

ROSETTA STONE INC
Form DEF 14A
April 08, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under §240.14a-12

ROSETTA STONE INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set
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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

April 8, 2016

Dear Stockholder:

You are cordially invited to attend the 2016 Annual Meeting of Stockholders of Rosetta Stone Inc. (the "Company" or "Rosetta Stone"), which will be held at our principal executive offices located at 1919 North Lynn Street, 7th Floor, Arlington, Virginia 22209, on Thursday, May 19, 2016, at 3:00 p.m., local time.

Whether or not you plan to attend the 2016 Annual Meeting, it is important that your shares be represented and voted at the 2016 Annual Meeting. We encourage you to vote your shares according to the instructions on the enclosed proxy card or on the Notice of Internet Availability of Proxy Materials. If you decide to attend the 2016 Annual Meeting and vote in person, you may withdraw your proxy at that time.

To assist you in voting your shares, you will find enclosed the Notice of 2016 Annual Meeting of Stockholders, the 2016 Proxy Statement and our 2015 Annual Report on Form 10-K, which includes the Company's audited financial statements.

On behalf of the Board of Directors and employees of Rosetta Stone, we thank you for your continued interest in and support of the Company.

Sincerely,
A. John Hass III
President, Chief Executive Officer and Chairman of the Board

Your vote is important. Please vote promptly.
You may vote according to the instructions
on the enclosed proxy card or
Notice of Internet Availability of Proxy Materials.

NOTICE OF 2016 ANNUAL MEETING OF STOCKHOLDERS

Dear Stockholder:

You are cordially invited to attend our 2016 Annual Meeting of Stockholders, which will be held at 3:00 p.m. local time on May 19, 2016 at our principal executive offices located at 1919 North Lynn Street, 7th Floor, Arlington, Virginia 22209 for the following purposes:

1. Elect three Class I directors nominated by our Board of Directors to hold office until our Annual Meeting of Stockholders in 2019, or until their respective successors have been elected;
2. Ratify the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2016;
3. Conduct an advisory vote on the compensation of the named executive officers; and
4. Consider any other matters that may properly be brought before the meeting.

A proxy statement describing the matters to be considered at the 2016 Annual Meeting is attached to this notice. Only stockholders who owned our stock at the close of business on March 25, 2016 may vote at the meeting, or at any adjournment or postponement of the meeting.

Your vote is important. Whether or not you plan to attend the meeting, please cast your vote, as instructed in the Notice of Internet Availability of Proxy Materials and/or the Proxy Card sent to you, as promptly as possible.

By order of our Board of Directors,

Sonia G. Cudd
General Counsel and Secretary

Arlington, Virginia
April 8, 2016

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be held on May 19, 2016 at 3:00 p.m. local time at 1919 North Lynn Street, 7th Floor, Arlington, Virginia 22209.

The proxy statement and annual report are available at <http://investors.rosettastone.com>.

The Board of Directors recommends that you vote FOR each of the proposals identified above.

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ROSETTA STONE INC.

1919 North Lynn Street, 7th Floor
Arlington, Virginia 22209

PROXY STATEMENT FOR THE
2016 ANNUAL MEETING OF STOCKHOLDERS
INFORMATION ABOUT THE MEETING, VOTING AND PROXIES
Date, Time and Place of Meeting

Our Board of Directors (the "Board") is asking for your proxy for use at the Rosetta Stone Inc. 2016 Annual Meeting of Stockholders (the "2016 Annual Meeting") and at any adjournment or postponement thereof for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. We are holding the Annual Meeting on Thursday, May 19, 2016 at 3:00 p.m. local time at our principal executive offices at 1919 North Lynn Street, 7th Floor, Arlington, Virginia 22209. Directions to the Annual Meeting may be found at <http://www.rosettastone.com/directions>. We have first released this proxy statement to our stockholders beginning on or about April 8, 2016.

Internet Availability of Proxy Materials

Under rules adopted by the U.S. Securities and Exchange Commission (the "SEC"), we furnish our proxy materials on the Internet. Instructions on how to access and review the proxy materials on the Internet can be found on the proxy card sent to stockholders of record and on the Notice of Internet Availability of Proxy Materials (the "Notice") sent to stockholders who hold their shares through a brokerage firm or bank, also referred to as holding shares in street name. The Notice will also include instructions for stockholders who hold their shares in street name on how to vote over the Internet.

Record Date, Outstanding Shares and Quorum

Only holders of record of our common stock on March 25, 2016 (the "Record Date"), effectively at the close of business on March 24, 2016 due to market holiday, will be entitled to vote at the 2016 Annual Meeting. On the Record Date, we had approximately 21,903,388 shares outstanding and entitled to vote. We need a quorum to take action at the 2016 Annual Meeting. We will have a quorum if a majority of the shares outstanding and entitled to vote on the Record Date are present at the 2016 Annual Meeting, either in person or represented by proxy.

If by the date of the Annual Meeting we do not receive sufficient shares to constitute a quorum or approve one or more of the proposals, the Chairman of the Annual Meeting, or the persons named as proxies, may propose one or more adjournments of the Annual Meeting to permit further solicitation of proxies. The persons named as proxies would typically exercise their authority to vote in favor of adjournment.

Voting Rights

Holders of our common stock are entitled to one vote for each share they own on the Record Date. Cumulative voting for directors is not permitted. The Inspector of Elections appointed for the 2016 Annual Meeting will tabulate all votes. The Inspector will separately tabulate for and against votes, withhold votes, abstentions and broker non-votes for each proposal, as applicable.

Voting and Revoking Proxies

Our Board of Directors is soliciting proxies to vote your shares at the 2016 Annual Meeting. If you attend the 2016 Annual Meeting, you may submit your vote in person, and any proxy that you previously submitted may be revoked

and superseded by the vote that you cast at the 2016 Annual Meeting.

If you properly submit your proxy, and do not revoke it prior to the 2016 Annual Meeting, your shares will be voted in the manner described in this proxy statement or as you may otherwise direct. If you sign and return your proxy card, but do not give any voting instructions, your shares will be voted in favor of the election of each of the director nominees listed in Proposal 1 and in favor of Proposals 2 and 3. As far as we know, no other matters will be presented at the 2016 Annual Meeting. However, if any other matters of business are properly presented, the proxy holders named on the proxy card are authorized to vote the shares represented by proxies according to their judgment.

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Whether you submit your proxy via the Internet or by mail, you may revoke it at any time before voting takes place at the 2016 Annual Meeting. If you are the record holder of your shares and you wish to revoke your proxy, you must deliver instructions to the General Counsel and Secretary, at Rosetta Stone Inc., 1919 North Lynn Street, 7th Floor, Arlington, Virginia 22209. You may also revoke a proxy by submitting a later-dated proxy or by voting in person at the 2016 Annual Meeting. Please note that if a broker, bank or other nominee is the record holder of your shares and you wish to vote at the 2016 Annual Meeting, you must bring to the 2016 Annual Meeting a letter from the record holder confirming your beneficial ownership of the shares. If a broker, bank or other nominee is the record holder of your shares and you wish to revoke your proxy, you must contact the record holder of your shares directly.

Abstentions and Broker Non-Votes

Any shares represented by proxies that are marked to abstain from voting on a proposal will be counted as present in determining whether we have a quorum. They will also be counted in determining the total number of shares entitled to vote on a proposal.

If your shares are held in street name and you do not instruct your broker on how to vote your shares, your broker, in its discretion, may either leave your shares un-voted or vote your shares on certain routine matters. However, the New York Stock Exchange (the "NYSE") precludes brokers from exercising voting discretion on certain proposals without specific instructions from the beneficial owner. Importantly, NYSE rules expressly prohibit brokers holding shares in street name for their beneficial holder clients from voting in uncontested director elections or executive compensation matters, including say-on-pay proposals, without receiving specific voting instructions from those clients. Under NYSE rules, only Proposal No. 2 (ratifying the selection of our independent registered public accounting firm) should be treated as a routine matter on which a broker can exercise its discretion and vote your shares without specific instructions. If your broker votes on your behalf on this proposal, your shares also will be counted as present for the purpose of determining a quorum. Proposals 1 and 3 are not considered routine matters, and, without your instruction, your broker cannot vote your shares with respect to these proposals. If a broker, bank, custodian, nominee or other record holder of Rosetta Stone stock indicates on a proxy that it does not have discretionary authority to vote certain shares on a particular matter, these shares (called "broker non-votes") will be counted as present in determining whether we have a quorum.

Soliciting Proxies

We will pay all expenses of soliciting proxies to be voted at the 2016 Annual Meeting. After the proxies are initially distributed, we and/or our directors, officers and regular employees may also solicit proxies by mail, electronic mail, telephone or in person. We will ask brokers, custodians, nominees and other record holders to prepare and send the Notice to people or entities for which they hold shares and forward copies of the proxy materials to beneficial owners who request paper copies, and we may reimburse them for their expense in doing so.

Delivery of Voting Materials to Stockholders Sharing an Address

To reduce the expense of delivering duplicate materials to stockholders sharing the same address, we have adopted a procedure approved by the SEC called "householding." Under this procedure, certain stockholders of record who have the same address and last name and do not participate in electronic delivery of proxy materials will receive only one copy of the Notice, Annual Report on Form 10-K and proxy materials, as applicable, sent to stockholders until such time as one or more of these stockholders notifies us that they wish to receive individual copies. In addition, your broker or bank may also follow this procedure. This procedure will reduce duplicate mailings and save printing costs and postage fees, as well as natural resources.

How to Obtain a Separate Set of Voting Materials

If you would like to have additional copies of our Notice, Annual Report on Form 10-K and proxy materials, as applicable, mailed to you, please submit your request to the General Counsel and Secretary, Rosetta Stone Inc., 1919 North Lynn Street, 7th Floor, Arlington, Virginia 22209, or call the General Counsel and Secretary at (703) 387-5800 and we will promptly deliver these materials to you. Copies of our Annual Report on Form 10-K do not include exhibits unless exhibits are specifically requested in writing. You may also contact us at the address or phone number above if you received multiple copies of materials for the 2016 Annual Meeting and would prefer to receive a single copy in the future. If you would like to opt out of householding for future mailings, call the General Counsel and Secretary at (703) 387-5800 or send a written request to the General Counsel and Secretary at the above address.

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Annual Report on Form 10-K and Additional Materials

The Notice of Annual Meeting, this Proxy Statement and our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 have been made available to all stockholders entitled to vote at the 2016 Annual Meeting and who received the Notice. The Annual Report on Form 10-K can also be viewed at <http://investors.RosettaStone.com>.

OUR BOARD OF DIRECTORS AND NOMINEES

Our Board of Directors currently consists of eight directors and is divided into three classes, with the nominees for one class to be elected at each annual meeting of stockholders, to hold office for a three-year term and until successors of the members of such class have been elected and qualified, subject to their earlier death, resignation or removal. In March 2015, Stephen M. Swad resigned from the Board of Directors. In April 2015, the Board appointed David Nierenberg to the Board. In January 2016, Marguerite W. Kondracke resigned from the Board of Directors. Ms. Kondracke has been a valued member of the Company's Board of Directors since 2011 and served on the Compensation Committee prior to her resignation. Immediately following Ms. Kondracke's resignation from our Board, our Board of Directors unanimously voted to reduce the size of the Board from nine to eight directors.

In March 2016, Laura Witt provided notice of her decision to resign from our Board of Directors, effective the date of the Company's 2016 Annual Meeting. Upon Ms. Witt's resignation, the Board's size will automatically reduce from eight to seven. Our Board of Directors believes that the board composition and size following Mses. Kondracke and Witt's resignations is sufficient to provide all required oversight, governance, and related board duties.

Only the terms of the Class I directors are scheduled to expire on the date of the upcoming Annual Meeting. Based on the recommendation of the Corporate Governance and Nominating Committee of our Board of Directors, the nominees for election to the Board of Directors by the stockholders are three current Class I members of our Board, who are A. John Hass III, David Nierenberg and Steven P. Yankovich. If elected, the nominees will serve as directors until the Annual Meeting of Stockholders in 2019 and until their successors are elected and qualified, subject to their earlier death, resignation or removal.

The names and certain information about the nominee directors and the continuing directors in each of the other two classes of our Board are set forth below. There are no family relationships among any of our directors or executive officers.

It is intended that the proxy will be voted, unless otherwise indicated, for the election of the nominees as Class I directors to our Board of Directors. If any of the nominees should for any reason be unable or unwilling to serve at any time prior to the 2016 Annual Meeting, the proxies may be voted for the election of a substitute nominee that our Board may designate in place of such nominee.

Because the upcoming Annual Meeting will trigger the expiration of the terms of only the Class I directors, proxies cannot be voted for more than three director nominees. The three candidates receiving the highest number of affirmative votes of the shares of our common stock entitled to vote at the Annual Meeting will be elected Class I directors to serve for a three-year term and until their successors have been duly elected and qualified, subject to their earlier death, resignation or removal.

Nominees for Class I Directors

The name and age as of April 8, 2016 of each nominee director, his or her position with us, the year in which he or she first became a director and certain biographical information are set forth below:

Name	Age	Positions and Offices Held with the Company	Director Since
A. John Hass III	50	Chairman of the Board, President and Chief Executive Officer	2014
David Nierenberg	62	Director	2015

Steven P. Yankovich

55 Director

2014

Directors Standing for Election

Incumbent Nominees

Each of the incumbent directors listed below was nominated for election by our Board of Directors upon recommendation by the Corporate Governance and Nominating Committee and has agreed to stand for election to a three-year term. Information concerning the incumbent nominees for director is provided below.

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A. John Hass III was appointed to serve as a director in November 2014. Mr. Hass was appointed to the Board pursuant to a Nomination and Support Agreement, dated November 18, 2014, between the Company and the Osmium Parties (as defined therein), and signed a Director Agreement. For more information, see "Corporate Governance – Nomination and Standstill Agreement and Appointment of A. John Hass III to the Board of Directors." There is no other agreement or understanding between Mr. Hass and any other person pursuant to which he was appointed to the Board. The Board of Directors appointed Mr. Hass to serve as the Company's Chief Executive Officer, President and Chairman of the Board effective April 1, 2016. Previously, Mr. Hass served as Interim President and Chief Executive Officer from April 1, 2015 to April 1, 2016. In addition, Mr. Hass is a private investor and advisor to for-profit and non-profit entities. From September 2012 until November 2014, he was a senior advisor to Osmium Partners, LLC, an alternative asset management firm and a stockholder of the Company. Mr. Hass was a partner at PEAK6 Investments, L.P., a financial services company, from October 2008 through September 2012 and was the Senior Financial Officer of PEAK6 Investments, L.P. from February 2009 through June 2010. Mr. Hass was the Chief Executive Officer of OptionsHouse, a brokerage company and subsidiary of PEAK6 Investments, L.P., from October 2006 until September 2008. From 1988 to October 2006, he was employed at Goldman, Sachs & Co., a subsidiary of the financial services company, The Goldman Sachs Group, Inc., most recently as a Managing Director in the Investment Banking Division. He also serves on the boards of a number of privately held for-profit businesses. In addition, Mr. Hass serves on the board of directors of WITNESS, Inc., a global-human rights nonprofit, and serves as a trustee of The Museum of Contemporary Photography. Mr. Hass received his Bachelor of Science in Finance from the University of Illinois at Urbana-Champaign.

Our Board of Directors believes that Mr. Hass is particularly qualified to serve as a director based on his familiarity with Rosetta Stone's business and strategies, along with his broad experience in the banking and financial services industry.

David Nierenberg was appointed to serve as a director in April 2015. Mr. Nierenberg serves as the President of Nierenberg Investment Management Company, Inc. ("NIMCO"), which manages the D3 Family Funds. Several of the D3 Family Funds, NIMCO and Mr. Nierenberg are stockholders of the Company. Before founding NIMCO in 1996, Mr. Nierenberg was a General Partner at Trinity Ventures, a venture capital fund. Mr. Nierenberg began his career at Bain & Company Inc., where he was a Partner, managing strategy, acquisition, and cost reduction projects. Mr. Nierenberg is also a member of the board of directors of Kuni Automotive. He serves as Vice-Chair of the Advisory Board of the Ira M. Millstein Center for Global Markets and Corporate Ownership at Columbia Law School. Mr. Nierenberg serves as a member of the Research Advisory Council of Glass, Lewis & Co. He is also a member of the Washington State Investment Board and the Board of Trustees of Whitman College. Mr. Nierenberg received his Juris Doctor from Yale Law School and his B.A. in History, summa cum laude, from Yale College.

Our Board of Directors believes that Mr. Nierenberg is particularly qualified to serve as a director based on his significant expertise in strategic planning and corporate governance, along with his broad-based business knowledge. In addition, Mr. Nierenberg's finance and operations experience qualify him as an audit committee financial expert, and his service on other public company boards provides significant insight into the Company's corporate governance.

Steven P. Yankovich was appointed to serve as a director in October 2014. Currently, Mr. Yankovich serves as Chief Product Officer at Magento Commerce. From February 2015 to November 2015, he led the creation of mobile, e-commerce and retail technology and business innovations at eBay Inc. as Vice President of Product & Technology of eBay Enterprise. Mr. Yankovich previously served as Vice President of Innovation and New Ventures at eBay Inc. from December 2012 to January 2015, as well as Vice President of Mobile at eBay Inc. from March 2009 to December 2012, in which position he was responsible for product and business development across mobile ecosystems. Mr. Yankovich has also served as a board member of PayPal's Giving Fund since 2013 and serves as a Board Observer at Appcelerator and a Venture Advisor at Relay Ventures. Prior to joining eBay, Mr. Yankovich was

an Entrepreneur In Residence at Adobe from September 2007 to December 2009. From April 1998 to June 2007, Mr. Yankovich was the Founder and CTO of Movaris Inc., an enterprise business process automation software company serving Fortune 500 companies. Earlier in his career, Mr. Yankovich served in various technical and technical management roles in the computer hardware and design automation space. As a technologist, Mr. Yankovich holds six patents and has thirty patents pending.

Our Board of Directors believes that Mr. Yankovich is particularly qualified to serve as a director based on his expertise in technology, e-commerce, mobile and digital environments. Mr. Yankovich also brings unique entrepreneurial and business experience to the Board.

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Directors Not Standing for Election

The names and certain biographical information as of April 15, 2016 about the other members of our Board of Directors who are not standing for election at the Annual Meeting are set forth below:

Name	Age	Positions and Offices Held with the Company	Director Since
James P. Bankoff	47	Director	2012
Laurence Franklin	63	Director	2006
Patrick W. Gross	71	Director	2006
Caroline J. Tsay	34	Director	2014
Laura L. Witt	47	Director	2005

Class II Directors Serving Until the 2017 Annual Meeting of Stockholders

James P. Bankoff has served as a director since November 2012, and as the Chair of our Consumer Advisory Committee since June 2015, when the committee was formed. Mr. Bankoff also served as Chair of our Product and Technology Committee from November 2014 until it was disbanded in May 2015 and replaced by the Consumer Advisory Committee. Mr. Bankoff is Chairman and Chief Executive Officer of Vox Media, Inc. ("Vox Media"), a publisher of major digital consumer media brands. He has served in this capacity since 2009. Immediately prior to joining Vox Media, Mr. Bankoff served as a Senior Adviser with Providence Equity Partners ("Providence"), a leading private equity firm focused on media and telecommunications. Prior to joining Providence in 2008, he served as Executive Vice President of Programming and Products at AOL Inc. ("AOL"). Mr. Bankoff joined AOL in 1995 and held a number of leadership positions, including the following: President, AOL Web Properties; President, Netscape; and Vice President of Strategy and Operations, AOL brand. Mr. Bankoff also served on the board of Audible, Inc., from June 2007 to March 2008. Mr. Bankoff holds an M.B.A. from the Wharton School of the University of Pennsylvania and a B.A. from Emory University.

Our Board of Directors believes that Mr. Bankoff is particularly qualified to serve as a director based on his extensive experience as an Internet innovator with leadership experience in creating unique digital publishing brands and websites. Mr. Bankoff also brings his corporate leadership experience, online industry expertise and strategic focus to our Board.

Laurence Franklin has served as a director since May 2006 and as the Chair of our Audit Committee since February 2012. He previously served as the Chairman of the Board of Directors from February 2011 to February 2012. Since April 2014, he has served as managing partner of LF Enterprises, LLC, a private investment and business advisory firm. Mr. Franklin previously served as the Chief Executive Officer of Frette Srl, a leading manufacturer and retailer of luxury linens and home furnishings, from July 2011 until January 2014. Mr. Franklin served as President and Chief Executive Officer of Tumi Inc. ("Tumi"), a manufacturer and retailer of luxury travel, business and lifestyle accessories, from 2002 until 2009, and was a board member of Tumi until 2011. Prior to joining Tumi, Mr. Franklin served as President of Coach Leatherware Company, Inc. and General Manager of Elizabeth Arden Inc. Mr. Franklin began his career at Peat Marwick Mitchell and Co., in audit, and then worked in the Management Consulting Services group at Price Waterhouse & Co. Mr. Franklin earned his B.A. from Colgate University and his M.S. from the New York University Graduate School of Business. Mr. Franklin is a qualified (non-practicing) Certified Public Accountant.

Our Board of Directors believes that Mr. Franklin is particularly qualified to serve as a director based on his business, leadership and management experience, including expertise in wholesale distribution, retail development, corporate management, operations and supply chain management and building international brands. In addition, Mr. Franklin's public finance, accounting and operations experience qualify him as an audit committee financial expert.

Laura L. Witt has served as a director since December 2005, including serving as Chair of our Board of Directors from December 2005 to February 2011. She has also served as Chair of our Compensation Committee since January 2006. Ms. Witt joined ABS Capital Partners in September 1997 and has served as a General Partner since January 2001. She served on the boards of Double-Take Software, Inc., from 2002 to 2008, and Familymeds Group, Inc., from 2004 to 2007. Ms. Witt currently serves on the boards of several private companies. She earned a B.A. from Princeton University and an M.B.A. from the Wharton School of the University of Pennsylvania.

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Our Board of Directors believes that Ms. Witt is particularly qualified to serve as a director based on her deep familiarity with Rosetta Stone's business and industry. She has extensive experience in finance, technology and management gained through her career with ABS, and brings unique perspectives to the Board with regard to addressing strategic and operational issues.

Class III Directors Serving Until the 2018 Annual Meeting of Stockholders

Patrick W. Gross has served as a director since February 2006, including serving as Chairman of the Board of Directors from May 2013 to March 2016 and Chair of our Corporate Governance and Nominating Committee since May 2012. He previously served as Lead Independent Director of the Board from February 2012 to May 2013. Since 2002, Mr. Gross has served as Chairman of The Lovell Group, a private business and technology advisory and investment firm that he founded. Prior to founding The Lovell Group, Mr. Gross was a founder, and served as a principal executive officer from 1970 to 2002, of American Management Systems, Inc., then a publicly traded information technology, consulting, software development and systems integration firm. Mr. Gross is a director of Capital One Financial Corporation, Career Education Corporation, Liquidity Services, Inc. and Waste Management, Inc. Mr. Gross also currently serves on the boards of several private technology-based companies. Mr. Gross previously served on the boards of Computer Network Technology Corporation from 1997 to 2006, Mobius Management System, Inc. from 2002 to 2007 and Taleo Corporation from 2006 to 2012. He holds a B.S.E. from Rensselaer Polytechnic Institute, an M.S.E. from the University of Michigan and an M.B.A. from the Stanford Graduate School of Business.

Our Board of Directors believes that Mr. Gross is particularly qualified to serve as a director based on his demonstrated leadership abilities, business judgment, and extensive experience in management, information technology, software, and his education. Mr. Gross' finance and operations experience qualify him as an audit committee financial expert, and his long-tenured service on other public company boards provides significant insight into the Company's corporate governance.

Caroline J. Tsay was elected to serve as a director on our Board in December 2014 and the Chair of the E&E Advisory Committee since its formation in June 2015. Since March 2013, she has served as Vice President and General Manager of the Online Business at Hewlett-Packard Enterprise ("HPE"). Her focus at HPE is to grow customers and revenue by engaging SMB/mid-market/enterprise prospects through several web and mobile experiences, digital marketing, and specialized sales. From 2007 to 2013, Ms. Tsay served in several positions at Yahoo!, notably Senior Director of Search and E-Commerce with responsibility for business strategy and product management of Yahoo! Search, Shopping, Homes, Autos, and Travel. Prior to joining Yahoo! in 2007, Ms. Tsay served as a Senior Consultant in the supply chain and customer relationship management practices at IBM Global Services. She is also a director of Travelzoo, a publicly traded global media commerce company. Ms. Tsay holds a B.S. in Computer Science and an M.S. in Management Science & Engineering, both from Stanford University.

Our Board of Directors believes that Ms. Tsay is particularly qualified to serve as a director based on her extensive experience in online marketing, product innovation, and technology development across the enterprise and consumer internet industries. Ms. Tsay also brings corporate leadership and management experience, including expertise in the areas of product development, digital marketing, sales, operations, and e-commerce to the Board of Directors.

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EXECUTIVE OFFICERS

The name, age and position(s) held by each of our executive officers, as of April 8, 2016, are set forth in the table below.

Name	Age	Position(s) Held with the Company
A. John Hass III	50	Chairman of the Board, President and Chief Executive Officer
Thomas M. Pierno	54	Chief Financial Officer
Sonia G. Cudd	47	General Counsel and Secretary
Judy K. Verses	59	President, Global Enterprise & Education

Biographical information for Mr. Hass is set forth above under "Our Board of Directors and Nominees—Directors Standing for Election." Biographical information for each of our other executive officers is set forth below.

Thomas M. Pierno has served as our Chief Financial Officer since May 2012. Prior to joining Rosetta Stone, Mr. Pierno was Chief Financial Officer at Vertis Communications, Inc. ("Vertis"), a marketing communications firm from May 2011 to April 2012, and while there, also directed supply chain and information technology operations. Prior to joining Vertis, Mr. Pierno held the position of Vice President, Financial Planning and Treasury at Comverse, a global provider of software and systems, from February 2010 to April 2011, where he was responsible for worldwide budgets, forecasts and treasury operations. Before joining Comverse, Mr. Pierno served in several executive positions at AOL from 1998 to 2009, notably Senior Vice President and Controller. Prior to joining AOL, Mr. Pierno was Chief Financial Officer at World Color Press, Inc., a publicly traded company that prints magazines, catalogs, direct mail and books, from 1994 to 1998. He began his career at Ernst & Young as a Certified Public Accountant. Mr. Pierno holds a B.B.A. in Accounting and an M.B.A. from Pace University.

Judy K. Verses has served as President, Global Enterprise & Education since October 2011. Prior to joining Rosetta Stone, Ms. Verses was President and Chief Client Officer at Blackboard, Inc., a market leader of educational enterprise software and consulting services, from July 2009 to February 2011 and President and Chief Operating Officer at Blackboard Learn from 2008 to 2009. From 1983 to 2007, Ms. Verses served in several executive positions at Verizon Communications Inc. ("Verizon"), including Senior Vice President of Marketing, Senior Vice President for Business Sales and Senior Vice President for Verizon's portfolio of voice, video and data products. Ms. Verses joined the board of Promethean World Plc in March 2014. She earned her B.S. in Business Administration from the University of Connecticut.

Sonia G. Cudd was appointed General Counsel and Secretary of Rosetta Stone in January 2015. Prior to joining Rosetta Stone, Ms. Cudd served as Vice President, Associate General Counsel - Corporate and Corporate Secretary at Keurig Green Mountain, Inc. from 2012 to 2014. Ms. Cudd has over 20 years of legal experience in government, law firm and in-house counsel roles, including Ethics and Employment Counsel at the Bill & Melinda Gates Foundation from 2008 to 2011, Assistant General Counsel and Assistant Corporate Secretary at McCormick & Co., Inc., from 2005 to 2008. Earlier in her legal career, Ms. Cudd held positions with Blank Rome LLP, Whiteford, Taylor & Preston LLP, and the U.S. Securities and Exchange Commission, Division of Corporation Finance. Prior to her practice of law she was a financial analyst at Citicorp. She received her B.A. in Finance and B.S. in Economics from Hood College in Frederick, Maryland and her Juris Doctor from John Marshall Law School in Chicago, Illinois.

CORPORATE GOVERNANCE

Our Board of Directors believes that good corporate governance is important to ensure that Rosetta Stone is managed for the long-term benefit of our stockholders. This section describes key corporate governance guidelines and

practices that our Board has adopted. Complete copies of our corporate governance guidelines, committee charters and Code of Ethics and Business Conduct (the "Code of Conduct") are available on the investor relations section under the corporate governance page of our corporate website, www.rosettastone.com. Alternatively, you can request a copy of any of these documents by writing to the General Counsel and Secretary, Rosetta Stone Inc., 1919 North Lynn Street, 7th Floor, Arlington, Virginia 22209.

Code of Conduct

We have adopted a Code of Conduct applicable to directors and all employees, including our principal executive, financial and accounting officers and all persons performing similar functions. A copy of that code is available on our corporate website at www.rosettastone.com. We intend to satisfy the disclosure requirements under the Securities Exchange Act of 1934, as amended (the "Exchange Act") regarding an amendment to, or waiver concerning a material departure of a provision of our

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Code of Conduct involving our principal executive, financial or accounting officer or controller by posting such information on our website.

Composition of our Board of Directors; Classified Board

Our Board of Directors currently consists of eight members, seven of whom are non-employee members and are considered independent under NYSE rules. Each director holds office until the election and qualification of his or her successor, or his or her earlier death, resignation or removal. Our bylaws permit our Board of Directors to establish by resolution the authorized number of directors. Our bylaws provide that our Board of Directors is divided into three classes of directors, each serving a staggered three-year term. As a result, one class of our Board of Directors will be elected at each annual meeting for three-year terms.

Our Board of Directors is classified as follows:

A. John Hass III, David Nierenberg and Steven P. Yankovich are designated Class I Directors whose terms will expire at our upcoming Annual Meeting; if re-elected at our upcoming Annual Meeting, these directors will have terms that expire at our 2019 Annual Meeting of Stockholders;

James P. Bankoff, Laurence Franklin and Laura L. Witt are designated Class II Directors whose terms will expire at our 2017 Annual Meeting of Stockholders; and

Patrick W. Gross and Caroline J. Tsay are designated Class III Directors whose terms will expire at our 2018 Annual Meeting of Stockholders.

Our bylaws provide that the number of authorized directors will be determined from time to time by resolution of our Board of Directors. Any vacancy created by a resignation of a director shall automatically reduce the number of directors on our Board accordingly, upon the effective date of such resignation. Any additional directorships resulting from an increase in the number of authorized directors will be distributed among the three classes so that, as nearly as reasonably possible, each class will consist of one-third of the directors. The classification of our Board of Directors may have the effect of delaying or preventing changes in control of our Company. Our certificate of incorporation further provides for the removal of a director only for cause and by the affirmative vote of the holders of a majority of the shares then entitled to vote at an election of our directors.

Nomination and Standstill Agreement and Appointment of A. John Hass III to the Board of Directors

On November 18, 2014, the Company entered into a Nomination and Support Agreement (the "Nomination and Support Agreement") with the Osmium Parties (as defined below) pursuant to which A. John Hass III was appointed to the Board and the Osmium Parties agreed to certain standstill and voting provisions. The "Osmium Parties" collectively refers to: John H. Lewis; Osmium Partners, LLC; Osmium Capital, LP; Osmium Capital II, LP; Osmium Spartan, LP; Osmium Diamond, LP; and Osmium Special Opportunity Fund, LP.

Pursuant to the Nomination and Support Agreement, each of the Osmium Parties agree, during the Standstill Period (as defined below), to, among others, (i) not to conduct a proxy contest for the election of directors for any annual meeting during the Standstill Period, and (ii) to cause all voting securities owned by the Osmium Parties and their affiliates and associates to be voted for, or to abstain from voting for, all of the directors nominated by Board for election at an annual meeting of the stockholders of the Company during the Standstill Period and all other "routine" matters at such meetings in accordance with the Board's recommendation.

The Standstill Period is defined as the period from the date of the Nomination and Support Agreement until the latest of (A) the six month anniversary of the effective date of the Nomination and Support Agreement (i.e., May 18, 2015), (B) sixty days after Mr. Hass is no longer serving as a director of the Company, and (C) if Mr. Hass is a director at all times until the time nominations are due for the 2016 Annual Meeting, and is nominated and agrees to serve on the Company's slate of director nominees for the 2016 Annual Meeting, the period from the printing of this proxy statement for the 2016 Annual Meeting until the conclusion of the 2016 Annual Meeting; provided that in no event shall the Standstill Period extend beyond the date of the 2016 Annual Meeting. The Company and Mr. Hass also entered into a Director Agreement, which is not applicable while Mr. Hass serves as President, Chief Executive Officer and Chairman of the Board.

A full description of the Nomination and Support Agreement and the Director Agreement, including a copy of the Nomination and Support Agreement, can be found in the Company's Current Report on Form 8-K filed with the SEC on

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November 19, 2014. The Director Agreement is filed as an exhibit to the Company's Annual Report on Form 10-K filed with the SEC on March 16, 2015.

Director Independence

Our Board of Directors reviewed the independence of each director in February 2016 and considered whether any director had or has a material relationship with us that could compromise his or her ability to exercise independent judgment in carrying out his or her responsibilities. As a result of this review, our Board of Directors determined that all of our directors, other than our President and Chief Executive Officer, A. John Hass III, were "independent directors" and meet the independence requirements under the listing standards of the NYSE and rules and regulations of the SEC.

Our Corporate Governance Guidelines provide that the non-management directors will regularly meet in executive session, without management present. As required under applicable NYSE listing standards, in the year ended December 31, 2015, our non-management directors met in regularly scheduled executive sessions at which only non-management directors were present. As Chairman of the Board, Mr. Gross presided over these sessions. Mr. Gross is an "independent director" and meets the independence requirements under the listing standards of the NYSE.

Board Leadership Structure and Role in Risk Oversight

Our Board of Directors believes it is important to retain its flexibility to allocate the responsibilities of the offices of the Chairman of the Board and the Chief Executive Officer in a way that is in the best interest of the Company at any given point of time. The Board of Directors may make a determination as to the appropriateness of its current policies in connection with the recruitment and succession of the Chairman of the Board and/or the Chief Executive Officer.

Our Board of Directors appointed Mr. Hass to serve as President, Chief Executive Officer and Chairman of the Board effective April 1, 2016. Mr. Hass previously served as a director since November 2014. We believe that as President and Chief Executive Officer, Mr. Hass is in the best position to focus the independent directors' attention on the issues of greatest importance to the Company and its stockholders. At any time that the Chairman of the Board is not an individual who is independent under the rules of the NYSE, the Board of Directors will appoint a Lead Independent Director elected by the independent directors, with broad authority and responsibility over Board governance and operations. This structure allows one person to speak for and lead both the Company and the Board of Directors, while also providing for effective independent board oversight through a Lead Independent Director.

The Lead Independent Director has the following authority, as detailed in the Company's Corporate Governance Guidelines:

- preside at all meeting of the Board at which the Chairman of the Board is not present, including executive sessions of the independent directors;
- serve as a liaison between the Chairman of the Board and the independent directors;
- approve information sent to the Board;
- approve meeting agendas for the Board;
- approve meeting schedules to assure that there is sufficient time for discussion of all agenda items; and
- call meetings of the independent directors.

Mr. Gross acted as Lead Independent Director from February 2012 to May 2013 until he was appointed to Chairman of the Board in May 2013. Mr. Gross served as Chairman of the Board until Mr. Hass was appointed as Chairman of the Board, effective April 1, 2016. In light of Mr. Gross' experience, the independent directors elected Mr. Gross as Lead Independent Director on April 1, 2016. Mr. Gross also serves as a member of our Audit, Compensation,

Corporate Governance and Nominating, CEO Search and Transaction Committees.

The Board of Directors oversees risk by actively reviewing management decisions and financial controls at both the full Board and Board committee levels. The Board of Directors takes a hands-on role in risk management practices in such areas as credit risk, liquidity risk, and operational risk by obtaining detailed reports from management, maintaining continuous dialogue with management, and providing extensive input on material corporate decisions. The Board of Directors extensively oversees management, particularly through periodic conferences between the Chief Executive Officer and certain members of the Board of Directors. The extent of the Board of Directors' oversight function has the effect of solidifying the Board's leadership structure by providing excellent knowledge of the day-to-day workings of the Company to the Board of Directors.

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The Audit Committee assists our Board of Directors in risk oversight by reviewing and discussing policies with management and the independent auditor regarding our major financial risk exposures and the steps management has taken to monitor and control such exposures. The Audit Committee, as part of its independent auditor and internal audit oversight, also reviews and discusses the effectiveness of our disclosure controls and internal control over financial reporting and the performance of the internal audit function. The Audit Committee also directs and monitors our implementation of our corporate-wide compliance program, and oversees the periodic review and assessment of the effectiveness of our compliance program.

The Compensation Committee oversees the design and administration of the Company's executive compensation programs to promote an environment that does not encourage unnecessary and excessive risk-taking, including with respect to the Policy on Recoupment of Performance Based Compensation ("Clawback Policy"). The Compensation Committee also ensures that our compensation practices are in line with best practices with respect to "say on pay" philosophies and guidelines.

The Corporate Governance and Nominating Committee evaluates the Board of Directors' corporate governance guidelines and other Board and committee processes.

The Product and Technology Committee, which was disbanded as of May 20, 2015, advised the Board and management on current and proposed technologies, product portfolios and new product development.

The Consumer Advisory Committee, a special ad hoc advisory committee that was formed to replace the disbanded Product & Technology Committee, provides operational and strategic thought-partnership to the Consumer business leadership.

The E&E Advisory Committee, a special ad hoc advisory committee that was formed to replace the disbanded Product & Technology Committee, provides operational and strategic thought-partnership to the E&E business leadership.

The CEO Search Committee is a special ad hoc advisory committee formed to identify and facilitate the evaluation of potential candidates for CEO and recommending certain candidates for consideration by the Corporate Governance and Nominating Committee and the full Board of Directors.

The Transactions Committee is a special ad hoc advisory committee formed to review strategic transactions and operational alternatives for the Company.

Our Board of Directors receives periodic reports from each of these committees on their activities.

Committees of our Board of Directors

Our Board of Directors has established the following standing committees: the Audit Committee; the Compensation Committee; and the Corporate Governance and Nominating Committee. Our Board of Directors also established a Product and Technology Committee, which has been disbanded as of May 20, 2015. In addition to the standing committees, our Board of Directors also established the following ad hoc special advisory committees: the E&E Market Advisory Committee, the Consumer Advisory Committee, the CEO Search Committee and the Transactions Committee.

Attendance at Meetings

Our Board of Directors held ten meetings during the year ended December 31, 2015. Each incumbent director attended at least 75% of the aggregate of the total number of meetings held by our Board of Directors and the total

number of meetings held by all committees of the Board of Directors on which he or she served, during the period for which he or she served. The following table sets forth the committees of our Board of Directors, the number of meetings held by each committee in 2015 and the membership of each committee during the year ended December 31, 2015.

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Name	Audit	Compensation	Corporate Governance and Nominating	Product and Technology (10)	E&E Advisory (11)	Consumer Advisory (12)	CEO Search (13)	Transactions (14)
James P. Bankoff (1)	(1)	(1)	(1)	(1)		C		
Laurence Franklin (2)	C		M				M	
Patrick W. Gross (3)	M	M	M	(3)			M	M
A. John Hass III (4)	(4)	(4)					M	
Marguerite W. Kondracke (5)		(5)	(5)				(5)	
David Nierenberg (6)	M	C	M		M		M	M
Caroline J. Tsay (7)		M	(7)	(7)	C	M		
Laura L. Witt (8)		M	(8)	(8)		M		
Steven P. Yankovich (9)			C	(9)	M	M		M
Total Number of Meetings Held in 2015	8	9	5	2	4	2	9	2

C = Chair
M = Member

Mr. Bankoff served on the Product and Technology Committee until it was disbanded on May 20, 2015. Mr. Bankoff served on the Audit Committee from April 1, 2015 until May 20, 2015. Mr. Bankoff resigned from the (1) Compensation Committee and Corporate Governance and Nominating Committee on June 30, 2015 and was appointed to the Consumer Advisory Committee on June 30, 2015.

(2) Mr. Franklin was appointed to the CEO Search Committee on June 30, 2015.

(3) Mr. Gross served on the Product and Technology Committee until it was disbanded on May 20, 2015. Mr. Gross was appointed to CEO Search Committee on June 30, 2015.

(4) In connection with Mr. Hass' appointment as the Interim President and Chief Executive Officer, Mr. Hass resigned from the Audit Committee and the Compensation Committee effective April 1, 2015.

Ms. Kondracke resigned from the Corporate Governance and Nominating Committee on June 30, 2015. Ms. (5) Kondracke also resigned from the Board of Directors on January 19, 2016. Prior to her resignation from the Board Ms. Kondracke served on the Compensation Committee and the CEO Search Committee.

Mr. Nierenberg was appointed to the Board on April 15, 2015, to the Audit Committee on May 20, 2015 and to the (6) Compensation Committee, Corporate Governance and Nominating Committee, E&E Advisory Committee and CEO Search Committee on June 30, 2015.

Ms. Tsay served on the Product and Technology Committee from February 12, 2015 until it was disbanded on May (7) 20, 2015. Ms. Tsay also served on the Corporate Governance and Nominating Committee from February 12, 2015 until June 30, 2015. Ms. Tsay was appointed to the Compensation Committee on February 12, 2015 and to the Consumer Advisory Committee and E&E Advisory Committee on June 30, 2015.

(8) Ms. Witt served on the Product and Technology Committee until it was disbanded on May 20, 2015. Ms. Witt resigned from the Corporate Governance and Nominating Committee and was appointed to the Consumer

Advisory Committee on June 30, 2015. On March 10, 2016, Ms. Witt provided notice of her decision to resign from the Board of Directors effective the date of the 2016 Annual Meeting.

- Mr. Yankovich served on the Product and Technology Committee until it was disbanded on May 20, 2015. Mr. (9) Yankovich was appointed as Chair of the Corporate Governance and Nominating Committee as well as to the Consumer Advisory Committee and E&E Advisory Committee on June 30, 2015.
- (10) The Product and Technology Committee was disbanded on May 20, 2015.
 - (11) The E&E Advisory Committee was formed on June 30, 2015.
 - (12) The Consumer Advisory Committee was formed on June 30, 2015.
 - (13) The CEO Search Committee was formed on June 30, 2015.
 - (14) The Transactions Committee was formed on June 30, 2015.

Directors are encouraged, but not required, to attend our annual meeting of stockholders. Two members of our Board of Directors attended the 2015 Annual Meeting of Stockholders.

Audit Committee

Currently, our Audit Committee consists of Laurence Franklin, who serves as the Chair, Patrick W. Gross and David Nierenberg, each of whom is a non-employee member of our Board of Directors. A. John Hass III also served on the Audit Committee until his resignation from the committee, in connection with his appointment as Interim President and Chief Executive Officer on April 1, 2015, at which time Mr. Bankoff was reappointed to the Audit Committee. James P. Bankoff

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served on the Audit Committee in 2014 and again from April 1, 2015 until his resignation from the committee on May 20, 2015, at which time David Nierenberg was appointed to the Audit Committee. Our Board of Directors has determined that each member of our Audit Committee meets the requirements of financial literacy and the standards of financial sophistication under the rules of the NYSE. Messrs. Franklin, Gross and Nierenberg serve as our audit committee financial experts, as defined under SEC rules. Messrs. Franklin, Gross and Nierenberg are independent as such term is defined in Rule 10A-3(b)(1) under the Exchange Act.

No member of the Audit Committee simultaneously serves on the audit committees of more than three public companies, including that of Rosetta Stone.

Under its charter, our Audit Committee is responsible for, among other things:

- approving the appointment, retention and termination of our independent auditors, and approving the audit and non-audit services to be performed by our independent auditors;
- evaluating the qualifications, performance and independence of our independent auditors;
- monitoring, and discussing with management, the guidelines and policies governing the process by which the Company assesses and handles major financial risk exposures and the steps management has taken to monitor and control risk management;
- monitoring the integrity of our financial statements and our compliance with legal and regulatory requirements as they relate to financial statements or accounting matters;
- reviewing the adequacy and effectiveness of our internal control policies and procedures;