

ROSETTA STONE INC
Form 10-Q
August 06, 2015
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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, 2015
Commission file number: 1-34283
Rosetta Stone Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)
1919 North Lynn St., 7th Fl.
Arlington, Virginia
(Address of principal executive offices)

043837082
(I.R.S. Employer
Identification No.)
22209
(Zip Code)

703-387-5800
(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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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 the 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

Indicate the number of shares outstanding of each of the issuer's classes of stock, as of the latest practicable date.

As of July 31, 2015, there were 21,739,894 shares of the registrant's Common Stock, \$.00005 par value, outstanding.

ROSETTA STONE INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ROSETTA STONE INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

(unaudited)

	June 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$29,803	\$64,657
Restricted cash	100	123
Accounts receivable (net of allowance for doubtful accounts of \$1,514 and \$1,434, at June 30, 2015 and December 31, 2014, respectively)	43,530	76,757
Inventory, net	7,636	6,500
Deferred sales commissions	11,426	10,740
Prepaid expenses and other current assets	6,472	5,038
Income tax receivable	1,100	464
Total current assets	100,067	164,279
Deferred sales commissions	5,088	4,362
Property and equipment, net	25,231	25,277
Goodwill	56,892	58,584
Intangible assets, net	31,081	34,377
Other assets	1,898	1,525
Total assets	\$220,257	\$288,404
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$8,762	\$19,548
Accrued compensation	10,148	14,470
Obligations under capital lease	372	594
Other current liabilities	33,786	56,157
Deferred revenue	88,590	95,240
Total current liabilities	141,658	186,009
Deferred revenue	34,577	32,929
Deferred income taxes	1,910	1,554
Obligations under capital lease	2,696	3,154
Other long-term liabilities	991	1,313
Total liabilities	181,832	224,959
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 10,000 and 10,000 shares authorized, zero and zero shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	—	—
Non-designated common stock, \$0.00005 par value, 190,000 and 190,000 shares authorized, 23,156 and 22,936 shares issued and 22,156 and 21,936 shares outstanding at June 30, 2015 and December 31, 2014, respectively	2	2
Additional paid-in capital	181,986	178,554
Accumulated loss	(131,057)	(102,998)

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Accumulated other comprehensive loss	(1,071) (678)
Treasury stock, at cost, 1,000 and 1,000 shares at June 30, 2015 and December 31, 2014, respectively	(11,435) (11,435)
Total stockholders' equity	38,425	63,445	
Total liabilities and stockholders' equity	\$220,257	\$288,404	

See accompanying notes to consolidated financial statements

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ROSETTA STONE INC.
 CONSOLIDATED STATEMENTS OF OPERATIONS
 (in thousands, except per share amounts)
 (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Revenue:				
Product	\$14,209	\$28,125	\$34,183	\$60,497
Subscription and service	37,202	29,190	75,670	57,583
Total revenue	51,411	57,315	109,853	118,080
Cost of revenue:				
Cost of product revenue	3,719	7,269	9,356	15,093
Cost of subscription and service revenue	5,301	4,691	10,966	9,038
Total cost of revenue	9,020	11,960	20,322	24,131
Gross profit	42,391	45,355	89,531	93,949
Operating expenses:				
Sales and marketing	30,555	37,833	70,705	76,930
Research and development	6,953	8,368		