

ROSETTA STONE INC
Form S-1/A
November 05, 2008

[QuickLinks](#) -- Click here to rapidly navigate through this document

As filed with the Securities and Exchange Commission on November 5, 2008

Registration No. 333-153632

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Amendment No. 1

to

Form S-1

REGISTRATION STATEMENT

Under

THE SECURITIES ACT OF 1933

Rosetta Stone Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

7372

(Primary Standard Industrial
Classification Code Number)

043837082

(I.R.S. Employer
Identification Number)

1101 Wilson Blvd.

Suite 1130

Arlington, Virginia 22209

Telephone: 800-788-0822

(Address, Including Zip Code, and Telephone Number,
Including Area Code, of Registrant's Principal Executive Offices)

Michael C. Wu

General Counsel

1101 Wilson Blvd., Suite 1130

Arlington, Virginia 22209

Telephone: 800-788-0822

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

Brian P. Fenske

Fulbright & Jaworski, L.L.P.

Fulbright Tower

1301 McKinney, Suite 5100

Houston, Texas 77010

Telephone: (713) 651-5557

Fax: (713) 651-5246

Brent B. Siler

Cooley Godward Kronish LLP

One Freedom Square

11951 Freedom Drive

Reston, Virginia 20190-5656

Telephone: (703) 456-8000

Fax: (703) 456-8100

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

Edgar Filing: ROSETTA STONE INC - Form S-1/A

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Indicate by check mark whether 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. (check one):

Large accelerated filer , Accelerated filer , Non-accelerated filer (do not check if a smaller reporting company) , or Smaller reporting company

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

PROSPECTUS (Subject to Completion)

Issued November 5, 2008

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

Shares

Rosetta Stone Inc.

COMMON STOCK

Rosetta Stone Inc. is offering _____ shares of its common stock and the selling stockholders are offering _____ shares of common stock. We will not receive any proceeds from the sale of shares by the selling stockholders. This is our initial public offering and no public market currently exists for our shares. We anticipate that the public offering price will be between \$ _____ and \$ _____ per share.

We will apply to have our common stock listed on the New York Stock Exchange under the symbol "RST."

Investing in our common stock involves risks. See "Risk Factors" beginning on page 11.

PRICE \$ A SHARE

	<i>Price to Public</i>	<i>Underwriting Discounts and Commissions</i>	<i>Proceeds to Company</i>	<i>Proceeds to Selling Stockholders</i>
<i>Per Share</i>	\$	\$	\$	\$
<i>Total</i>	\$	\$	\$	\$

The selling stockholders have granted the underwriters the right to purchase up to an additional _____ shares of common stock to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Morgan Stanley & Co. Incorporated expects to deliver the shares of common stock to purchasers on _____, 2008.

MORGAN STANLEY

WILLIAM BLAIR & COMPANY

JEFFERIES & COMPANY

PIPER JAFFRAY

ROBERT W. BAIRD & CO.

, 2008

TABLE OF CONTENTS

	Page
Prospectus Summary	1
Risk Factors	11
Special Note Regarding Forward-Looking Statements	31
Use of Proceeds	32
Dividend Policy	32
Capitalization	33
Dilution	35
Selected Consolidated Financial Data	37
Management's Discussion and Analysis of Financial Condition and Results of Operations	40
Business	73
Management	89
Executive Compensation	95
Related Party Transactions	111
Principal and Selling Stockholders	113
Description of Capital Stock	115
Material U.S. Federal Income and Estate Tax Considerations to Non-U.S. Holders	119
Shares Eligible for Future Sale	122
Underwriters	124
Legal Matters	128
Experts	128
Where You Can Find Additional Information	128
Index to Consolidated Financial Statements	F-1

You should rely only on the information contained in this prospectus or in any free-writing prospectus we may specifically authorize to be delivered or made available to you. We have not, the selling stockholders have not and the underwriters have not authorized anyone to provide you with additional or different information. We and the selling stockholders are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information in this prospectus or a free-writing prospectus is accurate only as of its date, regardless of its time of delivery or of any sale of shares of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

Until _____, 2008 (25 days after the commencement of this offering), all dealers that buy, sell or trade shares of our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This delivery requirement is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

Edgar Filing: ROSETTA STONE INC - Form S-1/A

For investors outside the United States: We have not, the selling stockholders have not and the underwriters have not done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about, and observe any restrictions relating to, the offering of the shares of common stock and the distribution of this prospectus outside of the United States.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and does not contain all of the information that you should consider in making your investment decision. Before investing in our common stock, you should carefully read this entire prospectus, including our consolidated financial statements and the related notes and the information set forth under the headings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," in each case included elsewhere in this prospectus.

ROSETTA STONE INC.

Overview

We are a leading provider of technology-based language learning solutions. We develop, market and sell language learning solutions consisting of software, online services and audio practice tools primarily under our *Rosetta Stone* brand. Our teaching method, which we call *Dynamic Immersion*, is designed to leverage the innate, natural language learning ability that children use to learn their native language. Our courses are based on our proprietary interactive technologies and pedagogical content, and utilize a sophisticated sequencing of images, text and sounds to teach a new language without translation or grammar explanation. We believe our award-winning solutions provide an effective, convenient and fun way to learn languages. We currently offer our self-study language learning solutions in 31 languages. Our customers include individuals, educational institutions, armed forces, government agencies and corporations.

The strength and breadth of our solutions have allowed us to develop a business model that we believe distinguishes us from other language learning companies. Our scalable technology platform and our proprietary content can be deployed across many languages. This has enabled us to cost-effectively develop a broad product portfolio. We have a multi-channel marketing and distribution strategy that directly targets customers, utilizing print, online, television and radio advertising, public relations initiatives and our branded kiosks. Approximately 85% of our revenue in 2007 was generated through our direct sales channels, which include our call centers, websites, institutional sales force and kiosks. We also distribute our solutions through select retailers such as Amazon.com, Apple, Barnes & Noble and Borders. According to an August 2008 survey we commissioned from Global Market Insite Inc., or GMI, a market research services firm, *Rosetta Stone* is the most recognized language learning brand in the United States. The unaided awareness of our brand was over 40%, which was more than seven times that of any other language learning company in the United States.

We grew our revenue from our predecessor's \$15.5 million in 2003 to \$137.3 million in 2007, representing a 73% compound annual growth rate. This growth has been entirely organic. For the nine months ended September 30, 2008, our revenue was \$143.1 million, an increase of 52% over the same period in 2007.

Approaches to Language Learning

The human brain has a natural capacity to learn languages. Children learn their native language without using rote memorization or adult analytical abilities for grammatical understanding. They learn at their own pace through their immersion in the language spoken around them and using trial and error. They do not rely on translation.

Traditional language instruction has ignored this natural human experience and ability, and has focused on rote memorization, grammar explanation and word translation, often in a classroom setting. Students in this environment may learn a new language sufficiently to pass examinations but often do not achieve conversational fluency. Many students view this method as ineffective and boring. While self-study alternatives are generally more affordable and convenient than classroom instruction, many of

them rely on this grammar-translation method, often using passive media such as audio and books, which are not interactive and do not provide feedback.

In contrast, immersion instruction, in which only the target language is spoken, leverages the natural human ability to learn languages. Immersion learning has historically been provided through classroom courses, private lessons and in-country immersion programs. These options, however, are often expensive and require students to commute to classrooms or travel to other countries to obtain the immersion experience.

Our Industry

According to a December 2007 industry analysis we commissioned from The Nielsen Company, a market research firm, the worldwide language learning industry represented more than \$83 billion in consumer spending in 2007, of which more than \$32 billion was for self-study. According to the Nielsen survey, the language learning industry in the United States, where we generated 95% of our revenue in 2007, represented more than \$5 billion in consumer spending in 2007, of which more than \$2 billion was for self-study.

The demand for language learning is driven in part by:

individuals seeking the enjoyment and enrichment brought by learning a language;

professionals conducting business in a global economy;

schools seeking to educate their students in local and foreign languages;

companies training their employees;

leisure travelers seeking language proficiency for independent international travel;

armed forces training soldiers to communicate in foreign languages;

immigrants and expatriates seeking to successfully function in their new environments;

individuals connecting with their ethnic and family roots; and

parents supplementing their children's education.

The language learning market is highly fragmented and consists of the following primary models: classroom instruction utilizing the traditional approach of memorization, grammar and translation; immersion-based classroom instruction; self-study books, audio tapes and software that rely on grammar and translation; and free online offerings that provide basic content and opportunities to practice writing and speaking.

We believe that language learners seek a trusted name brand solution that is more convenient and affordable than classroom alternatives, and more effective, interactive and engaging than other self-study options. We believe the combination of these elements is not offered by traditional providers of language instruction.

The Rosetta Stone Solution

Our mission is to change the way people learn languages. We believe our solutions provide an effective way to learn languages in a convenient and engaging manner. Our interactive language learning solutions enable our customers to learn a language on their own schedule

Edgar Filing: ROSETTA STONE INC - Form S-1/A

and for a price that is significantly lower than most classroom-based or one-on-one tutoring alternatives. Our approach, called *Dynamic Immersion*, eliminates translation and grammar explanation and is designed to leverage the innate, natural language learning ability that children use to learn their native language. Our proprietary solutions have been developed over the past 16 years by professionals with extensive

linguistic, educational and instructional technology expertise. We estimate that our content library consists of more than 25,000 individual photographic images and more than 400,000 professionally recorded sound files. We design the sequencing of our content to optimize learning. The result is a rigorous and complete language learning curriculum that is also designed to be flexible, fun and convenient.

Our language learning solutions are built upon a flexible software platform that supports multiple languages and is deployable on personal computers, on local networks and online. The platform incorporates a number of proprietary technologies that are key to enabling language learning, including:

speech recognition that is focused on the unique challenges of language learners;

Adaptive Recall algorithms that repeat content at scheduled intervals to promote long-term retention;

reporting features and curriculum options designed to enhance the effectiveness and administration of classroom, enterprise and home school learning; and

an intuitive user interface that assists the learner's transition from listening comprehension to speaking.

Our courses are available in up to three levels of proficiency per language, with each level providing approximately 40 hours of instruction and containing multiple units, lessons and activities. We have four different editions: personal, enterprise, classroom and home school. Each edition utilizes the same core software.

Our innovative solutions have received numerous awards and recognitions, including the 2008 CODiE awards for best corporate learning solution and best instructional solution in other curriculum areas sponsored by the Software & Information Industry Association, the 2008 education product of the year awarded by MacWorld, the 2008 BESSIE multilevel foreign language award for Spanish Levels 1, 2, and 3 awarded by *ComputED Gazette* in 2008, the 2007 EDDIE multilevel foreign language award for Chinese levels 1 and 2 and a 2007 multilevel English-as-a-second-language, or ESL, award for English levels 1, 2, and 3 awarded by *ComputED Gazette*. The CODiE awards are chosen based upon a peer-review of the nominated software solutions and voted on by member entities of the Software & Information Industry Association and independent judges selected by the association. The other awards were determined by the editorial staffs of the various publications.

We also provide an online peer-to-peer practice environment called *SharedTalk*, at www.sharedtalk.com, where registered language learners meet for language exchange to practice their foreign language skills. Between January 1, 2008 and August 31, 2008, we had more than 100,000 active *SharedTalk* users. In the month of August 2008, there were approximately 13,000 new *SharedTalk* registrations.

Competitive Strengths

We believe our competitive strengths include:

Advanced Technology-Enabled Language Learning System. Our proprietary solutions combine effective immersion learning with the benefits of flexibility and interactivity to provide for an efficient and engaging language learning experience. We intend to remain at the forefront of technological and pedagogical advances in language learning.

Scalable and Adaptable Platform and Content. Our solutions are designed to be efficiently delivered across multiple languages, systems and geographic markets. For example, we deploy many of the same images and image combinations across multiple languages, which accelerates our ability to

add new languages. Because our solutions do not rely upon translation from the target language into the learner's native language, they require only modest localization to be used by learners from other native language backgrounds. This facilitates our ability to sell our existing language courses in new international markets. In addition, our software platform is engineered to work in the same way both online and locally installed, allowing for multiple delivery methods. We also use the same platform for all four editions of our solutions.

Effective Multi-Channel Marketing and Distribution Model. Our marketing, sales and distribution efforts are highly integrated and focused on direct interaction with consumers. As a result, we are able to present a tightly controlled and unified message to the marketplace. Our advertising includes a call to action that drives customers directly to our websites and call centers. Our marketing tools and techniques allow us to directly attribute sales results to specific marketing initiatives. We utilize this data to continuously improve the efficiency of our websites, call centers, advertising and media planning and buying. We also operate more than 150 kiosks, which extend our direct interaction with customers and allow them to experience our solutions with the guidance of one of our product specialists. In our institutional markets, our sales efforts are led by our direct sales force. We augment our direct distribution network with select retailers, including Amazon.com, Apple, Barnes & Noble and Borders.

Leading and Trusted Brand, with a Differentiated, High-Quality Positioning. According to the GMI survey, *Rosetta Stone* is the most recognized brand of language learning solutions in the United States. Additionally, of those surveyed who had an opinion of the brand, over 80% associated the brand with high-quality and effective products and services for teaching foreign languages. We believe we have positioned *Rosetta Stone* as a premium brand and as a trusted choice for language learning.

Enthusiastic and Loyal Customer Base. Our customers exhibit loyalty and enthusiasm for our solutions and many promote sales of our products through word-of-mouth referrals. Our latest survey of our individual customers in the United States, completed in February 2008, revealed that 86% of respondents expressed satisfaction with our solutions and 69% have recommended our solutions to one or more individuals.

Our Strategy

Our goal is to strengthen our position as a leading provider of language learning solutions through the following strategies:

Extend Our Technological and Product Leadership. We intend to apply new technologies to maintain our product leadership. We currently are working on a variety of product development initiatives. For example, we are developing a new web-based service that extends our existing language learning solutions by offering opportunities for practice with dedicated language conversation coaches and other language learners to increase language socialization. We expect to provide this web-based service primarily as a bundle with our software and audio offerings. In addition, we are evaluating opportunities to extend our learning solutions to hand-held devices and we also intend to continue to advance our proprietary software platform and our speech recognition technology.

Expand Our Core Product Portfolio. We plan to expand our product portfolio by adding more advanced course levels for our existing languages, new languages and new skill development and remediation courses for advanced language learners. In addition, we believe that there may be opportunities for us to introduce additional language learning solutions containing industry-specific content.

Increase U.S. Market Share. To increase our penetration of the U.S. market and expand our brand awareness, we intend to increase our marketing campaigns through the purchase of additional television, print, radio and online advertising, and to explore new media channels. We also intend to

continue to add select retail relationships and kiosks. For example, a selection of our solutions has recently become available in Apple stores and at *Apple.com*. For our institutional business, we expect to expand our direct sales force along with our institutional marketing activities.

Increase Our Focus on Sizeable Non-U.S. Markets. We generated approximately 5% of our revenue in 2007 from sales outside the United States. According to the Nielsen survey, over 90% of the \$83 billion spent in 2007 on consumer language learning products and services worldwide was spent outside the United States. We therefore believe that there is a significant opportunity for us to expand our business internationally utilizing many of the successful marketing and distribution strategies we have used in the United States.

Risks Associated with Our Business

Our business is subject to numerous risks, as discussed more fully in the section entitled "Risk Factors" immediately following this prospectus summary. A decline in demand for our language learning solutions or language learning in general could impair our ability to generate revenue and compromise our profitability, as could the growth of free language learning software and online services and intense competition in our industry. Because approximately 78% of our revenue was generated from consumer sales in 2007, adverse trends in general economic conditions, including retail shopping patterns, may also adversely affect our sales. If we do not keep pace with technological developments and consumer preferences, demand for our products and services could decline.

Corporate Information

We were incorporated in Delaware in December 2005 and acquired our predecessor, Fairfield & Sons, Ltd., in January 2006. Our principal executive offices are located at 1101 Wilson Blvd., Suite 1130, Arlington, Virginia 22209 and our telephone number is 800-788-0822. Our corporate website address is *www.RosettaStone.com*. We do not incorporate the information contained on, or accessible through, our corporate website into this prospectus, and you should not consider it part of this prospectus.

For convenience in this prospectus, "Rosetta Stone," "we," "us," "our" and "Successor" refer to Rosetta Stone Inc. and its subsidiaries, taken as a whole, unless otherwise noted. Predecessor refers to Fairfield & Sons, Ltd.

We have a number of registered marks, including *Rosetta Stone*®, *Rosetta World*®, *Rosetta Stone Language Learning Success*® and design, *Dynamic Immersion*®, *The Fastest Way to Learn a Language Guaranteed*.®, the Rosetta Stone blue stone logo and design and *Rosettastone.com*®. We have applied to register our *Adaptive Recall*, *Audio Companion*, the Rosetta Stone blue stone logo and design/*Language Learning Success* and *SharedTalk* trademarks. This prospectus also contains trademarks and trade names of other companies. All trademarks and trade names appearing in this prospectus are the property of their respective holders.

THE OFFERING

Common stock offered by Rosetta Stone	shares
Common stock offered by the selling stockholders	shares
Total common stock offered	shares
Total common stock to be outstanding after this offering	shares
Use of proceeds	

We intend to use a portion of the net proceeds from this offering to repay the outstanding balance under our credit facilities, which was approximately \$10.8 million as of September 30, 2008, and we intend to use the remaining net proceeds for working capital and other general corporate purposes, which may include the acquisition of other businesses, products or technologies. We do not, however, have agreements or commitments for any specific acquisitions at this time. We will not receive any proceeds from the sale of shares by the selling stockholders. See "Use of Proceeds."

Risk factors See "Risk Factors" for a discussion of factors that you should consider carefully before deciding whether to purchase shares of our common stock.

Proposed New York Stock Exchange symbol "RST"

The number of shares of our common stock to be outstanding after this offering is based on the number of shares outstanding as of September 30, 2008. Such number of shares excludes:

1,211,932 shares of common stock issuable upon the exercise of options outstanding as of September 30, 2008 with a weighted average exercise price of \$7.52 per share;

170,015 shares of common stock reserved for future issuance under our 2006 Stock Option Plan; and

shares of common stock reserved for future issuance under our 2008 Omnibus Incentive Plan.

Unless otherwise indicated, the information in this prospectus reflects and assumes:

the conversion of all outstanding shares of our preferred stock into 11,159,780 shares of our common stock, which will occur automatically immediately prior to the closing of the offering;

the filing of our second amended and restated certificate of incorporation and adoption of our second amended and restated bylaws immediately prior to the closing of the offering; and

no exercise by the underwriters of their option to purchase up to an additional shares of our common stock from the selling stockholders to cover over-allotments.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following table sets forth a summary of our consolidated statement of operations, balance sheet and other data for the periods indicated. The summary consolidated statement of operations data for the period from January 4, 2006 through December 31, 2006 and the year ended December 31, 2007 have been derived from Rosetta Stone Inc., or the Successor, audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated financial data for the year ended December 31, 2005 and the period from January 1, 2006 through January 4, 2006 represent the operations of Fairfield & Sons, Ltd., or the Predecessor, all of the outstanding stock of which was acquired by Rosetta Stone Inc. on January 4, 2006, and have been derived from Predecessor audited consolidated financial statements included elsewhere in this prospectus. Our summary consolidated financial data for the nine months ended September 30, 2007 and as of and for the nine months ended September 30, 2008 have been derived from our unaudited Successor consolidated financial statements included elsewhere in this prospectus. You should read this information together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements contained elsewhere in this prospectus.

The Predecessor incurred transaction-related expenses during the period from January 1, 2006 to January 4, 2006 relating to the acquisition by Rosetta Stone Inc. on January 4, 2006. Included in these expenses were \$5.9 million related to restricted common stock, \$3.1 million in cash bonuses and \$1.2 million in acquisition-related bank fees.

We have presented the summary balance sheet data as of September 30, 2008:

on an actual basis;

on a pro forma basis to give effect to the conversion of all outstanding shares of our convertible preferred stock into an aggregate of 11,159,780 shares of our common stock, which will occur automatically immediately prior to the closing of this offering, and the payment by us of \$ million on , 2008 to federal and state taxing authorities to satisfy the tax withholding obligations of the recipients of our , 2008 stock grants who elected to satisfy their tax withholding obligations related to these stock grants by having us withhold a portion of the shares they would otherwise have received rather than paying us an equivalent amount of cash; and

on a pro forma as adjusted basis to give further effect to our sale of shares of common stock in this offering at an assumed initial public offering price of \$ per share, which is the midpoint of the range set forth on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, and our use of a portion of the proceeds from that sale to repay debt.

Each \$1.00 increase or decrease in the assumed initial public offering price of \$ per share, which is the midpoint of the range set forth on the cover page of this prospectus, would increase or decrease each of cash and cash equivalents, total assets and total stockholders' equity on a pro forma as adjusted basis by approximately \$ million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same. The pro forma as adjusted information presented in the summary balance sheet data is illustrative only and will change based on the actual initial public offering price and other terms of this offering determined at pricing.

Edgar Filing: ROSETTA STONE INC - Form S-1/A

	Predecessor			Successor		
	Year Ended	Period from January 1, through January 4, 2006	Period from January 4, through December 31, 2006	Year Ended December 31, 2007	Nine Months Ended September 30, 2007 2008	
	December 31, 2005	2006	2006	2007	2007	2008
Statement of Operations Data:						
Revenue:						
Product	\$ 44,278	\$ 178	\$ 80,604	\$ 119,897	\$ 81,834	\$ 124,988
Subscription and service	4,124	94	10,694	17,424	12,479	18,143
Total revenue	48,402	272	91,298	137,321	94,313	143,131
Cost of revenue:						
Cost of product revenue	7,772	199	11,549	19,055	13,499	17,869
Cost of subscription and service revenue	470	4	992	1,632	1,136	1,789
Total cost of revenue	8,242	203	12,541	20,687	14,635	19,658
Gross margin	40,160	69	78,757	116,634	79,678	123,473
Operating expenses:						
Sales and marketing	22,432	695	45,854	65,437	45,394	65,510
Research and development	2,819	41	8,117	12,893	9,524	13,308
Acquired in-process research and development			12,597			
General and administrative	8,157	142	16,590	29,786	22,033	26,272
Transaction-related expenses		10,315				
Total operating expenses	33,408	11,193	83,158	108,116	76,951	105,090
Income (loss) from operations	6,752	(11,124)	(4,401)	8,518	2,727	18,383
Other income and expense:						
Interest income	38		613	673	520	423
Interest expense			(1,560)	(1,331)	(1,025)	(714)
Other income	134	3	60	154	186	81
Total other income (expense)	172	3	(887)	(504)	(319)	(210)
Income (loss) before income taxes	6,924	(11,121)	(5,288)	8,014	2,408	18,173
Income tax expense (benefit)	143		(1,240)	5,435	2,106	9,222
Net income (loss)	6,781	(11,121)	(4,048)	2,579	302	8,951
Preferred stock accretion			(159)	(80)	(60)	