

ROSETTA STONE INC
Form 10-Q
May 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 March 31, 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 April 30, 2015, there were 21,610,589 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)

	March 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$45,924	\$64,657
Restricted cash	106	123
Accounts receivable (net of allowance for doubtful accounts of \$1,410 and \$1,434, at March 31, 2015 and December 31, 2014, respectively)	50,909	76,757
Inventory, net	8,408	6,500
Deferred sales commissions	10,678	10,740
Prepaid expenses and other current assets	6,258	5,038
Income tax receivable	895	464
Total current assets	123,178	164,279
Deferred sales commissions	4,318	4,362
Property and equipment, net	25,019	25,277
Goodwill	56,402	58,584
Intangible assets, net	32,203	34,377
Other assets	1,787	1,525
Total assets	\$242,907	\$288,404
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$15,071	\$19,548
Accrued compensation	12,981	14,470
Obligations under capital lease	361	594
Other current liabilities	44,914	56,157
Deferred revenue	88,589	95,240
Total current liabilities	161,916	186,009
Deferred revenue	31,634	32,929
Deferred income taxes	1,810	1,554
Obligations under capital lease	2,722	3,154
Other long-term liabilities	1,087	1,313
Total liabilities	199,169	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 March 31, 2015 and December 31, 2014, respectively	—	—
Non-designated common stock, \$0.00005 par value, 190,000 and 190,000 shares authorized, 23,268 and 22,936 shares issued and 22,268 and 21,936 shares outstanding at March 31, 2015 and December 31, 2014, respectively	2	2
Additional paid-in capital	179,878	178,554
Accumulated loss	(122,882)	(102,998)

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Accumulated other comprehensive loss	(1,825) (678)
Treasury stock, at cost, 1,000 and 1,000 shares at March 31, 2015 and December 31, 2014, respectively	(11,435) (11,435)
Total stockholders' equity	43,738	63,445	
Total liabilities and stockholders' equity	\$242,907	\$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 March 31,	
	2015	2014
Revenue:		
Product	\$ 19,974	\$ 32,371
Subscription and service	38,468	28,394
Total revenue	58,442	60,765
Cost of revenue:		
Cost of product revenue	5,637	7,824
Cost of subscription and service revenue	5,665	4,347
Total cost of revenue	11,302	12,171
Gross profit	47,140	48,594
Operating expenses:		
Sales and marketing	40,150	39,096
Research and development	8,972	8,773
General and administrative	15,754	16,054
Impairment	291	2,199
Lease abandonment and termination	—	3,571
Total operating expenses	65,167	69,693
Loss from operations	(18,027) (21,099
Other income and (expense):		
Interest income	4	5
Interest expense	(88) (56
Other income and (expense)	(1,581) 226
Total other income and (expense)	(1,665) 175