

HEALTHSTREAM INC
Form 424B5
May 18, 2015
Table of Contents

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-198059

The information in this prospectus supplement and the accompanying prospectus is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MAY 18, 2015

PROSPECTUS SUPPLEMENT

To Prospectus Dated August 22, 2014

3,100,000 Shares

HealthStream, Inc.

Common Stock

We are offering 3,100,000 shares of our common stock.

Our common stock is listed on The NASDAQ Global Select Market under the symbol HSTM. On May 15, 2015, the closing price of our common stock as reported on The NASDAQ Global Select Market was \$27.73 per share.

Investing in our common stock involves significant risks. See Risk Factors beginning on page S-13 of this prospectus supplement and in the documents incorporated by reference into this prospectus supplement.

	Per Share	Total
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds to us (before expenses)	\$	\$

We have granted the underwriters an option to purchase from us up to an additional 465,000 shares of our common stock at the public offering price, less the underwriting discount, for 30 days after the date of this prospectus supplement to cover over-allotments, if any.

The underwriters expect to deliver the shares of our common stock on or about _____, 2015.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

William Blair
Avondale Partners

Craig-Hallum Capital Group

Raymond James
First Analysis

The date of this prospectus supplement is _____, 2015.

Table of Contents

TABLE OF CONTENTS

Prospectus Supplement

	Page
<u>About This Prospectus Supplement</u>	S-i
<u>Prospectus Supplement Summary</u>	S-1
<u>Risk Factors</u>	S-13
<u>Forward-Looking Statements</u>	S-27
<u>Use of Proceeds</u>	S-29
<u>Price Range of Common Stock</u>	S-30
<u>Dividend Policy</u>	S-30
<u>Capitalization</u>	S-31
<u>Material U.S. Federal Tax Considerations for Non-U.S. Holders of Common Stock</u>	S-32
<u>Underwriting</u>	S-35
<u>Legal Matters</u>	S-38
<u>Experts</u>	S-38
<u>Where You Can Find More Information</u>	S-38
<u>Incorporation of Certain Information by Reference</u>	S-39

Prospectus

	Page
<u>About This Prospectus</u>	1
<u>Forward-Looking Statements</u>	2
<u>HealthStream, Inc.</u>	3
<u>Risk Factors</u>	4
<u>Use of Proceeds</u>	5
<u>Description of Common Stock</u>	6
<u>Plan of Distribution</u>	9
<u>Experts</u>	12
<u>Legal Matters</u>	12
<u>Where You Can Find More Information</u>	12
<u>Incorporation of Certain Information by Reference</u>	13

Table of Contents

ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of common stock and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference. The second part, the accompanying prospectus, provides more general information, some of which may not apply to this offering of common stock. To the extent the information contained in this prospectus supplement differs or varies from the information contained in the accompanying prospectus, the information in this prospectus supplement shall control.

You should rely only on the information contained in this prospectus supplement, the accompanying prospectus and any related free writing prospectus that we may authorize to be provided to you. We have not, and the underwriters have not, authorized any person to provide you with additional or different information. No dealer, salesperson or other person is authorized to give any information or represent anything not contained in this prospectus supplement, the accompanying prospectus or any related free writing prospectus that we may authorize to be provided to you. You must not rely on any unauthorized information or representation. This prospectus supplement, the accompanying prospectus or any related free writing prospectus do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the registered securities to which they relate, nor does this prospectus supplement, the accompanying prospectus or any related free writing prospectus constitute an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

You should assume that the information appearing in this prospectus supplement, the accompanying prospectus or any related free writing prospectus is accurate only as of the respective dates of those documents and that any information we have incorporated by reference is accurate only as of the date of the document incorporated by reference. Our business, financial condition, results of operations and prospects may have changed since those dates and neither the delivery of this prospectus supplement and the accompanying prospectus nor any sale hereunder shall, under any circumstances, create any implication to the contrary.

This prospectus supplement is part of a registration statement that we have filed with the Securities and Exchange Commission (SEC) relating to the securities offered hereby. This prospectus supplement does not contain all of the information that we have included in the registration statement and the accompanying exhibits and schedules in accordance with the rules and regulations of the SEC, and we refer you to the omitted information. It is important for you to read and consider all information contained in this prospectus supplement and the accompanying prospectus in making your investment decision. You should also read and consider the additional information included in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus. See [Where You Can Find More Information](#) and [Incorporation of Certain Information by Reference](#) in this prospectus supplement.

This prospectus supplement and the accompanying prospectus contain and incorporate by reference market data, industry statistics and other data that have been obtained from, or compiled from, information made available by third parties. We have not independently verified such data.

This prospectus supplement, the accompanying prospectus and the information incorporated herein by reference include trademarks, service marks and trade names owned by us or other companies. All trademarks, service marks and trade names included or incorporated by reference into this prospectus supplement, the accompanying prospectus or any related free writing prospectus are the property of their respective owners.

This prospectus supplement and the accompanying prospectus contain summaries of certain provisions contained in some of the documents described herein or therein, but reference is made to the actual documents for complete information. All of the summaries are qualified in their entirety by the actual documents. Copies of some of the documents referred to herein have been filed, will be filed or will be incorporated by reference as

S-i

Table of Contents

exhibits to the registration statement of which this prospectus supplement and the accompanying prospectus are a part, and you may obtain copies of those documents as described below under the sections entitled **Where You Can Find More Information** and **Incorporation of Certain Information by Reference**.

Unless the context indicates otherwise, references in this prospectus supplement to **HealthStream**, **we**, **us**, **our** and **Company** collectively refer to HealthStream, Inc. and all of its subsidiaries.

S-ii

Table of Contents

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights selected information about us, this offering and information appearing elsewhere in this prospectus supplement and the accompanying prospectus and in the documents we incorporate by reference. This information is not complete and does not contain all of the information you should consider before investing in our common stock. You should carefully read this entire prospectus supplement and the entire accompanying prospectus and any related free writing prospectus that we have authorized for use in connection with this offering, including the risks of investing in our securities discussed under the heading "Risk Factors" contained in this prospectus supplement, the accompanying prospectus and any related free writing prospectus that we have authorized for use in connection with this offering, and under similar headings in the other documents that are incorporated by reference herein. You should also carefully read the information incorporated by reference into this prospectus supplement and the accompanying prospectus, including our financial statements, and the exhibits to the registration statement of which this prospectus supplement and accompanying prospectus are a part. See "Where You Can Find More Information" and "Incorporation of Certain Information by Reference" below.

Our Company

We provide workforce, patient experience and provider solutions for healthcare organizations all designed to assess and develop the people that deliver patient care. Through these methods, our solutions support the improvement of business and clinical outcomes. Our subscription-based workforce products are used by healthcare organizations to meet a broad range of their training, certification, competency, assessment, performance appraisal and development needs. Our patient experience products provide our customers with information about patients' experiences and how to improve them, workforce engagement, physician relations, and community perceptions of their services. Our subscription-based provider products are used by healthcare organizations for provider credentialing, privileging, call center and enrollment needs. Our customers include healthcare organizations, pharmaceutical and medical device companies, as well as other participants in the healthcare industry.

As of March 31, 2015, we had approximately 4.43 million total subscribers to our subscription-based solutions. Each individual end-user who utilizes at least one HealthStream subscription-based solution is counted as one subscriber, regardless of the number of subscriptions contracted by or for that end-user. Of our 4.43 million total subscribers, 4.27 million were already implemented as of March 31, 2015 and 156,000 were in the process of implementation.

Our solutions include our SaaS-based platform applications, plus courseware or content. We provide educational activities and training courseware through the HealthStream Learning Center (HLC); competency management tools through the HealthStream Competency Center (HCC); and performance management solutions through the HealthStream Performance Center (HPC). Our patient experience products and service offerings include quality and satisfaction surveys, data analyses of survey results, patient experience evaluation and improvement, and other research-based measurement tools focused on patients, physicians, employees, and members of the community. Our provider solutions offer proprietary software application products designed to meet healthcare provider credentialing, privileging and enrollment administration needs.

Our Recent Acquisition of HealthLine Systems, LLC

On March 16, 2015, we acquired all of the issued and outstanding membership interests of HealthLine Systems, LLC (HLS), a San Diego, California based company that specializes in healthcare credentialing, privileging, call center, and quality management software services (the "HLS Acquisition"). The consideration paid for HLS consisted of approximately \$88.1 million in cash, taking into account a post-closing working capital adjustment.

S-1

Table of Contents

Following the closing of the HLS Acquisition, we formed a new business segment, HealthStream Provider Solutions, in addition to our other two business segments, HealthStream Workforce Solutions and HealthStream Patient Experience Solutions. We appointed a President of HealthStream Provider Solutions, who reports directly to our Chief Executive Officer. The HealthStream Provider Solutions segment reflects the combination of HLS and Sy.Med Development, Inc. (Sy.Med), a business we acquired in 2012. On May 18, 2015, the Company filed a Current Report on Form 8-K with the SEC, which is incorporated by reference herein, that included recast financial statements and related Management's Discussion and Analysis of Financial Condition and Results of Operations discussion to retrospectively reflect the addition of the HealthStream Provider Solutions segment for the periods included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. There has been no change to our previously reported financial statements for the periods reported therein other than the change in business segment presentation.

Our Industry and Market Opportunity

According to the deputy director of the National Health Statistics Group at the Centers for Medicare and Medicaid Services (CMS), spending in the healthcare industry reached approximately \$2.9 trillion in 2013, or 17.4% of the 2013 U.S. gross domestic product and is projected to reach approximately \$3.2 trillion in 2015, or 17.6% of the estimated 2015 U.S. gross domestic product. Hospital care expenditures accounted for approximately 32.3% of the \$2.9 trillion in healthcare industry spending. According to the Bureau of Labor Statistics, approximately 18.3 million professionals are employed in the U.S. healthcare industry, with approximately 4.8 million employed in acute-care hospitals and approximately 3.3 million employed in post-acute-care organizations, our primary target markets for our products. As of March 31, 2015, approximately 4.43 million healthcare professionals were subscribers to our subscription-based solutions, which include 4.27 million subscribers that have already been implemented and 156,000 subscribers in the process of implementation.

All acute care hospital-based healthcare professionals that work in the nation's over 5,000 acute-care hospitals are required by federal mandates and accrediting bodies to complete training in a number of areas. This training includes safety training mandated by both the Occupational Safety and Health Administration (OSHA) and The Joint Commission (an independent, not-for-profit organization that accredits and certifies healthcare organizations and programs in the United States), as well as required training on patient information confidentiality under the Health Insurance Portability and Accountability Act.

In hospitals and post-acute care organizations, staffing issues and personnel shortages have also contributed to the need for facility-based workforce development as well as additional assessment and competency-based training. For example, the *American Journal of Medical Quality* (2012) reports that a shortage of registered nurses (RNs) is projected to continue, with a national shortfall exceeding 900,000 RN positions by 2030. The Association of American Medical Colleges (2015) reported that the demand for physicians will continue to grow faster than supply, leading to a projected shortfall of between 46,100 and 96,400 physicians by 2025. We believe that training and education offerings for hospital and post-acute care personnel are increasingly being utilized by healthcare organizations as a retention and recruitment incentive.

Many healthcare professionals use continuing education to keep abreast of the latest developments and meet licensing and certification requirements. Continuing education is typically required for nurses, emergency medical services personnel, first responder personnel, radiologic personnel, and physicians. Pharmaceutical and medical device companies in many cases must also provide their medical industry sales representatives with training required to meet regulatory and industry requirements. Such companies also provide support and content for education and training for audiences that use their products in healthcare organizations.

S-2

Table of Contents

A large portion of the nation's hospitals and a growing number of post-acute care organizations utilize research and survey tools to gain insight about patients' experiences in order to assess workforce competency and engagement, determine the status of physician relations, and measure the perceptions about the hospitals in the communities they serve. Industry-wide interest is increasing in surveys, due in part to the Consumer Assessment of Healthcare Providers and Systems (CAHPS®) Hospital Survey launched by CMS in partnership with the Agency for Healthcare Research and Quality. For the CAHPS® Hospital Survey, hospitals must submit data to CMS for certain required quality measures in order to receive the full market basket increase to their reimbursement payment rates from CMS. Hospitals that fail to submit this survey data will incur a reduction of two percentage points in the inpatient market basket update amount for the second following federal fiscal year. Similar programs for other healthcare settings, which require reporting for reimbursement purposes, include Home Healthcare CAHPS (HHCAPHS), Clinician and Group CAHPS (CG-CAHPS), In-Center Hemodialysis CAHPS (ICH CAHPS), Hospice CAHPS, and CAHPS for accountable care organizations. We offer a wide range of CAHPS and other surveys, including those for children's hospitals, emergency departments, hemodialysis centers, hospices, clinician and group practices, patient-centered medical homes, and accountable care organizations. In addition to the CAHPS surveys, we also offer a wide range of patient surveys to healthcare providers, including in the areas of inpatient behavioral health, inpatient rehabilitation, inpatient oncology, inpatient pediatric care and neonatal intensive care.

The healthcare education industry is highly fragmented, with a wide variety of companies participating differentiated largely by delivery methods (*i.e.*, online products, live events, written materials, and manikins for simulation-based training). The immense volume of healthcare information available to satisfy continuing education needs, rapid advances in medical developments, and the time constraints that healthcare professionals face make it difficult to quickly and efficiently access the continuing education content most relevant to an individual's practice or profession. Historically, healthcare professionals typically received continuing education and training through offline publications, such as medical journals or by attending conferences and seminars, while other healthcare workers and pharmaceutical and medical device manufacturers' sales and internal regulatory personnel received training from external vendors or internal training departments. While these approaches satisfy the ongoing education and training requirements, they are typically costly and inconvenient. In addition, live courses are often limited in the breadth of offerings and do not provide a method for tracking training completion. The results of these traditional methods, both from a business and compliance standpoint, are difficult to track and measure. While hospitals and health systems occasionally survey their patients, physicians, and employees using their own internal resources, the practice is not widespread because they do not typically possess the valuable comparative benchmarking data that is available from independent survey research vendors.

Finally, the hospital industry continues to operate under intense pressure to reduce costs as a result of reductions in government reimbursement rates and increased focus on cost containment consistent with participation of patients in managed care programs. In addition, hospitals and pharmaceutical and medical device companies continue to experience rising operating costs, coupled with increased pressure to measure and report on the outcomes of their training expenditures. Our products and services are designed to meet these needs by reducing healthcare organizations' training costs while improving learning outcomes, enhancing reporting capabilities, and supporting customers' business objectives.

Our Solutions

Our solutions are organized into three product segments: HealthStream Workforce Solutions, HealthStream Patient Experience Solutions, and HealthStream Provider Solutions, which collectively help healthcare organizations meet their ongoing training, education, assessment, competency management and compliance needs. We provide our solutions to a wide range of customers across the healthcare industry, including private, not for profit, and government entities, as well as pharmaceutical and medical device companies. We derive a

S-3

Table of Contents

substantial portion of our revenues from a relatively small number of customers, although no single customer represented more than 10 percent of our revenues during the first three months of 2015, or during 2014, 2013 and 2012. Examples of customers that have purchased or contracted for products and services from us include: HCA Holdings, Inc.; Catholic Health Initiatives; Community Health Systems, Inc.; LifePoint Health, Inc.; and Ardent Health Services, LLC.

HealthStream Workforce Solutions

Within our HealthStream Workforce Solutions segment, we bring training, assessment, talent development, and talent management solutions together with administrative and management tools on our SaaS-based platform through the HLC, HCC, and HPC applications. We also offer a more streamlined version of the HLC, HealthStream Express , along with HealthStream Connect, a content delivery platform that enables end-users to access our extensive content libraries. These content libraries allow our customers to subscribe to a wide array of additional courseware. Additionally, pharmaceutical and medical device companies can offer online training support through our platform s OneSource (also known as Inservice Center) capability and offer continuing education directly to healthcare workers.

Our workforce solutions support healthcare administrators in configuring training to meet the specific needs of various groups of employees, modifying training materials, documenting training completion, and facilitating competency assessments and performance appraisals. As of March 31, 2015, we had approximately 4.43 million total subscribers for our subscription-based solutions, which included 4.27 million subscribers that have already been implemented and 156,000 subscribers in the process of implementation. Pricing for the HLC, HCC, and HPC is subscription-based, with fees based on the number of subscribers, courseware provided, and other factors. Additionally, we offer training, implementation, and account management services to facilitate adoption of our subscription-based solutions. Fees for training are based on the time and scope of efforts of the personnel involved. Implementation fees vary based on the size, scope, and complexity of the project. Our SaaS-based platform is hosted in a central data center that allows authorized subscribers online access to our services, thereby eliminating the need for on-site local implementations of installed workforce products.

In addition to the HLC, we offer an array of other SaaS-based applications on our platform, each serving a unique function for healthcare organizations with its own value proposition and revenue stream:

The Authoring Center is a SaaS-based platform application that provides healthcare organizations the capability to create Internet-based courses by moving their existing course material online or self-authoring new material and electing to share these materials with our other customers through a courseware exchange. We also offer Authoring Pro, an upgraded version of The Authoring Center , which includes a licensed image library, as an additional subscription to this product. Pricing for these products is based on the number of subscribers and level of penetration of services within the customer organization.

The HCC is our SaaS-based platform application for competency management for healthcare organizations, which provides customers with tools to assess competency and evaluate performance. Hospitals and healthcare organizations are required to evaluate, document, and report performance competencies to maintain accreditation from The Joint Commission. We believe that the HCC offers an effective means of determining which competencies are associated with each position and evaluating and documenting competency assessments.

The HPC is our SaaS-based platform application for performance management for healthcare organizations, which provides an automated, paperless performance appraisal process. We believe the HPC offers an effective means of streamlining the performance appraisal process, which facilitates increased completion rates and consistency across all aspects of healthcare organizations workforce appraisal processes.

S-4

Table of Contents

SimCenter® is a suite of fully integrated SaaS applications for healthcare organizations and medical and nursing schools that is designed to accelerate development and distribution of simulation content; enable enterprise-wide management of simulation centers, simulators, and programs; and support assessment of the effectiveness of simulation training. In 2010 we formed SimVentures, a collaborative arrangement with Laerdal Medical, to offer products and services aimed at accelerating the global adoption of simulation-based learning by healthcare providers with a focus on improving clinical competencies and patient outcomes. SimStore®, one segment of our collaborative arrangement with Laerdal Medical, began operations in the first quarter of 2011, and our simulation management platform, SimManager, was launched in early 2012. SimView, our debriefing system for simulation-based training, also was launched in early 2012. In addition, we are a distributor of Laerdal's HeartCode product line, which utilizes task-based manikins to assist healthcare professionals in studying, training and testing for what is commonly known as cardiopulmonary resuscitation (CPR) certification.

The HealthStream Recruiting Center is a SaaS-based application that helps healthcare human resources professionals drive their talent through intelligent recruiting life-cycle management. It includes career sites, applicant tracking, candidate and recruiter workflow, and analytics.

HealthStream Patient Experience Solutions

HealthStream Patient Experience Solutions complements HealthStream Workforce Solutions by providing customers in various settings with Patient Insights, Employee Insights, Physician Insights, and Community Insights surveys, data analyses of survey results, and other research-based measurement tools. Our Patient Experience Solutions provide insight about patients' experiences in a wide range of healthcare settings, including in-patient organizations such as hospitals and rehabilitation centers, out-patient organizations such as surgery centers and hemodialysis centers, and urgent care and walk-in clinics. We are designated as a certified vendor for and offer CAHPS® Hospital Survey services; HHCAHPS; CG-CAHPS; ICH-CAHPS, an outpatient version of the CAHPS survey for hemodialysis care; ED-CAHPS, a version of the CAHPS survey for hospitals' emergency department patients; PCMH-CAHPS, a version of the CAHPS survey for patient-centered medical home patients; Hospice CAHPS, a version of the CAHPS survey for hospice patients; and ACO-CAHPS, a version of the CAHPS survey for patients receiving care within an accountable care organization.

Our services are designed to provide comprehensive analyses with actionable recommendations for change, including benchmarking capabilities using our extensive databases and consulting services to identify solutions for our customers based on their survey results. Clients are able to access and analyze their survey results data through Insights Online, our secure web-based reporting platform. Our survey and research solutions focus on providing statistically-valid data to assist our customers with their decision-making related to their organization's performance improvement objectives. In addition to collecting and reporting data, we provide analysis and consulting services to help customers understand and improve their survey results and patient experiences and the corresponding impact on their business. Healthcare organizations utilize this feedback to develop or refine plans for enhanced performance that can be delivered through our workforce development solutions. Pricing for these services is based on the survey type, delivery method, size of the survey instrument, sample size, frequency of survey cycles, and other factors.

HealthStream Provider Solutions

During the first quarter of 2015, following the completion of the HLS Acquisition, we formed our HealthStream Provider Solutions segment, which reflects the combination of HLS and Sy.Med, a business we acquired in 2012. Our provider solutions segment offers proprietary software applications designed to meet healthcare provider credentialing, privileging, call center and enrollment administration needs, such as our Echo suite of products.

S-5

Table of Contents

Our Competitive Strengths

We believe our competitive strengths include the following:

Leading provider of workforce development solutions for healthcare providers. Since the introduction of online learning in hospitals over 15 years ago, we have been a market leader in SaaS-based workforce development and talent management solutions each year. As of March 31, 2015, we had approximately 4.43 million subscribers contracted to use one or more of our workforce development and/or talent management solutions on our platform. Having the largest base of hospital and health system customers in the marketplace has resulted in a network effect whereby our customers now comprise a large, singularly focused community uniquely available through HealthStream that seeks to deliver additional value to all connected constituents.

Highly scalable subscriber-based solutions offered as a SaaS model. Our solutions are offered to hospitals and health systems primarily through subscriptions, which are typically contracted in multi-year agreements. Our core platform is offered as a SaaS model, which provides our customers with a more streamlined, efficient service and expedites implementation, saving them valuable resources, both in time and IT personnel costs. The average contract length for subscription-based solutions on our platform is approximately three years. Our recurring SaaS business model, combined with the stability in our subscriber base and the nature of our multi-year subscription agreements, provide us with improved visibility into expected future revenues.

Large and growing healthcare workforce information database. Our SaaS-based platform is a widely adopted platform for workforce development in the healthcare industry with approximately 4.43 million subscribers as of March 31, 2015. With our solutions being utilized enterprise-wide in healthcare organizations and typically being synchronized daily with customers' human resources systems and survey results contained in our national patient experience database, we have amassed an information asset that is differentiated in its scope and insight about the U.S. healthcare workforce, creating a strong competitive advantage for the Company. In order to add value to the data generated by our customers' use of our SaaS-based platform, we have secured the right within the healthcare industry to utilize certain data analytics and visualization software in our solutions from Juice Analytics, Inc., a company in which we hold a minority interest. We believe that by incorporating dimensions of our platform, our partners' content, and data, we will be able to offer data-driven benchmarking and other capabilities through products we refer to as Control Centers. Our first Control Center was recently deployed within our partner Precyse's next generation ICD-10 training solution, which is marketed exclusively through HealthStream.

Comprehensive ecosystem of content and simulation partnerships. We have over 50 content partnerships that, collectively, offer over 5,000 online courses to our customers making our set of offerings one of the most comprehensive in the industry. Our content partners receive a royalty for content when it is sold by us to our customers. Concurrently, we manage all aspects of content delivery, including the service level agreement, thereby saving customers the administrative burdens associated with content updates, maintenance schedules, and similar requirements for multiple content providers. HealthStream has established long-term relationships with a number of strategic partners, including Laerdal Medical, a global

leader in market simulation, and Precyse Solutions, a leader in ICD-10 and revenue cycle management products. Both of these partners have recently renewed their partnerships with HealthStream in multi-year agreements providing HealthStream with marketing rights with respect to Laerdal Medical's and Precyse's existing, next-generation and future product offerings.

Vertical focus on healthcare with deep domain expertise. We focus exclusively on serving the unique workforce development, talent management, patient experience, credentialing, privileging and enrollment needs of healthcare organizations, which we believe gives us a competitive advantage. Our

S-6

Table of Contents

SaaS-based platform includes many features and capabilities built specifically for healthcare organizations, including an application for managing conflicts of interests known as COI-Smart , a healthcare professional licensure source of continuing education offerings known as CECenter , and solutions for healthcare credentialing, privileging and provider enrollment.

To support our customers, we employ personnel with clinical backgrounds and hospital experience, which is particularly helpful in servicing clients in this highly regulated environment. We also approach our clients with our proven solution-selling approach that supports healthcare providers' urgent patient safety, quality, and risk management initiatives. Hospitals and health systems face challenges to improve the quality of care, reduce medical errors, and implement critical quality initiatives all while encountering financial pressures, new regulations, and workforce shortages. Our approach has consistently been to provide solutions to hospitals and healthcare organizations that improve outcomes for their workforce and, in turn, patient care. We focus on understanding our customers' challenges and providing meaningful solutions that deliver positive outcomes.

Strong regulatory and industry standards underpin our core solutions. The healthcare industry is highly regulated. The Joint Commission, OSHA, and CMS are a few of the primary regulatory agencies that require enterprise-wide training for hospital employees. CMS, for example, requires the solicitation of patients' experiences via patient surveys as a result of HCAHPS (Hospital Consumer Assessment of Healthcare Providers and Systems). The reporting of HCAHPS scores is mandatory, and these scores play an important role in CMS's value-based purchasing model that impacts reimbursement rates for hospitals. CMS also requires that healthcare providers fully transition to the new ICD-10 coding system by October 2015, increasing the number of codes to more than 171,000 as compared to just fewer than 18,000 in ICD-9, which requires substantial preparation and ongoing training. Healthcare professionals are also required to maintain professional licensure, which in turn requires ongoing continuing education at both the state and federal levels. The Joint Commission requires a detailed evaluation of healthcare practitioners' professional performance as part of the process of granting and maintaining practice privileges in a healthcare organization. In addition, healthcare organizations commonly require certification of resuscitation skills and ongoing resuscitation training among their clinical workforces. Our workforce, patient experience, and provider solutions are all designed to address and work within this complex environment of regulations and industry standards.

Experienced and accomplished senior management team. Our senior management team has extensive relevant industry experience. Robert A. Frist, Jr., our chairman and chief executive officer (CEO), co-founded HealthStream in 1990. Our chief financial officer (CFO), Gerard M. Hayden, Jr., has extensive financial experience, having served as CFO at four public companies and as a member of our board of directors. Our chief operating officer (COO), J. Edward Pearson, has extensive healthcare leadership experience, having served as CEO at three healthcare IT firms and as CFO at a public healthcare company prior to joining us.

Our Growth Strategies

Add subscribers to our SaaS-based platform. Subscribers are added to our platform through sales of our subscription-based solutions that typically include at least one application (such as the HLC) and content (such as the regulatory library). As of March 31, 2015, our SaaS-based platform was used by approximately 4.27 million implemented subscribers in over half of the acute care hospitals in the U.S. and a growing

number of users in the post-acute care market. We believe there is an opportunity to

S-7

Table of Contents

expand the number of hospitals, health systems, and healthcare organizations using our subscription-based solutions as we have a broad array of offerings to develop the healthcare workforce and better manage their talent.

Sell additional content and solutions. We actively work to build relationships with our existing customers and sell additional content and solutions to meet their ongoing training, education, assessment, competency management and compliance needs. Additional content subscriptions drive additional revenue contribution from each subscriber and, in turn, each account. We partner with healthcare industry leaders, highly regarded professional medical and nursing associations, and other leading providers to offer healthcare organizations a broad range of content to meet their regulatory, clinical, and business professional development needs. We offer over 5,000 online courses from over 50 content providers. These content partners include, among others, Laerdal Medical, Precyse Solutions, the American Association of Critical Care Nurses (AACN), Wolters Kluwer Health, and the Association of periOperative Registered Nurses. Our growing network of approximately 4.43 million healthcare professionals utilizing our platform results in an expansive, differentiated data set, which we believe gives the Company a competitive advantage in the healthcare industry. In 2014, for example, approximately 42 million courses were completed through our platform. In addition, we are growing our Patient Experience and Provider Solutions segments to help our clients achieve a patient-centric culture through their workforce and resolve critical hospital administrative challenges. We believe our Patient Experience and Provider Solutions offerings represent a significant opportunity to deepen our relationships with customers and increase the utilization of our products.

Offer platform extensions. We offer a suite of platform extensions as part of our eco-system of solutions, each serving a unique function for hospitals, health systems, and healthcare organizations. Examples of our SaaS-based platform extensions include the HCC, which manages competency and performance management programs; Checklist Management, which incorporates and manages standardized checklists in healthcare workflows; and SimCenter®, which is designed to make simulation-based training easier and more accessible. We are currently developing another platform extension to address compensation management, which will allow healthcare human resources departments to roll out and manage complex compensation plans and structures on an enterprise-wide basis.

Expansion into post-acute care markets. In addition to the approximately 5.0 million healthcare employees working in acute-care hospitals in the U.S., there are over 3.0 million healthcare employees working in the post-acute-care market at home health agencies and senior living/skilled nursing facilities. We first announced our intention to add the post-acute care vertical to the target market for our solutions in early 2013. Since that time, we have been expanding our content offerings to meet the unique professional development needs of the workforce in these areas, as well as building dedicated teams for sales and product management as we work to grow market share in the post-acute care market.

Pursue strategic acquisitions. In addition to organic growth, we consider potential acquisition opportunities as they arise, such as our recently completed HLS Acquisition. We look for strategic fit and consistency with our business principles. We are focused on healthcare, product-based solutions, products that generate recurring revenues, as well as products and/or assets that leverage our position in the market. Acquisition targets may add subscribers, grow market share, create new platform extensions, or deliver knowledge assets.

Company Information

Headquartered in Nashville, Tennessee, we were incorporated in 1990 and began providing our SaaS-based solutions in 1999 and our survey and research solutions in 2005. We have additional offices in Laurel, Maryland; Jericho, New York; Brentwood, Tennessee; Pensacola, Florida; and San Diego, California. As of March 31,

S-8

Table of Contents

2015, we had 796 full-time and 126 part-time employees. Our business has evolved from technology-based training to a company providing workforce, patient experience and provider solutions to the nation's healthcare providers.

Our principal executive office is located at 209 10th Avenue South, Suite 450, Nashville, Tennessee 37203. Our telephone number is (615) 301-3100 and our website address is www.healthstream.com. Information included or referred to on our website is not a part of or deemed incorporated by reference into this prospectus.

S-9

Table of Contents**SUMMARY FINANCIAL DATA**

The summary statement of income data presented below for the years ended December 31, 2012, 2013 and 2014 are derived from our audited consolidated financial statements which are incorporated by reference herein. The summary statement of income data for the three months ended March 31, 2014 and 2015 and the summary balance sheet data as of March 31, 2015 are derived from our unaudited consolidated financial statements which are incorporated by reference herein. Our results of operations may be subject to fluctuations as discussed further in Management's Discussion and Analysis of Financial Condition and Results of Operations in our current and periodic reports incorporated by reference herein. Our historical results are not necessarily indicative of results to be expected in future periods.

On March 16, 2015, we completed the HLS Acquisition. The purchase price for HLS was \$88.1 million in cash, taking into account a post-closing working capital adjustment. In order to finance the HLS Acquisition, we borrowed \$28.0 million under our Revolving Credit Facility (as defined below). There was approximately \$28.0 million outstanding on our Revolving Credit Facility as of March 31, 2015. The results of operations for HLS have been included in our consolidated financial statements since March 16, 2015, the HLS Acquisition completion date. The summary statement of income data and summary balance sheet data presented below do not give pro forma effect to the HLS Acquisition as of any earlier date. See our Current Report on Form 8-K/A filed with the SEC on April 14, 2015, as amended on May 18, 2015, which is incorporated by reference herein, for the unaudited pro forma combined condensed financial statements of HealthStream and HLS as of December 31, 2014 and for the year then ended.

You should read the following summary financial data in conjunction with the following information, in each case incorporated by reference herein: (1) our audited consolidated financial statements and accompanying notes as of and for the fiscal year ended December 31, 2014 and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our most Annual Report on Form 10-K for the period ended December 31, 2014 (the Form 10-K), (2) our unaudited consolidated financial statements and accompanying notes as of and for the quarter ended March 31, 2015 and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Quarterly Report on Form 10-Q for the period ended March 31, 2015 and (3) the recast financial statements and related Management's Discussion and Analysis of Financial Condition and Results of Operations discussion included in our Current Report on Form 8-K filed on May 18, 2015 to retrospectively reflect the addition of HealthStream Provider Solutions as a new reporting segment of the Company during the first quarter of 2015, for the periods included in the Form 10-K. There has been no change to our previously reported financial statements for the periods reported therein other than the change in business segment presentation.

	For The Year Ended December			Three Months	
		31,		Ended	
	2012	2013	2014	2014	2015
	(in thousands, except per share data)				
STATEMENT OF INCOME DATA					
Revenues, net	\$ 103,732	\$ 132,274	\$ 170,690	\$ 38,350	\$ 47,156
Total operating costs and expenses	90,273	117,608	154,315	35,052	42,366
Income from operations	13,459	14,666	16,375	3,298	4,790
Net income	\$ 7,645	\$ 8,418	\$ 10,394	\$ 1,948	\$ 2,722

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Earnings per share basic	\$ 0.29	\$ 0.31	\$ 0.38	\$ 0.07	\$ 0.10
Earnings per share diluted	\$ 0.28	\$ 0.30	\$ 0.37	\$ 0.07	\$ 0.10
Weighted average shares outstanding basic	26,128	26,853	27,570	27,453	27,703
Weighted average shares outstanding diluted	27,507	27,663	28,023	27,906	28,068

S-11

Table of Contents

	March 31, 2015	
	Actual	As Adjusted⁽¹⁾
	(in thousands)	
BALANCE SHEET DATA		
Cash and cash equivalents and investments in marketable securities	\$ 64,375	\$ 117,540
Goodwill and intangible assets	145,359	145,359
Total assets	299,442	352,607
Deferred revenue, current and noncurrent	70,386	70,386
Long-term debt	28,000	0
Shareholders' equity	171,045	252,210

- (1) As adjusted to give effect to the sale by us of 3,100,000 shares of our common stock in this offering at an assumed public offering price of \$27.73 per share, the last reported sales price of our common stock on The NASDAQ Global Select Market on May 15, 2015, after deducting underwriting discounts and commissions and estimated offering expenses, and the repayment of \$28.0 million of outstanding borrowings under our Revolving Credit Facility, as described under "Use of Proceeds," as if they had occurred on March 31, 2015.

Table of Contents

RISK FACTORS

An investment in the common stock offered by this prospectus supplement involves substantial risk of loss. In consultation with your own financial and legal advisers, you should carefully consider, among other matters, the factors set forth below, as well as the risk factors set forth in any subsequently filed periodic reports that are incorporated by reference in this prospectus supplement and the accompanying prospectus before you decide to purchase shares of our common stock. The risks and uncertainties described below and in such incorporated documents are not the only risks and uncertainties we face. Additional risks and uncertainties not currently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business, results of operations and financial condition could suffer. In that event, the trading price of our common stock could decline, and you may lose all or a part of your investment.

Risks Related to Our Business Model

We may be unable to effectively execute our growth strategy which could have an adverse effect on our business and competitive position in the industry.

Our business strategy includes increasing our market share and presence through sales to new customers, additional sales to existing customers, introductions of new products and services, and maintaining strong relationships with our existing customers. Some of the risks that we may encounter in executing our growth strategy include:

expenses, delays and difficulties of identifying and developing new products or services and integrating such new products or services into our existing organization;

inability to leverage our operational and financial systems sufficiently to support our growth;

inability to generate sufficient revenue from new products to offset investment costs;

inability to effectively identify, manage and exploit existing and emerging market opportunities;

inability to maintain our existing customer relationships;

increased competition from new and existing competitors;

lengthy sales cycles, or customers delaying purchasing decisions due to economic conditions;

reduced spending within the training, information and education departments of hospitals within our target market; and

failure of the market for training, information and education in the healthcare industry to grow to a sufficient size or at a sufficient rate.

If any of these risks are realized, our business, and our competitive position in the industry, could suffer.

We may be unable to effectively identify, complete or integrate the operations of future acquisitions, joint ventures, collaborative arrangements or other strategic investments.

As part of our growth strategy, we actively review possible acquisitions, joint ventures, collaborative arrangements or strategic investments that complement or enhance our business. We may not be able to identify, complete or integrate the operations of future acquisitions, joint ventures, collaborative arrangements or other strategic investments. In addition, if we finance acquisitions, joint ventures, collaborative arrangements or other strategic initiatives by issuing equity securities, our existing shareholders may be diluted which could affect the market price of our stock. As a result, if we fail to properly evaluate and execute acquisitions and investments, our business prospects may be seriously harmed. Some of the risks that we may encounter in implementing our acquisition, joint venture, collaborative arrangement or strategic investment strategies include:

expenses, delays or difficulties in identifying and integrating acquired companies or joint venture operations, collaborative arrangements or other strategic investments into our organization;

Table of Contents

inability to retain personnel associated with acquisitions, joint ventures, collaborative arrangements or other strategic investments;

diversion of management's attention from other initiatives and/or day-to-day operations to effectively execute our growth strategy; and

inability to generate sufficient revenue, profit, and cash flow from acquisitions, joint ventures, collaborative arrangements or other strategic investments to offset our investment costs.

Our ability to accurately forecast revenue for certain products and services may be hindered by customer scheduling.

As revenues from our subscription business continue to increase, a larger portion of our revenues will be predictable; however, quarterly performance may be more subject to fluctuations. Our Patient Experience Solutions products and services are typically contracted by healthcare organizations for multi-year terms, but the frequency, sample size, and timing of survey cycles can vary from quarter to quarter and year to year. The contract structure for some Patient Experience Solutions products gives customers latitude about when to initiate a survey, which can affect quarterly or annual revenue forecasts. Also, other project-based products, such as certain content development, and professional services, are subject to the customers' involvement in the provision of the product or service. The timing and magnitude of these project-based product and service contracts may vary widely from quarter to quarter and year to year, and thus may affect our ability to accurately forecast quarterly and annual financial performance.

Our ability to accurately forecast revenue may be affected by lengthy and widely varying sales cycles.

The period from our initial contact with a potential customer and their first purchase of our solution typically ranges from three to nine months, and in some cases has extended much further. The range in the sales cycle can be impacted by multiple factors, including an increasing trend towards more formal request for proposal processes and more competition within our industry, as well as formal budget timelines which impact timing of purchases by target customers. New products tend to have a longer and more unpredictable revenue ramp period. As a result of these factors, we have only limited ability to forecast the timing and type of initial sales. This, in turn, makes it more difficult to forecast quarterly and annual financial performance.

We may not be able to maintain our competitive position against current and potential competitors, especially those with significantly greater financial, technical, marketing, or oth