaceutical and medical device companies and other members within the healthcare industry. The Company's services are primarily focused on the delivery of education and training products and services (HealthStream Learning), as well as survey and research services (HealthStream Research). The accounting policies of the segments are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

HEALTHSTREAM, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. BUSINESS SEGMENTS (continued)

The Company measures segment performance based on operating income before income taxes and prior to the allocation of certain corporate overhead expenses, interest income, interest expense, and depreciation. The following is the Company's business segment information as of and for the three and six months ended June 30, 2011 and 2010.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues				
HealthStream Learning	$14,455,535	$11,239,362	$27,442,483	$21,542,266
HealthStream Research	6,595,324	5,421,107	12,114,111	9,955,455
Total net revenue	$21,050,859	$16,660,469	$39,556,594	$31,497,721
Income from operations				
HealthStream Learning	$ 4,209,044	$ 3,947,747	$ 8,475,578	$ 7,168,092
HealthStream Research	1,145,505	465,853	1,472,519	625,424
Unallocated	(2,248,718)	(2,066,237)	(4,285,256)	(4,034,129)
Total income from operations	$ 3,105,831	$ 2,347,363	$ 5,662,841	$ 3,759,387

	June 30, 2011	December 31, 2010
Segment assets *		
HealthStream Learning	$23,200,454	$ 18,730,859
HealthStream Research	25,669,354	26,701,566
Unallocated	38,439,080	36,578,278
Total assets	$87,308,888	$ 82,010,703

* Segment assets include restricted cash, accounts and unbilled receivables, prepaid and other current assets, other assets, capitalized software development, certain property and equipment, and intangible assets. Cash and cash equivalents and investments in marketable securities are not allocated to individual segments, and are included within Unallocated. A significant portion of property and equipment assets are included within Unallocated.

7. INVESTMENTS IN MARKETABLE SECURITIES

At June 30, 2011, the fair value of investments in marketable securities, which were all classified as current and available-for-sale, included the following:

	Amortized Cost	Unrealized Losses	Fair Value
Corporate debt securities	$ 2,012,918	$ (1,354)	$2,011,564

The above debt securities at June 30, 2011 mature within one year.

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2011 were as follows:

	Level 1	Level 2	Level 3
Investments in marketable securities	$2,011,564	$ —	$ —

The Company's investments in marketable securities consist of Corporate debt securities classified as available for sale. The carrying amounts reported in the condensed consolidated balance sheets equal the fair value of the Company's investments in marketable securities based on quoted market prices.

At June 30, 2011 and 2010, the Company did not have any financial liabilities that were subject to fair value measurements.

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, 2010, appearing in our Annual Report on Form 10-K that was filed with the Securities and Exchange Commission ("SEC") on March 23, 2011 (the "2010 Form 10-K"). Statements contained in this Quarterly Report on Form 10-Q that are not historical fact 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 and the information set forth under the caption "Item 1A. Risk Factors" in our 2010 Form 10-K and the information regarding forward-looking statements in our earnings releases, as well as other cautionary statements contained elsewhere in this report, including the matters discussed in "Critical Accounting Policies and Estimates." We undertake no obligation beyond that required by law to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future. 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 expect.

Overview

We provide our services to healthcare organizations, pharmaceutical and medical device companies, and other participants within the healthcare industry. Our services are primarily focused on the delivery of education and training products and services (HealthStream Learning), as well as survey and research services (HealthStream Research). HealthStream Learning products and services include our Internet-based HealthStream Learning Center ® (HLC), authoring tools, courseware subscriptions, implementation and consulting services, content development, online sales training courses (RepDirect™), HospitalDirect ® and other products focused on education and training to serve professionals that work within healthcare organizations. HealthStream Research provides a wide range of quality and satisfaction surveys, data analyses of survey results, and other research-based measurement tools focused on patients, employees, physicians, and members of the community. Our learning solutions help healthcare organizations improve their required regulatory training, while also offering an opportunity to train their employees in multiple clinical areas. Our research products provide customers valuable insight into measuring quality and satisfaction of patients, employees, physicians, and members of the community.

Key financial and operational indicators for the second quarter of 2011 include:

- Revenues of $21.1 million in the second quarter of 2011, up 26% over the second quarter of 2010
- Operating income of $3.1 million in the second quarter of 2011, up 32% over the second quarter of 2010
- Net income of $1.8 million, up 36% from net income of $1.3 million in the second quarter of 2010, and earnings per share (EPS) of $0.08 per share in the second quarter of 2011, up 30% from EPS of $0.06 per share in the second quarter of 2010
- Adjusted EBITDA of $4.6 million in the second quarter of 2011, up 24% from $3.8 million in the second quarter of 2010

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (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. 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
- Product development costs and related capitalization
- Goodwill, intangibles, and other long-lived assets
- Allowance for doubtful accounts
- Accrual for service credits
- Stock based compensation
- Nonmonetary exchange of content rights and deferred service credits

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 in which management's judgment in selecting among available alternatives would not produce a materially different result. See Notes to Consolidated Financial Statements in our 2010 Form 10-K, which contains 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 2010 Form 10-K.

Revenues and Expense Components

The following descriptions of the components of revenues and expenses apply to the comparison of results of operations.

Revenues, net. Revenues for our HealthStream Learning business segment primarily consist of the following products and services: provision of services through our Internet-based HLC, authoring tools, a variety of courseware subscriptions, implementation and consulting services, maintenance of third party content, content development, online sales training courses (RepDirect™), HospitalDirect ®, and a variety of other educational activities for physicians, nurses and other professionals within healthcare organizations. Revenues for our HealthStream Research business segment consist of quality and satisfaction surveys, data analyses of survey results, and other research-based measurement tools focused on patients, employees, physicians, and other members of the community.

Cost of Revenues (excluding depreciation and amortization). Cost of revenues (excluding depreciation and amortization) consists primarily of salaries and employee benefits, stock based compensation, employee travel and lodging, materials, outsourced phone survey support, contract labor, hosting costs, and other direct expenses associated with revenues, as well as royalties paid by us to content providers based on a percentage of revenues. Personnel costs within cost of revenues are associated with individuals that facilitate product delivery, provide services, conduct, process and manage phone and paper-based surveys, handle customer support calls or inquiries, manage the technology infrastructure for our hosted applications, manage content and survey services, coordinate content maintenance services, and provide training or implementation services.

Product Development. Product development consists primarily of salaries and employee benefits, contract labor, stock based compensation, content acquisition costs before technological feasibility is achieved, costs associated with the development of content and expenditures associated with maintaining, developing and operating our training, delivery and administration platforms. In addition, product development expenses are associated with the development of new software feature enhancements and new products. Personnel costs within product development include our systems, application development, and quality assurance teams, product managers, and other personnel associated with content and product development.

Sales and Marketing. Sales and marketing consists primarily of salaries, commissions and employee benefits, stock based compensation, employee travel and lodging, advertising, trade shows, promotions, and related marketing costs. We host a national customer conference in Nashville known as "The Summit," a portion of the costs of which are included in sales and marketing expenses. Personnel costs within sales and marketing include our HealthStream Learning and HealthStream Research sales teams, strategic account management, consultants, and marketing personnel, as well as our account management group.

Other General and Administrative Expenses. Other general and administrative expenses consist primarily of salaries and employee benefits, stock based compensation, employee travel and lodging, facility costs, office expenses, fees for professional services, and other operational expenses. Personnel costs within general and administrative expenses include individuals associated with normal corporate functions (accounting, legal, human resources, administrative, internal information systems, and executive management) as well as personnel who maintain our accreditation status with various organizations.

Depreciation and Amortization. Depreciation and amortization consist of fixed asset depreciation, amortization of intangibles considered to have definite lives, amortization of content development fees, and amortization of capitalized software development.

Other Income (Expense). The primary component of other income is interest income related to interest earned on cash, cash equivalents and investments in marketable securities. The primary component of other expense is interest expense related to capital leases and our revolving credit facility.

Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010

Revenues, net. Revenues increased approximately $4.4 million, or 26.4%, to $21.1 million for the three months ended June 30, 2011 from $16.7 million for the three months ended June 30, 2010. Revenues for 2011 consisted of $14.5 million, or 69% of total revenue, for HealthStream Learning and $6.6 million, or 31% of total revenue, for HealthStream Research. In 2010, revenues consisted of $11.2 million, or 68% of total revenue, for HealthStream Learning and $5.4 million, or 32% of total revenue, for HealthStream Research.

Revenues for HealthStream Learning increased $3.2 million, or 28.6%, over the second quarter of 2010. Revenues from our Internet-based subscription learning products increased by $3.0 million over the prior year second quarter, and were comprised of revenue increases from the HLC of $1.0 million and from courseware subscriptions of $1.9 million. Revenues from our Internet-based subscription products increased 28.9% over the prior year second quarter due to a higher number of subscribers and more courseware consumption by subscribers. Our HLC subscriber base increased to 2,486,000 fully-implemented subscribers and 2,586,000 contracted subscribers at June 30, 2011 compared to 2,113,000 fully-implemented subscribers and 2,258,000 contracted subscribers at June 30, 2010. “Contracted subscribers” include both those already implemented (2,486,000 and 2,113,000 at June 30, 2011 and 2010, respectively) and those in the process of implementation (100,000 and 145,000 at June 30, 2011 and 2010, respectively). Revenues from our collaborative arrangement with Laerdal Medical Corporation were approximately $148,000 during the second quarter of 2011. Revenues for the second quarter of 2011 also include approximately $305,000 of participant registration fees from the Summit.

Revenues for HealthStream Research increased $1.2 million, or 21.7%, over the second quarter of 2010. Revenues from Patient Insights™ surveys, our survey research product that generates recurring revenues, increased by $874,000, or 24.6%, over the prior year second quarter. Revenues from other surveys, which are conducted on annual or bi-annual cycles, increased by $300,000, or 16.1%, over the prior year second quarter.

Cost of Revenues (excluding depreciation and amortization). Cost of revenues increased approximately $1.7 million, or 29.3%, to $7.6 million for the three months ended June 30, 2011 from $5.9 million for the three months ended June 30, 2010. Cost of revenues as a percentage of revenues was 36.3% of revenues for the three months ended June 30, 2011 compared to 35.5% of revenues for the three months ended June 30, 2010. Cost of revenues for HealthStream Learning increased approximately $1.3 million to $4.5 million and approximated 31.4% and 28.5% of revenues for HealthStream Learning for the three months ended June 30, 2011 and 2010, respectively. The increase is primarily associated with increased royalties paid by us resulting from growth in courseware subscription revenues. Cost of revenues for HealthStream Research increased approximately $403,000 to $3.1 million and approximated 47.0% and 49.8% of revenues for HealthStream Research for the three months ended June 30, 2011 and 2010, respectively. The increase in amount is primarily the result of costs associated with the growth in patient survey volume over the prior year second quarter.

Product Development. Product development expenses increased approximately $188,000, or 10.9%, to $1.9 million for the three months ended June 30, 2011 from $1.7 million for the three months ended June 30, 2010. Product development expenses as a percentage of revenues were 9.1% and 10.3% of revenues for the three months ended June 30, 2011 and 2010, respectively.

Product development expenses for HealthStream Learning increased approximately $215,000 and approximated 10.7% and 11.9% of revenues for HealthStream Learning for the three months ended June 30, 2011 and 2010, respectively. The decrease as a percentage of revenue is the result of the growth in revenues over the prior year second quarter, while the increase in amount is due to additional personnel expenses associated with platform maintenance and SimVentures. Product development expenses for HealthStream Research decreased approximately $27,000 and approximated 5.5% and 7.2% of revenues for HealthStream Research for the three months ended June 30, 2011 and 2010, respectively.

Sales and Marketing. Sales and marketing expenses, including personnel costs, increased approximately $1.3 million, or 42.8%, to $4.4 million for the three months ended June 30, 2011 from $3.1 million for the three months ended June 30, 2010. Approximately $627,000 of the increase resulted from the Summit, which occurred during the second quarter of 2011, but did not occur during 2010. Sales and marketing expenses approximated 20.7% and 18.3% of revenues for the three months ended June 30, 2011 and 2010, respectively.

Sales and marketing expenses for HealthStream Learning increased $1.1 million and approximated 20.5% and 16.3% of revenues for HealthStream Learning for the three months ended June 30, 2011 and 2010, respectively. This expense increase is primarily due to the costs associated with the Summit, as well as, additional personnel and related expenses, increased marketing spending, and increased commissions associated with better sales performance compared to the prior year. Sales and marketing expenses for HealthStream Research increased approximately $159,000, and approximated 19.2% and 20.4% of revenues for HealthStream Research for the three

months ended June 30, 2011 and 2010, respectively. The expense increase for HealthStream Research resulted primarily from the Summit.

Other General and Administrative Expenses. Other general and administrative expenses increased approximately $286,000, or 11.9%, to $2.7 million for the three months ended June 30, 2011 from $2.4 million for the three months ended June 30, 2010. Other general and administrative expenses as a percentage of revenues approximated 12.8% and 14.4% for the three months ended June 30, 2011 and 2010, respectively.

Other general and administrative expenses for HealthStream Learning increased $104,000 over the prior year second quarter, primarily associated with increased rent expense and recruiting fees for new employees, while other general and administrative expenses for HealthStream Research decreased by $27,000 compared to the prior year second quarter. The unallocated corporate portion of other general and administrative expenses increased $209,000 over the prior year second quarter, primarily associated with software maintenance renewal fees, personnel expenses, professional fees, and rent expense.

Depreciation and Amortization. Depreciation and amortization increased approximately $119,000, or 9.6%, to $1.4 million for the three months ended June 30, 2011 from $1.2 million for the three months ended June 30, 2010. The increase primarily resulted from amortization of capitalized software development assets within HealthStream Learning.

Other Income (Expense), net . Other expense, net was approximately $4,000 for both the three months ended June 30, 2011 and 2010.

Provision for Income Taxes. The Company recorded a provision for income taxes of approximately $1.3 million for the three months ended June 30, 2011 compared to $1.0 million for the three months ended June 30, 2010. The Company's effective tax rate was 41.0% for the second quarter of 2011 compared to 42.5% for the second quarter of 2010. Actual tax payments will be substantially less than our income tax provision until we utilize our federal and state net operating loss carry-forwards of approximately $25.0 million and $20.0 million, respectively, at December 31, 2010, to offset taxable income.

Net Income. Net income increased approximately $483,000, or 35.8%, to approximately $1.8 million for the three months ended June 30, 2011 from $1.3 million for the three months ended June 30, 2010. Net income per diluted share was $0.08 per share for the three months ended June 30, 2011, compared to $0.06 per diluted share for the three months ended June 30, 2010.

Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010

Revenues, net. Revenues increased approximately $8.1 million, or 25.6%, to $39.6 million for the six months ended June 30, 2011 from $31.5 million for the six months ended June 30, 2010. Revenues for 2011 consisted of $27.4 million, or 69% of total revenue, for HealthStream Learning and $12.1 million, or 31% of total revenue, for HealthStream Research. In 2010, revenues consisted of $21.5 million, or 68% of total revenue, for HealthStream Learning and $10.0 million, or 32% of total revenue, for HealthStream Research.

Revenues for HealthStream Learning increased $5.9 million, or 27.4%, over 2010. Revenues from our Internet-based subscription learning products increased by $5.9 million over the prior year, and were comprised of revenue increases from the HLC of $2.1 million and from courseware subscriptions of $3.7 million. Revenues from our Internet-based subscription products increased 29.5% over the prior year due to a higher number of subscribers and more courseware consumption by subscribers.

Revenues for HealthStream Research increased $2.2 million, or 21.7%, over 2010. Revenues from Patient Insights™ surveys, our survey research product that generates recurring revenues, increased by $1.8 million, or 26.3%, over the prior year. Revenues from other surveys, which are conducted on annual or bi-annual cycles, increased by $349,000, or 11.3 percent, over the prior year.

Cost of Revenues (excluding depreciation and amortization). Cost of revenues increased approximately $3.3 million, or 29.4%, to $14.7 million for the six months ended June 30, 2011 from $11.4 million for the six months ended June 30, 2010. Cost of revenues as a percentage of revenues was 37.2% of revenues for the six months ended June 30, 2011 compared to 36.1% of revenues for the six months ended June 30, 2010. Cost of revenues for HealthStream Learning increased approximately $2.4 million to $8.7 million and approximated 31.7% and 29.4% of revenues for HealthStream Learning for the six months ended June 30, 2011 and 2010, respectively. The increase is primarily associated with increased royalties paid by us resulting from growth in courseware subscription revenues. Cost of revenues for HealthStream Research increased approximately $967,000 to $6.0 million and approximated 49.6% and 50.7% of revenues for HealthStream Research for the six months ended June 30, 2011 and 2010, respectively. The increase in amount is primarily the result of costs associated with the growth in patient survey volume over the prior year.

Product Development. Product development expenses increased approximately $448,000, or 13.8%, to $3.7 million for the six months ended June 30, 2011 from $3.2 million for the six months ended June 30, 2010. Product development expenses as a percentage of revenues were 9.3% and 10.3% of revenues for the six months ended June 30, 2011 and 2010, respectively.

Product development expenses for HealthStream Learning increased approximately $423,000 and approximated 10.8% and 11.8% of revenues for HealthStream Learning for the six months ended June 30, 2011 and 2010, respectively. The decrease as a percentage of revenue is the result of the growth in revenues over the prior year, while the increase in amount is due to additional personnel expenses associated with platform maintenance and SimVentures. Product development expenses for HealthStream Research increased approximately $25,000 and approximated 6.1% and 7.1% of revenues for HealthStream Research for the six months ended June 30, 2011 and 2010, respectively. The decrease as a percentage of revenue is the result of the growth in revenues over the prior year.

Sales and Marketing. Sales and marketing expenses, including personnel costs, increased approximately $1.9 million, or 30.8%, to $7.9 million for the six months ended June 30, 2011 from $6.0 million for the six months ended June 30, 2010. Approximately $627,000 of the increase resulted from the Summit, which occurred during the second quarter of 2011, but did not occur during 2010. Sales and marketing expenses approximated 19.9% and 19.1% of revenues for the six months ended June 30, 2011 and 2010, respectively.

Sales and marketing expenses for HealthStream Learning increased $1.5 million and approximated 19.0% and 17.4% of revenues for HealthStream Learning for the six months ended June 30, 2011 and 2010, respectively. This expense increase is primarily due to the Summit, additional personnel and related expenses, increased marketing spending, and increased commissions associated with better sales performance compared to the prior year. Sales and marketing expenses for HealthStream Research increased approximately $333,000, and approximated 20.1% and 21.1% of revenues for HealthStream Research for the six months ended June 30, 2011 and 2010, respectively. The expense increase for HealthStream Research resulted from the Summit and additional personnel and related expenses.

Other General and Administrative Expenses. Other general and administrative expenses increased approximately $743,000, or 16.6%, to $5.2 million for the six months ended June 30, 2011 from $4.5 million for the six months ended June 30, 2010. Other general and administrative expenses as a percentage of revenues approximated 13.2% and 14.2% for the six months ended June 30, 2011 and 2010, respectively.

Other general and administrative expenses for HealthStream Learning increased $197,000 over the prior year, primarily associated with increased rent expense and recruiting costs for new employees, while other general and administrative expenses for HealthStream Research was comparable to the prior year. The unallocated corporate portion of other general and administrative expenses increased $547,000 over the prior year, primarily associated with software maintenance renewal fees, personnel expenses, professional fees, and rent expense.

Depreciation and Amortization. Depreciation and amortization decreased approximately $229,000, or 8.7%, to $2.4 million for the six months ended June 30, 2011 from $2.6 million for the six months ended June 30, 2010. The decrease primarily resulted from lower depreciation expense associated with certain assets reaching the end of their useful lives, but was partially offset by an increase from amortization of capitalized software development.

Other Income (Expense), net . Other income, net was approximately $16,000 for the six months ended June 30, 2011 compared to a net expense of $13,000 for the six months ended June 30, 2010. The improvement over the prior year was associated with higher interest income resulting from higher yields on cash and investments in marketable securities.

Provision for Income Taxes. The Company recorded a provision for income taxes of approximately $2.3 million for the six months ended June 30, 2011 compared to $1.6 million for the six months ended June 30, 2010. The Company's effective tax rate was 41.0% for 2011 compared to 42.5% 2010.

Net Income. Net income increased approximately $1.2 million, or 55.8%, to $3.4 million for the six months ended June 30, 2011 from $2.2 million for the six months ended June 30, 2010. Net income per diluted share was $0.14 per share for the six months ended June 30, 2011, compared to $0.10 per diluted share for the six months ended June 30, 2010.

Adjusted EBITDA (which we define as net income before interest, income taxes, stock-based compensation, and depreciation and amortization) improved by 25.6% to approximately $8.4 million for the six months ended June 30, 2011 compared to $6.7 million for the six months ended June 30, 2010. This improvement is consistent with the factors mentioned in management's discussion and analysis of financial condition and results of operations herewith. Our reconciliation of this calculation to measures under US GAAP is listed in the table below.

In order to better assess the Company's financial results, management believes that adjusted EBITDA is an appropriate measure for evaluating the operating performance of the Company at this stage in its life cycle because adjusted EBITDA reflects net income adjusted for non-cash and non-operating items. Adjusted EBITDA is also used by many investors and securities analysts to assess the Company's results from current operations. Adjusted EBITDA is a non-GAAP financial measure and should not be considered as a measure of financial performance under US GAAP. Because adjusted EBITDA is not a measurement determined in accordance with US GAAP, it is

susceptible to varying calculations. Accordingly, adjusted EBITDA, as presented, may not be comparable to other similarly titled measures of other companies.

The Company understands that, although adjusted EBITDA is frequently used by investors and securities analysts in their evaluation of companies, this measure has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for an analysis of the Company's results as reported under US GAAP. For example, adjusted EBITDA does not reflect cash expenditures, or future requirements for capital expenditures or contractual commitments; it does not reflect non-cash components of employee compensation; it does not reflect changes in, or cash requirements for, our working capital needs; and due to the Company's utilization of federal and state net operating loss carryforwards in 2010 and 2011, actual cash income tax payments have been significantly less than the tax provision recorded in accordance with US GAAP, and income tax payments will continue to be less than the income tax provision until our existing federal and state net operating loss carryforwards have been fully utilized or have expired.

Management compensates for the inherent limitations associated with using adjusted EBITDA through disclosure of such limitations, presentation of our financial statements in accordance with US GAAP, and reconciliation of adjusted EBITDA to net income, the most directly comparable US GAAP measure.

Income before interest, income tax provision, stock based compensation expense, depreciation and amortization, or adjusted EBITDA:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income	$1,830,422	$1,347,709	$3,356,179	$2,154,573
Interest income	(8,638)	(3,354)	(31,086)	(6,020)
Interest expense	12,697	10,101	22,165	21,317
Income tax provision	1,271,251	995,337	2,322,662	1,591,996
Stock based compensation expense	184,035	169,769	373,829	332,550
Depreciation and amortization	1,354,683	1,235,918	2,397,557	2,626,260
Adjusted EBITDA	$4,644,450	$3,755,480	$8,441,306	$6,720,676

Liquidity and Capital Resources

Net cash provided by operating activities was approximately $8.8 million and $7.9 million during the six months ended June 30, 2011 and 2010, respectively. The Company's primary sources of cash were receipts generated from the sales of our products and services. Days sales outstanding ("DSO") which is calculated by dividing the accounts receivable balance, excluding unbilled and other receivables, by average daily revenues for the quarter, approximated 54 days for the second quarter of 2011 compared to 53 days for the second quarter of 2010. 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 approximately $2.8 million and $1.5 million for the six months ended June 30, 2011 and 2010, respectively. During 2011, the Company purchased $4.7 million of investments in marketable securities, spent $4.6 million for capitalized software development, and purchased $1.8 million of property and equipment. Approximately $3.5 million of the capitalized software development spending related to the acquisition of a 50 percent ownership stake in Laerdal Medical's AVS product. These uses of cash were partially offset by maturities and sales of investments in marketable securities of $8.4 million. During 2010, the Company spent $1.0 million for capitalized software development and purchased $510,000 of property and equipment.

Cash provided by financing activities was approximately $558,000 and $122,000 for the six months ended June 30, 2011 and 2010, respectively. The primary source of cash from financing activities for 2011 and 2010 resulted from proceeds associated with the exercise of employee stock options. The primary uses of cash for 2011 related to payments under capital lease obligations, and for 2010 related to payments under a promissory note and capital lease obligations.

Revenues increased and operating income improved over the prior year period, and our balance sheet reflects positive working capital of $21.9 million at June 30, 2011 compared to $19.5 million at December 31, 2010. The increase in working capital was primarily due to the cash generated from operations. The Company's primary source of liquidity is $26.5 million of cash and cash equivalents, investments in marketable securities, restricted cash and related interest receivable. The Company also has a $20.0 million revolving credit facility loan agreement, all of which was available at June 30, 2011.

We believe that our existing cash and cash equivalents, investments in marketable securities, related interest receivable, cash generated from operations, and available borrowings under our revolving credit facility will be sufficient to meet anticipated cash

needs for working capital, new product development and capital expenditures for at least the next 12 months. As part of our growth strategy, we review possible acquisitions that complement our products and services. We anticipate that future acquisitions, if any, would be effected through a combination of stock and cash consideration. We may need to raise additional capital through the issuance of equity or debt securities and/or borrowings under our revolving credit facility, or another facility, to finance any future acquisitions. The issuance of our stock as consideration for an acquisition could have a dilutive effect on earnings per share and could adversely affect our stock price. Because we have no material debt or outstanding borrowings under our revolving credit facility, our balance sheet is unleveraged. Our revolving credit facility contains financial covenants and availability calculations designed to set a maximum leverage ratio of outstanding debt to equity. Therefore, if we were to borrow against our revolving credit facility, our debt capacity would be dependent on the covenant values at the time of borrowing. The credit markets have been experiencing extreme volatility and disruption, 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. The Company does not have any foreign currency exchange rate risk or commodity price risk. As of June 30, 2011, our outstanding indebtedness included approximately $2,200 of capital lease obligations. 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 is based on 30 Day LIBOR plus a margin of either 175 or 200 basis points determined in accordance with a pricing grid. We are also exposed to market risk with respect to our cash and investment balances. At June 30, 2011, the Company had cash and cash equivalents, investments in marketable securities, restricted cash, and related interest receivable totaling approximately $26.5 million. Our current investment rates of return approximate 0.14%. Assuming a 0.14% rate of return on $26.5 million, a hypothetical 10% decrease in interest rates would decrease interest income and decrease net income on an annualized basis by approximately $3,700.

The Company manages its investment risk by investing in corporate debt securities, foreign corporate debt, secured corporate debt, and municipal debt securities with minimum acceptable credit ratings. For certificates of deposit and corporate obligations, ratings must be A1/A, BBB, FDIC insured or better; A1/P1 or better for commercial paper, and MIG 1/S, P/1 or better for municipal debt securities. The Company also requires that all securities must mature within 24 months from the original settlement date, the average portfolio shall not exceed 18 months, and the greater of 10% or $5.0 million shall mature within 90 days. Further, the Company's investment policy also limits concentration exposure and other potential risk areas.

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 Securities and Exchange Commission'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 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 period covered by this Quarterly Report that has materially affected, or that is reasonably likely to materially affect, HealthStream's internal control over financial reporting.

PART II — OTHER INFORMATION

Item 6. *Exhibits*

(a) Exhibits

31.1 — Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 — Certification of the Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 — Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 — Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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.

August 1, 2011

By: /s/ GERARD M. HAYDEN, JR.
Gerard M. Hayden, Jr.
Chief Financial Officer

HEALTHSTREAM, INC.

EXHIBIT INDEX

31.1 Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 31.1

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: August 1, 2011

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

Exhibit 31.2

I, Gerard M. Hayden, 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: August 1, 2011

/s/ GERARD M. HAYDEN, JR.
Gerard M. Hayden, Jr.
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of HealthStream, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2011, 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
August 1, 2011

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of HealthStream, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Gerard M. Hayden, Jr., 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/ GERARD M. HAYDEN, JR.

Gerard M. Hayden, Jr.
Chief Financial Officer
August 1, 2011