

ROSETTA STONE INC  
Form 10-Q  
August 03, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q  
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended June 30, 2016

Commission file number: 1-34283

Rosetta Stone Inc.

(Exact name of registrant as specified in its charter)

Delaware  
(State of incorporation)

043837082  
(I.R.S. Employer  
Identification No.)

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

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 29, 2016, there were 21,982,235 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, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$29,705	\$ 47,782
Restricted cash	415	80
Accounts receivable (net of allowance for doubtful accounts of \$1,209 and \$1,196, at June 30, 2016 and December 31, 2015, respectively)	35,104	47,327
Inventory	7,952	7,333
Deferred sales commissions	12,333	13,526
Prepaid expenses and other current assets	5,360	3,612
Income tax receivable	1,082	—
Total current assets	91,951	119,660
Deferred sales commissions	4,855	5,614
Property and equipment, net	24,693	22,532
Goodwill	48,839	50,280
Intangible assets, net	24,797	28,244
Other assets	1,784	2,213
Total assets	\$196,919	\$ 228,543
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$9,159	\$ 10,778
Accrued compensation	9,846	8,201
Income tax payable	—	121
Obligations under capital lease	542	521
Other current liabilities	29,923	35,318
Deferred revenue	99,219	106,868
Total current liabilities	148,689	161,807
Deferred revenue	33,145	35,880
Deferred income taxes	5,517	4,998
Obligations under capital lease	2,332	2,622
Other long-term liabilities	664	826
Total liabilities	190,347	206,133
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, 2016 and December 31, 2015, respectively	—	—
Non-designated common stock, \$0.00005 par value, 190,000 and 190,000 shares authorized, 23,452 and 23,150 shares issued and 22,452 and 22,150 shares outstanding at June 30, 2016 and December 31, 2015, respectively	2	2
Additional paid-in capital	187,719	185,863
Accumulated loss	(166,279 )	(149,794 )

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Accumulated other comprehensive loss	(3,435 )	(2,226 )
Treasury stock, at cost, 1,000 and 1,000 shares at June 30, 2016 and December 31, 2015, respectively	(11,435 )	(11,435 )
Total stockholders' equity	6,572	22,410
Total liabilities and stockholders' equity	\$196,919	\$ 228,543

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		Six Months	
	Ended		Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Revenue:				
Product	\$7,959	\$14,209	\$17,990	\$34,183
Subscription and service	37,757	37,202	75,728	75,670
Total revenue	45,716	51,411	93,718	109,853
Cost of revenue:				
Cost of product revenue	2,389	3,719	5,034	9,356
Cost of subscription and service revenue	5,575	5,301	10,978	10,966
Total cost of revenue	7,964	9,020	16,012	20,322
Gross profit	37,752	42,391	77,706	89,531
Operating expenses:				
Sales and marketing	28,740	30,555	59,533	