

ROSETTA STONE INC  
Form 10-Q  
August 02, 2018  
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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, 2018

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 July 27, 2018, there were 22,808,542 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, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$20,925	\$ 42,964
Restricted cash	73	72
Accounts receivable (net of allowance for doubtful accounts of \$342 and \$375, at June 30, 2018 and December 31, 2017, respectively)	23,253	24,517
Inventory	2,114	3,536
Deferred sales commissions	9,495	14,466
Prepaid expenses and other current assets	4,357	4,543
Total current assets	60,217	90,098
Deferred sales commissions	6,614	3,306
Property and equipment, net	33,550	30,649
Goodwill	49,471	49,857
Intangible assets, net	17,369	19,184
Other assets	2,027	1,661
Total assets	\$ 169,248	\$ 194,755
Liabilities and stockholders' (deficit) equity		
Current liabilities:		
Accounts payable	\$10,557	\$ 8,984
Accrued compensation	6,336	10,948
Income tax payable	48	384
Obligations under capital lease	452	450
Other current liabilities	12,628	16,454
Deferred revenue	93,530	110,670
Total current liabilities	123,551	147,890
Deferred revenue	46,187	40,593
Deferred income taxes	2,084	1,968
Obligations under capital lease	1,589	1,850
Other long-term liabilities	32	31
Total liabilities	173,443	192,332
Commitments and contingencies (Note 15)		
Stockholders' (deficit) equity:		
Preferred stock, \$0.001 par value; 10,000 and 10,000 shares authorized, zero and zero shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	—	—
Non-designated common stock, \$0.00005 par value, 190,000 and 190,000 shares authorized, 24,262 and 23,783 shares issued and 23,262 and 22,783 shares outstanding at June 30, 2018 and December 31, 2017, respectively	2	2
Additional paid-in capital	198,896	195,644
Accumulated loss	(188,679 )	(178,890 )
Accumulated other comprehensive loss	(2,979 )	(2,898 )

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Treasury stock, at cost, 1,000 and 1,000 shares at June 30, 2018 and December 31, 2017, respectively	(11,435 )	(11,435 )
Total stockholders' (deficit) equity	(4,195 )	2,423
Total liabilities and stockholders' (deficit) equity	\$169,248	\$ 194,755

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, 2018		Six Months Ended June 30, 2017	
Revenue:				
Subscription and service	\$42,678	\$41,985	\$84,176	\$83,435
Product	824	3,920	2,134	10,163
Total revenue	43,502	45,905	86,310	93,598
Cost of revenue:				
Cost of subscription and service revenue	7,258	6,058	14,632	12,592
Cost of product revenue	672	1,533	2,732	3,140
Total cost of revenue	7,930	7,591	17,364	15,732
Gross profit	35,572	38,314	68,946	77,866
Operating expenses:				
Sales and marketing	24,874	24,037	49,065	