

ROSETTA STONE INC  
Form 10-Q  
August 08, 2017  
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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, 2017

Commission file number: 1-34283

Rosetta Stone Inc.

(Exact name of registrant as specified in its charter)

Delaware 043837082  
(State of incorporation) (I.R.S. Employer  
Identification No.)

1621 North Kent Street, Suite 1200 22209  
Arlington, Virginia (Zip Code)  
(Address of principal executive offices)

703-387-5800  
(Registrant's telephone number, including area code)

N/A  
(Former name or former address, if changed since last report)

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 August 2, 2017, there were 22,285,515 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, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$26,367	\$ 36,195
Restricted cash	41	402
Accounts receivable (net of allowance for doubtful accounts of \$547 and \$1,072, at June 30, 2017 and December 31, 2016, respectively)	27,980	31,788
Inventory	5,851	6,767
Deferred sales commissions	12,631	14,085
Prepaid expenses and other current assets	4,626	3,813
Total current assets	77,496	93,050
Deferred sales commissions	3,488	4,143
Property and equipment, net	26,670	24,795
Goodwill	49,197	48,251
Intangible assets, net	21,037	22,753
Other assets	1,014	1,318
Total assets	\$178,902	\$ 194,310
Liabilities and stockholders' deficit		
Current liabilities:		
Accounts payable	\$9,476	\$ 10,684
Accrued compensation	7,444	10,777
Income tax payable	564	785
Obligations under capital lease	422	532
Other current liabilities	16,943	22,150
Deferred revenue	98,582	113,821
Total current liabilities	133,431	158,749
Deferred revenue	35,965	27,636
Deferred income taxes	6,801	6,173
Obligations under capital lease	1,975	2,027
Other long-term liabilities	789	1,384
Total liabilities	178,961	195,969
Commitments and contingencies (Note 15)		
Stockholders' deficit:		
Preferred stock, \$0.001 par value; 10,000 and 10,000 shares authorized, zero and zero shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	—	—
Non-designated common stock, \$0.00005 par value, 190,000 and 190,000 shares authorized, 23,790 and 23,451 shares issued and 22,790 and 22,451 shares outstanding at June 30, 2017 and December 31, 2016, respectively	2	2
Additional paid-in capital	192,774	190,827
Accumulated loss	(178,025 )	(177,344 )
Accumulated other comprehensive loss	(3,375 )	(3,709 )

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Treasury stock, at cost, 1,000 and 1,000 shares at June 30, 2017 and December 31, 2016, respectively	(11,435 )	(11,435 )
Total stockholders' deficit	(59 )	(1,659 )
Total liabilities and stockholders' deficit	\$178,902	\$ 194,310

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 June 30, 2017		Six Months Ended June 30, 2017	
	2016	2017	2016	2017
Revenue:				
Subscription and service	\$41,985	\$37,757	\$83,435	\$75,728
Product	\$3,920	\$7,959	10,163	17,990
Total revenue	45,905	45,716	93,598	93,718
Cost of revenue:				
Cost of subscription and service revenue	6,058	5,575	12,592	10,978
Cost of product revenue	1,533	2,389	3,140	5,034
Total cost of revenue	7,591	7,964	15,732	16,012
Gross profit	38,314	37,752	77,866	77,706
Operating expenses:				
Sales and marketing	24,037	28,740		