UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2014

Commission file number: 1-34283

Rosetta Stone Inc.

(Exact name of registrant as specified in its charter)

Delaware (State of incorporation)	**043837082** (I.R.S. Employer Identification No.)
1919 North Lynn St., 7th Fl. **Arlington, Virginia** (Address of principal executive offices)	**22209** (Zip Code)

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

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.00005 per share	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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 Web site, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer ☒	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the common stock held by non-affiliates of the registrant was approximately $191.5 million as of June 30, 2014 (based on the last sale price of such stock as quoted on the New York Stock Exchange). All executive officers and directors of the registrant and all persons filing a Schedule 13D with the Securities and Exchange Commission in respect of registrant's common stock have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the registrant.

As of March 11, 2015, there were 21,601,219 shares of common stock outstanding.

Documents incorporated by reference: Portions of the definitive Proxy Statement to be delivered to stockholders in connection with the 2015 Annual Meeting of Stockholders to be held on May 21, 2015 are incorporated by reference into Part III.

TABLE OF CONTENTS

		Page
	PART I	
Item 1.	Business	4
Item 1A.	Risk Factors	8
Item 1B.	Unresolved Staff Comments	22
Item 2.	Properties	22
Item 3.	Legal Proceedings	22
Item 4.	Mine Safety Disclosures	23
	PART II	
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	24
Item 6.	Selected Financial Data	25
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	47
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	50
Item 8.	Financial Statements and Supplementary Data	50
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	50
Item 9A.	Controls and Procedures	50
Item 9B.	Other Information	51
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	52
Item 11.	Executive Compensation	52
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	52
Item 13.	Certain Relationships and Related Transactions, and Director Independence	52
Item 14.	Principal Accounting Fees and Services	52
	PART IV	
Item 15.	Exhibits and Financial Statement Schedules	53

PART I

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K and other statements or presentations made from time to time by the Company contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which can be identified by the fact that they do not relate strictly to historical or current facts, often include words such as "believes," "expects," "anticipates," "estimates," "intends," "plans," "seeks" or words of similar meaning, or future-looking or conditional verbs, such as "will," "should," "could," "may," "might," "aims," "intends," or "projects." However, the absence of these words or similar expressions does not mean that a statement is not forward-looking. These statements may relate to: our revised business strategy; guidance or projections related to bookings, Adjusted EBITDA, and other measures of future economic performance; the contributions and performance of our businesses including acquired businesses and international operations; projections for future capital expenditures; and other guidance, projections, plans, objectives, and related estimates and assumptions. A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances might not occur. Management believes that these forward-looking statements are reasonable as and when made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date when made. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our present guidance, expectations or projections. These risks and uncertainties include, but are not limited to, those described below in this Annual Report on Form 10-K in Part I, Item 1A: "Risk Factors" and Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations," those described elsewhere in this Annual Report on Form 10-K, and those described from time to time in our future reports filed with the Securities and Exchange Commission.

Item 1. Business

Overview

Rosetta Stone Inc. (“Rosetta Stone,” “the Company,” “we” or “us”) is dedicated to changing the way the world learns. Our innovative, technology-driven language, reading and brain fitness solutions are used by thousands of schools, businesses, government organizations and millions of individuals around the world.

Rosetta Stone Inc. was incorporated in Delaware in 2005. Founded in 1992, Rosetta Stone pioneered the use of interactive software to accelerate language learning. Today we offer courses in 30 languages across a broad range of formats, including web-based software subscriptions, digital downloads, mobile applications, and perpetual CD packages. Rosetta Stone has continued to invest in language learning and expanded beyond language learning and deeper into education-technology with its acquisitions of Livemocha Inc. ("Livemocha") and Lexia Learning Systems Inc. ("Lexia") in 2013 and Vivity Labs, Inc. ("Vivity") and Tell Me More S.A. ("Tell Me More") in January 2014. These acquisitions have enabled the Company to meet the changing needs of learners around the world.

Over the last two years, we have expanded the breadth of our language and literacy products with the acquisitions of Tell Me More and Lexia. These acquisitions have reinforced our belief that the Global Enterprise & Education segment is our largest opportunity for long-term value creation. The customers in these markets have demands that recur each year, creating a more predictable revenue opportunity. This demand profile also fits well with our suite of products and the well-known Rosetta Stone brand. We also believe the opportunity to deliver English language learning is growing around the globe.

As a result, we recently communicated a strategic reorganization and realignment of our business to accelerate and prioritize our focus on satisfying the needs of more serious Corporate and K-12 learners, and emphasizing those who need to speak and read English. This focus will carry over to the Consumer segment where we will prioritize more serious learners, rather than trying to address the entire consumer marketplace. To position the organization for success, we are doing four things:

1. We are taking immediate action to reorganize our business around our Global Enterprise & Education segment;

2. We will be focusing our product investment on building effective, personalized English learning experiences that deliver clear and measurable outcomes;

3. We are beginning to right-size the entire cost base of the Company, with the first steps being

   ◦ optimization of our media spend and other marketing costs in Consumer sales and marketing;

   ◦ rationing our Consumer investment; and

   ◦ reducing our general and administrative costs.

4. We are cutting back on the number of new business initiatives we take on - particularly in Consumer - to improve focus and enhance efficacy.

In pursuing these priorities, we plan to grow the Global Enterprise & Education segment by focusing the majority of our resources and assets on providing a comprehensive language learning experience focused on more serious language learners while at the same time accelerating the migration of our Consumer business to digital as well as reducing the number of marketing and promotional campaigns aimed at the casual learner, relying less on promotional pricing to generate Consumer sales, reducing the number of retailers that sell our products, and streamlining operations with a clear focus to support the Global Enterprise & Education segment.

Business Segments

Our business is organized into three operating segments: North America Consumer ("NA"), Rest of World ("ROW") Consumer and Global Enterprise & Education.

The North America Consumer and ROW Consumer segments derive revenues from sales to individuals and retail partners. The North America Consumer segment includes sales made within the U.S. and Canada; the ROW Consumer segment includes sales made in countries other than the U.S. and Canada. The Global Enterprise & Education segment derives revenues from sales to educational institutions, government agencies and corporations worldwide.

For additional information regarding our segments, see Note 17 of Item 8, *Financial Statements and Supplementary Data*. Prior periods are presented consistently with our current operating segments and definition of segment contribution.

Products and Services

Consumer:

Rosetta Stone offers a broad portfolio of technology-based learning products for personal use to the global consumer. Powered by our widely recognized brand, and building on our 22-year heritage in language-learning, our interactive learning solutions include a portfolio of language-learning, kids literacy and brain fitness solutions.

Many of our Rosetta Stone consumer products and services are also available in flexible and convenient formats for tablets and smartphones. Our mobile apps enable learners to continue their lessons on the go and may be available for download through the Apple App Store, Google Play, Amazon Appstore for Android, and Windows Store.

Rosetta Stone Language-Learning Solutions: Rosetta Stone provides intuitive, easy-to-use learning programs that are available under a web-based software subscription and in perpetual formats including digital download and CD. Our language-learning suite offers courses and practice applications in multiple languages, each leveraging our proprietary immersion methodology and innovative technology features. Beginner to intermediate language-learning products are available in 30 languages to build fundamental language skills. Advanced language-learning products are available in 9 of the 30 languages and focus on improving everyday and business language skills. We also offer online services to enhance and augment our learners' capabilities. Our Rosetta Studio is an online service that provides conversational coaching sessions with native speakers to practice skills and experience direct interactive dialogue. Our Rosetta World is an online service that provides a world-wide community for users around the world with games, online chat, and other features to improve language skills. Many of our perpetual language-learning packages include access to Rosetta Studio. Almost all of our language-learning offerings for consumers include access to Rosetta World. Our current suite of mobile language-learning apps includes companions to our computer-based language-learning solutions, as well as a series of introductory language apps for travelers and a high-tech Spanish language-learning game called Rosetta Stone Arcade Academy.

Rosetta Stone Fit Brains: Rosetta Stone Fit Brains solutions are designed by neuroscientists to enhance memory, concentration, thinking and problem-solving skills using brain training exercises that are exciting and challenging. Our brain fitness solutions include a web-based subscription and several brain training apps that feature more than 60 scientifically designed brain training games. Included in a Rosetta Stone Fit Brains subscription are performance tracking tools to view training progress.

Rosetta Stone Kids: Rosetta Stone Kids mobile apps provide technology-based learning solutions for children that focus on early childhood language and literacy. In 2013, we launched Rosetta Stone Kids Lingo Letter Sounds and Rosetta Stone Kids Lingo Word Builder apps for children aged 3-6 that provide blended learning solutions to introduce kids to both basic literacy skills and a foreign language. In November 2014, we launched our Rosetta Stone Kids Reading app aimed to teach children aged 3-7 how to read using engaging self-paced interactive games and activities that introduce and reinforce core reading skills.

Global Enterprise & Education:

Rosetta Stone also offers a series of technology-based interactive language-learning solutions for schools, businesses and other organizations and reading and literacy solutions for schools. Rosetta Stone also offers administrator tools for performance monitoring and custom solutions to ensure that organizations achieve desired outcomes. Through our professional services, we provide expert implementation and training services to drive critical business solutions.

Language-Learning Solutions: Rosetta Stone provides web-based language-learning solutions that are primarily available online. Our core language-learning suite offers courses and practice applications in multiple languages, each leveraging our proprietary immersion methodology and innovative technology features. Available in 24 languages and designed for beginner to intermediate language learners, our Rosetta Stone Foundations builds fundamental language skills using our proprietary context-based, immersion methodology and innovative technology features. Our Rosetta Stone Advantage is available for all proficiency levels in 9 of the 24 languages and focuses on improving everyday and business language skills. Our Advanced English for Business solution serves multinational companies seeking to build their employees' English language proficiency so they are able to communicate and operate in a global business environment. Specifically designed for use with our language-learning solutions, our Global Enterprise & Education customers may also purchase our audio practice products to enhance the learning experience.

Literacy Solutions: Our Lexia Learning solutions provide explicit, systematic, personalized reading instruction for students of all abilities in grades pre-K through 5 and a reading intervention program designed for remedial students in grades 6 and above. Lexia's solutions deliver norm-referenced performance data and analysis to enable teachers to monitor and modify their instruction to address specific student needs. These literacy solutions are provided under web-based subscriptions.

Administrator Tools: Our Global Enterprise & Education learning programs come with a set of administrator tools to measure and track learner progress. Administrators can use these tools to access real-time dynamic reports and identify areas where learners may require additional attention.

Professional Services: Professional services provide our customers with access to experienced implementation and training resources. Our implementation services teams work directly with our customers and guide them in defining, developing, and delivering learning solutions for their organizations. Our training services teams help customers develop an education program to meet their specific needs.

Custom Solutions: Rosetta Stone offers tailored solutions to help organizations maximize the success of their learning programs. Our current custom solutions include curriculum development, global collaboration programs that combine language education with business culture training, and language courses for mission-critical government programs.

Software Developments

Our offering portfolio is a result of significant investment in software development. Our software development efforts include the design and build of software solutions across a variety of devices, pedagogy and curriculum development, and the creation of learning content. Our development team builds new solutions and enhances or maintains existing solutions. We have specific expertise in speech recognition technology, iterative and customer-focused software development, instructional design and language acquisition.

Our research and development expenses were $33.2 million, $34.0 million, and $23.5 million for the years ended December 31, 2014, 2013 and 2012, respectively.

We continue to evaluate changes to our solutions to strengthen our brand and improve the relevance of our offering portfolio. We are developing our learning solutions for children, including several mobile applications that were recently released. In addition, we are enhancing our offering for educational organizations to expand our Global Enterprise & Education business. We intend to make our solutions more modular, flexible and mobile.

Distribution Channels

Consumer:

Our global consumer distribution channel comprises a mix of our call centers, websites, third party e-commerce websites, home shopping networks, consignment distributors, select retail resellers, and daily deal partners. We believe these channels complement each other, as consumers who have seen our direct-to-consumer advertising may purchase at our retailers, and vice versa.

Direct to consumer. Sales generated through either our call centers and on our website at www.rosettastone.com.

Indirect to consumer. Sales generated through arrangements with third-party e-commerce websites such as Digital River and Apple App Store, home shopping networks such as GS Home Shopping in Korea, and consignment distributors such as Wynit Distribution and Software Packaging Associates.

Retailers. Our retailers enable us to provide additional points of contact to educate consumers about our solutions, expand our presence beyond our own websites, and further strengthen and enhance our brand image. Our retail relationships include Amazon.com, Barnes & Noble, Target, Best Buy, Books-a-Million, Sam's Club, Costco, Staples, and others in and outside of the U.S. We also partner with daily deal resellers such as Groupon.

Home School. We promote interest in the language-learning market through advertising in publications focused on home schooling, attending local trade shows, seminars and direct mailings.

Rosetta Stone Kiosks. On April 4, 2013, we announced the closure of our entire kiosk sales channel in the U.S. and the United Kingdom. As of December 31, 2014, all retail kiosks were closed.

Global Enterprise & Education:

Our Global Enterprise & Education language-learning distribution channel is focused on targeted sales activity primarily through a direct sales force in five markets: K-12 schools, colleges and universities, federal government agencies, not-for-profit organizations, and corporations. Our Global Enterprise & Education language-learning customers include the following:

Educational Institutions. These customers include primary and secondary schools and colleges and universities.

U.S. Federal Government Agencies and Not-for-Profit Organizations. These customers include government agencies and organizations developing workforces to serve non-native speaking populations, offering literacy programs and preparing members for overseas missions.

Corporations. We promote interest in this market with onsite visits, trade show and seminar attendance, speaking engagements and direct mailings.

Third-party Resellers. We utilize third-party resellers to provide our language-learning solutions to businesses, schools, and public-sector organizations in emerging markets predominantly outside the U.S.

Our Global Enterprise & Education literacy distribution channel utilizes relationships with third-party resellers focused on the sale of Lexia Learning solutions to K-12 schools.

Sourcing and Fulfillment

Our strategy is to maintain a flexible, diversified and low-cost manufacturing base for our prepackaged products. We use third-party contract manufacturers and suppliers to obtain substantially all of our product and packaging components and to manufacture finished products. We believe that we have good relationships with our manufacturers and suppliers and that there are alternative sources in the event that one or more of these manufacturers or suppliers is not available. We continually review our manufacturing and supply needs against the capacity of our contract manufacturers and suppliers with a view to ensuring that we are able to meet our production goals, reduce costs and operate more efficiently.

Competition

Rosetta Stone competes in several categories within the technology-based learning industry, including consumer, enterprise and educational language learning, literacy and brain fitness.

The language-learning market is highly fragmented globally and consists of a variety of instructional and learning modes: classroom instruction utilizing the traditional approach of memorization, grammar and translation; immersion-based classroom instruction; self-study books, audio recordings and software that rely primarily on grammar and translation; and free online and mobile offerings that provide content and opportunities to practice writing and speaking. Within consumer-focused language learning, our competitors include Berlitz (Benesse Holdings), Pimsleur (Simon & Schuster, part of CBS Corporation), Living Language (Penguin Random House, a joint venture of Pearson and Bertelsmann), McGraw-Hill Education, Duolingo, Inc., Fluenz, Busuu Ltd., Babbel (operated by Lesson Nine GmbH) and many other small and regionally-focused participants. In the enterprise and education-focused language market, we compete with EF Englishtown, Global English (Pearson), Wall Street English (Pearson), inlingua, Imagine Learning, Transparent Language, as well as many private language schools and other classroom-based courses.

In the literacy category, we compete primarily in the K-12 Digital Reading space in the U.S. with Scholastic, Inc., Imagine Learning, Achieve3000, Scientific Learning, Odyssey (Compass Learning), Waterford Early Reading (Pearson), Renaissance, and Istation.

In the brain fitness category, the market is new and highly fragmented. We compete with Lumosity, Elevate and Posit Science as well as many online and digital app providers.

Seasonality

Our business is affected by variations in seasonal trends. These variations are primarily related to increased sales of our products and services to consumers in the fourth quarter during the holiday selling season as well as higher sales to governmental and educational institutions in the second and third quarters, due to the timing of when these organizations receive annual funding. In particular, we generate a significant portion of our consumer sales in the fourth quarter during the period from Black Friday through Cyber Monday. We sell to a significant number of our retailers, distributors and enterprise and education customers on a purchase order basis and we receive orders when these customers need products and services. As a result, their orders are typically not evenly distributed throughout the year and generally are highest in the third and fourth quarters. These seasonal trends create a situation in which we typically expend cash in the first and second quarters of the year and generate cash in the third and fourth quarters of the year.

Intellectual Property

Our intellectual property is critical to our success. We rely on a combination of measures to protect our intellectual property, including patents, trade secrets, trademarks, trade dress, copyrights and non-disclosure and other contractual arrangements.

We have nine U.S. patents, twenty foreign patents and several U.S. and foreign patent applications pending that cover various aspects of our language teaching methods and literacy assessment methodologies.

We have registered a variety of trademarks, including our primary or house marks, *Rosetta Stone*, The Blue Stone Logo*, Livemocha, Lexia Learning,* and *Lexia.* These trademarks are the subject of either registrations or pending applications in the U.S., as well as numerous countries worldwide where we do business. We have been issued trademark registrations for our yellow color from the U.S. Patent and Trademark Office. We intend to continue to strategically register, both domestically and internationally, trademarks we use today and those we develop in the future. We believe that the distinctive marks that we use in connection with our solutions are important in building our brand image and distinguishing our offerings from those of our competitors. These marks are among our most valuable assets.

In addition to our distinctive marks, we own numerous registered and unregistered copyrights, and trade dress rights, to our products and packaging. We intend to continue to strategically register copyrights in our various products. We also place significant value on our trade dress, which is the overall image and appearance of our products, as we believe that our trade dress helps to distinguish our products in the marketplace from our competitors.

Since 2006, we have held a perpetual, irrevocable and worldwide license from the University of Colorado allowing us to use speech recognition technology for language-learning solutions. Since 2014, we have also held a commercial license from the Florida State University Research Foundation allowing us to use certain computer software and technology in our literacy offerings. These types of arrangements are often subject to royalty or license fees.

We diligently protect our intellectual property through the use of patents, trademarks and copyrights and through enforcement efforts in litigation. We routinely monitor for potential infringement in the countries where we do business. In addition, our employees, contractors and other parties with access to our confidential information are required to sign agreements that prohibit the unauthorized disclosure of our proprietary rights, information and technology.

Employees

As of December 31, 2014, we had 1,292 total employees, consisting of 957 full-time and 335 part-time employees. We have employees in France, Spain and Italy who are represented by a collective bargaining agreement. We believe that we have good relations with our employees. On March 11, 2015, we announced that we will be implementing a program to reduce costs as part of an alignment of resources around our Global Enterprise & Education segment, including reducing global non-Enterprise & Education headcount approximately 15%. See Note 21 of Item 8, *Financial Statements and Supplementary Data* contained in this Annual Report on Form 10-K for more information.

Financial Information by Segment and Geographic Area

For a discussion of financial information by segment and geographic area, see Note 17 of Item 8, *Financial Statements and Supplementary Data* contained in this Annual Report on Form 10-K.

Available Information

This Annual Report on Form 10-K, along with our Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"), are available free of charge through our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("SEC"). Our website address is www.rosettastone.com. The SEC maintains a website that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC. These materials may be obtained electronically by accessing the SEC's website at www.sec.gov.

Item 1A. Risk Factors

In addition to the other information set forth in this annual report on Form 10-K, you should carefully consider the risk factors discussed below and in other documents we file with the Securities and Exchange Commission that could materially affect our business, financial condition, cash flows or future results. The risks described below are not the only ones facing us. Our business is also subject to the risks that affect many other companies, such as general economic conditions and geopolitical events. Further, additional risks not currently known to us or that we currently believe are immaterial could have a material adverse effect on our business, financial condition, cash flows and results of operations.

We might not be successful in executing our strategy of focusing on the Global Enterprise & Education segment and on more serious learners, and our company reorganization and realignment might not produce the desired results.

We recently announced a strategic reorganization and realignment of our business to accelerate and prioritize our focus on satisfying the needs of more serious corporate and K-12 learners, and on those who wish to speak and read English. If we do not successfully execute our accelerated strategy, our revenues and profitability could decline. In connection with the implementation of our revised strategy, we have announced a company realignment plan that includes changes in our organizational structure and non-voluntary workforce reductions. Significant risks associated with these actions that may impair our ability to achieve anticipated cost reductions or that may otherwise harm our business include delays in implementation of anticipated workforce reductions in highly regulated locations outside of the United States, decreases in employee morale and the failure to meet our business goals due to the loss of employees. In addition, our ability to achieve the anticipated cost savings and other benefits from these actions within the expected time frame is subject to many estimates and assumptions, which are subject to significant economic, competitive and other uncertainties, some of which are beyond our control. If these estimates and assumptions are incorrect, if we experience delays, or if other unforeseen events occur, our business and financial results could be adversely affected.

Our actual operating results may differ significantly from our guidance.

Historically, our practice has been to release guidance in our quarterly earnings releases, quarterly earnings conference calls, or otherwise, regarding our future performance that represents our management's estimates as of the date of release. This guidance, which includes forward-looking statements, is based on projections prepared by our management. These projections are not prepared with a view toward compliance with published guidelines of the American Institute of Certified Public Accountants, and neither our registered public accountants nor any other independent expert or outside party confirms or examines the projections and, accordingly, no such person expresses any opinion or any other form of assurance with respect thereto.

Projections are based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. We generally state possible outcomes as high and low ranges, which are intended to provide a sensitivity analysis as variables are changed but actual results could fall outside of the suggested ranges. The principal reason that we release guidance is to provide a basis for our management to discuss our business outlook with analysts and investors. We do not accept any responsibility for any projections or reports published by any such persons.

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions in the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release. Actual results will vary from our guidance and the variations may be material. In light of the foregoing, investors are urged not to rely upon, or otherwise consider, our guidance in making an investment decision in respect of our common stock.

Any failure to successfully implement our strategy or the occurrence of any of the events or circumstances set forth in these "Risk Factors" and elsewhere in this annual report on Form 10-K could result in the actual operating results being different from our guidance, and such differences may be adverse and material.

Intense competition in our industry may hinder our ability to attract and retain customers and generate revenue, and may diminish our margins.

The business environment in which we operate is rapidly evolving, highly fragmented and intensely competitive, and we expect competition to persist and intensify. Increased competition could adversely affect operating results by causing lower demand for our products and services, reduced revenue, more product returns, price reductions or concessions, reduced gross margins and loss of customers.

Many of our current and potential competitors in the U.S. and internationally have substantially greater financial, technical, sales, marketing and other resources than we do, as well as greater name recognition in some locations, as well as in some cases, lower costs. Some competitors offer more differentiated products (for example, online learning as well as physical classrooms and textbooks) that may allow them to more flexibly meet changing consumer preferences. The resources of our competitors also may enable them to respond more rapidly to new or emerging technologies and changes in customer requirements and preferences and to offer lower prices than ours or to offer free language-learning software or online services. We may not be able to compete successfully against current or future competitors.

There are a number of free online language-learning opportunities to learn grammar, pronunciation, vocabulary (including specialties in areas such as medicine and business), reading, and conversation by means of podcasts and MP3s, mobile applications, audio courses and lessons, videos, games, stories, news, digital textbooks, and through other means. We estimate that there are thousands of free mobile applications on language-learning; free products are provided in at least 50 languages by private companies, universities, and government agencies. Low barriers to entry allow start-up companies with

lower costs and less pressure for profitability to compete with us. Funded by venture capital that is often focused more on user acquisition rather than profitability, these companies can offer products at significantly lower prices or for free. As free online translation services improve and become more widely available and used, people may become less interested in language learning generally. Although we also offer free products such as mobile apps, if we cannot successfully attract users of these free products and convert a sufficient portion of these free users into paying customers, our business could be adversely affected. If free products become more engaging and competitive or gain widespread acceptance by the public, demand for our products could decline or we may have to lower our prices, which could adversely impact our revenues and other results.

Because a substantial portion of our revenue is currently generated from our consumer business, if we fail to accurately anticipate consumer demand and trends in consumer preferences, our brands, sales and customer relationships may be harmed.

Demand for our language-learning, literacy and brain fitness software products and related services, and for consumer products and services in general, is subject to rapidly changing consumer demand and trends in consumer preferences. Therefore, our success depends upon our ability to:

- identify, anticipate, understand and respond to these trends in a timely manner;
- introduce appealing new products and performance features on a timely basis;
- provide appealing solutions that engage our customers;
- adapt and offer our products and services using rapidly evolving, widely varying and complex technologies;
- anticipate and meet consumer demand for additional languages, learning levels and new platforms for delivery;
- effectively position and market our products and services;
- identify and secure cost-effective means of marketing our products to reach the appropriate consumers;
- identify cost-effective sales distribution channels and other sales outlets where interested consumers will buy our products;
- anticipate and respond to consumer price sensitivity and pricing changes of competitive products; and
- identify and successfully implement ways of building brand loyalty and reputation.

We anticipate having to make investments in new products in the future and we may incur significant expenses without achieving the anticipated benefits of our investment or preserving our brand and reputation. Investments in new products and technology are speculative, the development cycle for products may exceed planned estimates and commercial success depends on many factors, including innovativeness, developer support, and effective distribution and marketing. Customers might not perceive our latest offerings as providing significant new value and may reduce their purchases of our offerings, unfavorably impacting revenue. We might not achieve significant revenue from new product and service investments for a number of years, if at all. We also might not be able to develop new solutions or enhancements in time to capture business opportunities or achieve sustainable acceptance in new or existing places. Furthermore, consumers may defer purchases of our solutions in anticipation of new products or new versions from us or our competitors. A decline in consumer demand for our solutions, or any failure on our part to satisfy such changing consumer preferences, could harm our business and profitability.

If the recognition by schools and other organizations of the value of technology-based education does not continue to grow, our ability to generate revenue from organizations could be impaired.

Our success depends in part upon the continued adoption by organizations and potential customers of technology-based education initiatives. Some academics and educators oppose online education in principle and have expressed concerns regarding the perceived loss of control over the education process that could result from offering courses online. If the acceptance of technology-based education does not continue to grow, our ability to continue to grow our Global Enterprise & Education business could be impaired.

We depend on discretionary consumer spending in the consumer segment of our business. Adverse trends in general economic conditions, including retail and online shopping patterns or consumer confidence, as well as other external consumer dynamics may compromise our ability to generate revenue.

The success of our business depends to a significant extent upon discretionary consumer spending, which is subject to a number of factors, including general economic conditions, consumer confidence, employment levels, business conditions, interest rates, availability of credit, inflation and taxation. Adverse trends in any of these economic indicators may cause consumer spending to decline further, which could hurt our sales and profitability.

Because a significant portion of our consumer sales are made to or through retailers and distributors, none of which has any obligation to sell our products, the failure or inability of these parties to sell our products effectively could hurt our revenue and profitability.

We rely on retailers and distributors, together with our direct sales force, to sell our products. Our sales to retailers and distributors are highly concentrated on a small group that comprises a mix of websites, such as Digital River and Apple iTunes App Store, select retail resellers such as Amazon.com, Barnes & Noble, Target, Best Buy, Books-a-Million, Staples, Sam's Club, and Costco, daily deal partners such as Groupon, home shopping networks such as GS Home Shopping in Korea, and consignment distributors such as Wynit Distribution and Software Packaging Associates. Sales to or through our retailers and distributors accounted for approximately 13% of our revenue for the year ended December 31, 2014, compared to 18% for the year ended December 31, 2013.

We have no control over the amount of products that these retailers and distributors purchase from us or sell on our behalf, we do not have long-term contracts with any of them, and they have no obligation to offer or sell our products or to give us any particular shelf space or product placement within their stores. Thus, there is no guarantee that this source of revenue will continue at the same level as it has in the past or that these retailers and distributors will not promote competitors' products over our products or enter into exclusive relationships with competitors. Any material adverse change in the principal commercial terms, material decrease in the volume of sales generated by our larger retailers or distributors or major disruption or termination of a relationship with these retailers and distributors could result in a significant decline in our revenue and profitability. Furthermore, product display locations and promotional activities that retailers undertake can affect the sales of our products. The fact that we also sell our products directly could cause retailers or distributors to reduce their efforts to promote our products or stop selling our products altogether.

Many traditional physical retailers are experiencing diminished foot traffic and sales. For our retail business, even though online sales have increased in popularity and are growing in importance, we continue to depend on sales that take place in physical stores and shopping malls. Reduced customer foot traffic in these stores and malls is likely to reduce their sales of our products. In addition, if one or more of these retailers or distributors are unable to meet their obligations with respect to accounts payable to us, we could be forced to write off such accounts. Any bankruptcy, liquidation, insolvency or other failure of any of these retailers or distributors could result in significant financial loss and cause us to lose revenue in future periods.

Price reductions and other concessions could reduce our revenue.

We continue to test and offer changes to the pricing of our products. If we reduce our prices in an effort to increase our sales, this could have an adverse impact on our revenues to the extent that unit sales do not increase in a sufficient amount to compensate for the lower pricing. Reducing our pricing to individual consumers could also cause us to have to lower pricing to our Global Enterprise and Education customers. Any increase in the taxation of online sales could have the effect of a price increase to consumers and could cause us to have to lower our prices or could cause sales to decline. It is uncertain whether we will need to continue to lower prices to effectively compete and what the other short and long-term impacts could be.

We also may provide our retailers and distributors with price protection on existing inventories, which would allow these retailers and distributors a credit against amounts owed with respect to unsold packaged product under certain conditions. These price protection reserves could be material in future periods.

In the U.S. and Canada, we offer consumers who purchase our packaged software and audio practice products directly from us a 30-day, unconditional, full money-back refund. We also permit some of our retailers and distributors to return packaged products, subject to certain limitations. We establish revenue reserves for packaged product returns based on historical experience, estimated channel inventory levels, the timing of new product introductions and other factors. If packaged product returns exceed our reserve estimates, the excess would offset reported revenue, which could hurt our reported financial results.

Our future growth and profitability will depend in large part upon the effectiveness and efficiency of our marketing.

Our future growth and profitability will depend in large part upon the effectiveness and efficiency of our marketing, including our ability to:

- appropriately and efficiently allocate our marketing for multiple products;
- accurately identify, target and reach our audience of potential customers with our marketing messages;
- select the right marketplace, media and specific media vehicle in which to advertise;
- identify the most effective and efficient level of spending in each marketplace, media and specific media vehicle;
- determine the appropriate creative message and media mix for advertising, marketing and promotional expenditures;
- effectively manage marketing costs, including creative and media expenses, in order to maintain acceptable customer acquisition costs;
- differentiate our products as compared to other products;
- create greater awareness of our new products like kids' literacy and brain fitness, and of our brands and learning solutions;
- drive traffic to our websites, call centers, distribution channels and retail partners; and
- convert customer inquiries into actual orders.

Our planned marketing may not result in increased revenue or generate sufficient levels of product and brand name awareness, and we may not be able to increase our net sales at the same rate as we increase our advertising expenditures.

Some of our radio, television, print, and online advertising has been through the purchase of "remnant" advertising segments. These segments are random time slots and publication dates that have remained unsold and are offered at discounts to advertisers who are willing to be flexible with respect to time slots. There is a limited supply of this type of advertising and the availability of such advertising may decline or the cost of such advertising may increase. In addition, if we increase our marketing budget it cannot be assured that we can increase the amount of remnant advertising at the discounted prices we have obtained in the past. If any of these events occur, we may be forced to purchase time slots and publication dates at higher prices, which will increase our costs.

We engage in an active public relations program, including through social media sites such as Facebook and Twitter. We also seek new customers through our online marketing efforts, including paid search listings, banner ads, text links and permission-based e-mails, as well as our affiliate and reseller programs. If one or more of the search engines or other online sources on which we rely for website traffic were to modify their general methodology for how they display our websites,

resulting in fewer consumers clicking through to our websites, our sales could suffer. If any free search engine on which we rely begins charging fees for listing or placement, or if one or more of the search engines or other online sources on which we rely for purchased listings, modifies or terminates its relationship with us, our expenses could rise, we could lose customers and traffic to our websites could decrease.

We dynamically adjust our mix of marketing programs to acquire new customers at a reasonable cost with the intention of achieving overall financial goals. If we are unable to maintain or replace our sources of customers with similarly effective sources, or if the cost of our existing sources increases, our customer levels and marketing expenses may be adversely affected.

Our international expansion may not succeed and imposes special risks.

Our business strategy contemplates stabilizing the losses we have experienced internationally in order to prepare for future international growth and expansion. We are currently augmenting and optimizing certain of our website direct sales channels in Europe, Asia and Latin America. In addition, we are continuing to selectively expand and optimize our indirect sales channels in Europe, Asia and Latin America through reseller and other arrangements with third parties. If we are unable to stabilize losses in our international operations successfully and in a timely manner, our ability to subsequently pursue our growth strategy will be impaired. Such stabilization and expansion may be more difficult or take longer than we anticipate, and we may not be able to successfully market, sell, deliver and support our products and services internationally to the extent we expect.

Our international operations and our efforts to increase international sales are subject to a number of risks that are in addition to or different than those affecting our U.S. operations, including:

- difficulty in staffing and managing geographically dispersed operations and culturally diverse work forces and increased travel, infrastructure and legal compliance costs associated with multiple international locations;
- difficulty in effectively managing third-party resellers of our products and services;
- difficulty in establishing and maintaining financial and other internal controls over geographically dispersed operations;
- competition from local language-learning software providers and preferences for local products in some regions;
- expenses associated with customizing products, support services and websites for foreign countries;
- inability to register domain names in Country Code Top Level Domains in order to operate country specific websites to permit consumers to easily locate our products in other countries due in large part to cybersquatting;
- difficulties with providing appropriate and appealing products to suit consumer preferences and capabilities, such as the potential need to customize our English-based language-learning software solutions by country or region;
- difficulties with establishing successful sales channels;
- inability to successfully develop relationships with significant retailers and distributors;
- potential political and economic instability in some regions;

- potential unpredictable changes in foreign government regulations;
- legal and cultural differences in the conduct of business;
- import and export license requirements, tariffs, taxes and other trade barriers;
- fluctuations in currency exchange rates;
- potentially adverse tax consequences;
- difficulties in enforcing contracts and collecting accounts receivable, and longer payment cycles, especially in emerging markets;
- the need to accept different and higher cost consumer payment methods;
- the costs and difficulties of complying with a wide variety of U.S. and foreign laws, regulations, trade standards, treaties and technical standards, including the Foreign Corrupt Practices Act;
- difficulty in protecting our intellectual property and the high incidence of software piracy in some regions;
- costs and delays in hiring or downsizing foreign work forces as a result of differing employment and other laws;
- protectionist laws and business practices that favor local competitors; and
- costs and difficulties of complying with differing laws on the collection, use and storage of personal data and the liabilities for unauthorized disclosure or theft of this data under the laws of different countries..

The effects of any of the risks described above could reduce our future revenue from our international operations and could harm our overall business, revenue and financial results.

If we are unable to continually adapt our products and services to mobile devices and technologies other than personal computers and laptops, and to adapt to other technological changes and customer needs generally, we may be unable to attract and retain customers, and our revenue and business could suffer.

We need to anticipate, develop and introduce new products, services and applications on a timely and cost-effective basis that keeps pace with technological developments and changing customer needs. The process of developing new high technology products, services and applications and enhancing existing products, services and applications is complex, costly and uncertain, and any failure by us to anticipate customers' changing needs and emerging technological trends accurately could significantly harm our ability to attract and retain customers and our results of operations. For example, the number of individuals who access the internet through devices other than a personal computer, such as tablet computers, mobile devices, televisions and set-top box devices, has increased dramatically and this trend is likely to continue. Our products and services may not work or be viewable on these devices because each manufacturer or distributor may establish unique technical standards for such devices. Accordingly, we may need to devote significant resources to the creation, support and maintenance of such versions. If we fail to develop or sell products and services on a cost-effective basis that respond to these or other technological developments and changing customer needs, we may be harmed in our ability to attract and retain customers, and

our revenue and business could suffer. Furthermore, our customers who view our advertising via mobile devices might not buy our products to the same extent that they do when viewing our advertising via personal computers or laptops. Accordingly, if we cannot convince customers to purchase our products via mobile devices, our business and results of operations could be harmed to the extent that the trend to mobile devices continues.

We offer our software products on operating systems and platforms including Windows, Macintosh, Apple OS, Android, and Amazon apps. The demand for personal computers has been declining, which means that we must be able to market to potential customers and to provide customers with access to and use of our products and services on many platforms and operating systems, as they may be changed from time to time. To the extent new releases of operating systems, including for mobile and non-PC devices, or other third-party products, platforms or devices make it more difficult for our products to perform, and our customers use alternative technologies, our business could be harmed.

Our software products must interoperate with computer operating systems of our customers. If we are unable to ensure that our products interoperate properly with customer systems, our business could be harmed.

Our products must interoperate with our customers' computer systems, including student learning management systems of our enterprise and education customers. As a result, we must continually ensure that our products interoperate properly with these systems. Changes in operating systems, the technologies we incorporate into our products or the computer systems our customers use may damage our business.

If there are changes in the spending policies or budget priorities for government funding of colleges, universities, schools, other education providers, or government agencies, we could lose revenue.

Many of our enterprise and education customers are colleges, universities, primary and secondary schools and school districts, other education providers, armed forces and government agencies that depend substantially on government funding. Accordingly, any general decrease, delay or change in federal, state or local funding for colleges, universities, primary and secondary schools and school districts, or other education providers or government agencies that use our products and services could cause our current and potential customers to reduce their purchases of our products and services, to exercise their right to terminate licenses, or to decide not to renew licenses, any of which could cause us to lose revenue. In addition, a specific reduction in governmental funding support for products such as ours would also cause us to lose revenue and could hurt our overall gross margins.

Some of our enterprise and education business faces a lengthy and unpredictable sales cycle, which could delay new sales.

We face a lengthy sales cycle between our initial contact with some potential enterprise and education customers and the signing of license agreements with these customers. As a result of this lengthy sales cycle, we have only a limited ability to forecast the timing of such enterprise and education sales. A delay in or failure to complete license transactions could cause us to lose revenue, and could cause our financial results to vary significantly from quarter to quarter. Our sales cycle varies widely, reflecting differences in our potential enterprise and education customers' decision-making processes, procurement requirements and budget cycles, and is subject to significant risks over which we have little or no control, including:

- customers' budgetary constraints and priorities;
- the timing of our customers' budget cycles;
- the need by some customers for lengthy evaluations that often include administrators and faculties; and
- the length and timing of customers' approval processes.

As we move our consumer business online and sell our solutions as a subscription, rather than for an upfront fee, our revenue, results of operations and cash flow could be negatively impacted.

Historically, we have predominantly sold our packaged software programs under a perpetual license for a single upfront fee and recorded 65-90% of the revenue at the time of sale. Certain of our online products are sold under different subscription terms, from short-term to 36-month subscriptions with a corresponding license term. Selling in this manner could result in substantially less cash and revenue from the initial sale to the customer and could have a substantially negative impact on our revenue, results of operations and cash flow in the short term. Furthermore, to the extent that customers use our products and

services for only a short time after purchase, online subscription customers could be less likely to continue their subscriptions past the initial term with the effect that we could earn less revenue over time from each customer than historically.

Our revenue is subject to seasonal and quarterly variations, which could cause our financial results to fluctuate significantly.

We have experienced, and we believe we will continue to experience, substantial seasonal and quarterly variations in our revenue, cash flows and net income. These variations are primarily related to increased sales of our products and services to consumers in the fourth quarter during the holiday selling season as well as higher sales to governmental and educational institutions in the second and third quarters. We sell to a significant number of our retailers, distributors and enterprise and education customers on a purchase order basis and we receive orders when these customers need products and services. As a result, their orders are typically not evenly distributed throughout the year. Our quarterly results of operations also may fluctuate significantly as a result of a variety of other factors, including the timing of holidays and advertising initiatives, changes in our products, services and advertising initiatives and changes in those of our competitors. Budgetary constraints of our enterprise and education customers may also cause our quarterly results to fluctuate.

As a result of these seasonal and quarterly fluctuations, we believe that comparisons of our results of operations between different quarters are not necessarily meaningful and that these comparisons are not reliable as indicators of our future performance. In addition, these fluctuations could result in volatility and adversely affect our cash flows. Any seasonal or quarterly fluctuations that we report in the future may differ from the expectations of market analysts and investors. This could cause the price of our common stock to fluctuate significantly.

Acquisitions, joint ventures and strategic alliances may have an adverse effect on our business.

We have made and may continue to make acquisitions or enter into joint ventures and strategic alliances as part of our long-term business strategy. Such transactions involve significant challenges and risks including that the transaction does not advance our business strategy, that we do not realize a satisfactory return on our investment, that we experience difficulty integrating new technology, employees, and business systems, diversion of management's attention from our other businesses or that we acquire undiscovered liabilities such as patent infringement claims or violations of the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws. It may take longer than expected to realize the full benefits, such as increased revenue, enhanced efficiencies, or more customers, or those benefits may ultimately be smaller than anticipated, or may not be realized. These events and circumstances could harm our operating results or financial condition.

The anticipated benefits of recent acquisitions could be impacted by a number of risks specific to our business, as well as by risks related to the integration process.

The Company made four acquisitions from 2013 until early 2014. The significant risks and challenges that may limit our ability to achieve the anticipated benefits of acquisitions include:

- lack of employee retention stemming from the acquisitions;
- sales of the acquired products and services might not perform as we anticipated;
- the risk of increased attrition of the acquired entities' customers;
- the risk that cross-selling Rosetta Stone products and services to customers of the acquired entities (and vice versa) might not be successful;
- the pipeline of the acquired entities' future products under development may take longer than predicted to launch or might fail to launch at all;
- the difficulty of integrating the acquired entities' technology into our current and future products and services; and
- the difficulty in managing a more complex technology environment which may reduce opportunities for economies of scale that otherwise could result from an acquisition.

If we are unsuccessful in addressing these risks and challenges, our business and prospects could be harmed.

We may incur significant costs related to data security breaches that could compromise our information technology network security, trade secrets and customer data.

Threats to our information technology network security can take a variety of forms. Individual hackers and groups of hackers, and sophisticated organizations or individuals may threaten our information technology network security. Cyber attackers may develop and deploy malicious software to attack our services and gain access to our networks, data centers, or act in a coordinated manner to launch distributed denial of service or other coordinated attacks. Cyber threats and attacks are constantly evolving, thereby increasing the difficulty of detecting and successfully defending against them. Cyber threats and attacks can have cascading impacts that unfold with increasing speed across internal networks and systems. Breaches of our network or data security could disrupt the security of our internal systems and business applications, impair our ability to provide services to our customers and protect the privacy of their data, resulting in product development delays, could compromise confidential or technical business information harming our competitive position, result in theft or misuse of our intellectual property or other assets, require us to allocate more resources to improved technologies, or otherwise adversely affect our business.

Our possession and use of personal information presents risks and expenses that could harm our business. Unauthorized disclosure or manipulation of such data, whether through breach of our network security or otherwise, could expose us to costly litigation and damage our reputation.

Possession and use of personal information in conducting our business subjects us to legislative and regulatory obligations that could require notification of data breaches, restrict our use of personal information and hinder our ability to acquire new customers or market to existing customers. As our business evolves and as we expand internationally, we may become subject to additional and even more stringent legal obligations concerning our treatment of customer information. We have incurred, and will continue to incur, expenses to comply with privacy and security standards and protocols imposed by law, regulation, industry standards or contractual obligations.

If third parties improperly obtain and use the personal information of our customers or employees, we may be required to expend significant resources to resolve these problems. A major breach of our network security and systems could have serious negative consequences for our businesses, including possible fines, penalties and damages, reduced customer demand for our products and services, harm to our reputation and brand and loss of our ability to accept and process customer credit card orders.

We are exposed to risks associated with credit card and payment fraud, and with our obligations under rules on credit card processing and alternative payment methods, which could cause us to lose revenue or incur costs.

As an e-commerce provider that accepts debit and credit cards for payment, we are subject to the Payment Card Industry Data Security Standard ("PCI DSS"), issued by the PCI Council. PCI DSS contains compliance guidelines and standards with regard to our network security surrounding the physical and electronic storage, processing and transmission of individual cardholder data. Despite our compliance with these standards and other information security measures, we cannot guarantee that all our information technology systems are able to prevent, contain or detect any cyber attacks, cyber terrorism, or security breaches from currently known viruses or malware, or viruses or malware that may be developed in the future. To the extent any disruption results in the loss, damage or misappropriation of information, we may be adversely affected by claims from customers, financial institutions, regulatory authorities, payment card associations and others. In addition, the cost of complying with stricter privacy and information security laws and standards could be significant.

We are subject to rules, regulations and practices governing our accepted payment methods which could change or be reinterpreted to make it difficult or impossible for us to comply. A failure to comply with these rules or requirements could make us subject to fines and higher transaction fees and we could lose our ability to accept these payment methods. Our business and results of operations could be adversely affected if these changes were to occur.

Any significant interruptions in the operations of our website, call center or third-party call centers, especially during the holiday shopping season, could cause us to lose sales and disrupt our ability to process orders and deliver our solutions in a timely manner.

We rely on our website, an in-house call center and third-party call centers to sell our solutions, respond to customer service and technical support requests and process orders. These activities are especially important during the holiday season

and in particular Black Friday through Cyber Monday. Any significant interruption in the operation of these facilities, including an interruption caused by our failure to successfully expand or upgrade our systems or to manage these expansions or upgrades, could reduce our ability to receive and process orders and provide products and services, which could result in lost and cancelled sales and damage to our brand and reputation. These risks are more important during the Black Friday through Cyber Monday holiday season, when many sales of our products and services take place.

We structure our marketing and advertising to drive potential customers to our website and call centers to purchase our solutions. If we experience technical difficulties with our websites or if our call center operators do not convert inquiries into sales at expected rates, our ability to generate revenue could be impaired. Training and retaining qualified call center operators is challenging due to the expansion of our product and service offerings and the seasonality of our business. If we do not adequately train our call center operators, they will not convert inquiries into sales at an acceptable rate.

If any of our products or services contain defects or errors or if new product releases or services are delayed, our reputation could be harmed, resulting in significant costs to us and impairing our ability to sell our solutions.

If our products or services contain defects, errors or security vulnerabilities, our reputation could be harmed, which could result in significant costs to us and impair our ability to sell our products in the future. In the past, we have encountered product development delays due to errors or defects. We would expect that, despite our testing, errors could be found in new products and product enhancements in the future. Significant errors in our products or services could lead to, among other things:

- delays in or loss of marketplace acceptance of our products and services;
- diversion of our resources;
- a lower rate of license renewals or upgrades for consumer and enterprise and education customers;
- injury to our reputation;
- increased service expenses or payment of damages; or
- costly litigation.

If we fail to effectively upgrade our information technology systems, we may not be able to accurately report our financial results or prevent fraud.

As part of our efforts to continue improving our internal control over financial reporting, we plan to continue to upgrade our existing financial information technology systems in order to automate several controls that are currently performed manually. We may experience difficulties in transitioning to these upgraded systems, including loss of data and decreases in productivity, as personnel become familiar with these new systems. In addition, our management information systems will require modification and refinement as our business needs change, which could prolong difficulties we experience with systems transitions, and we may not always employ the most effective systems for our purposes. If we experience difficulties in implementing new or upgraded information systems or experience significant system failures, or if we are unable to successfully modify our management information systems or respond to changes in our business needs, we may not be able to effectively manage our business and we may fail to meet our reporting obligations. In addition, as a result of the automation of these manual processes, the data produced may cause us to question the accuracy of previously reported financial results.

Failure to maintain the availability of the systems, networks, databases and software required to operate and deliver our internet-based products and services could damage our reputation and cause us to lose revenue.

We rely on internal and external systems, networks and databases maintained by us and third-party providers to process customer orders, handle customer service requests, and host and deliver our internet-based learning solutions. Any damage, interruption or failure of our systems, networks and databases could prevent us from processing customer orders and result in degradation or interruptions in delivery of our products and services. Notwithstanding our efforts to protect against interruptions in the availability of our e-commerce websites and internet-based products and services, we do occasionally experience unplanned outages or technical difficulties. In addition, we do not have complete redundancy for all of our systems.

In the event of an interruption or system event we may be unable to meet contract service level requirements, or we could experience an unrecoverable loss of data which could cause us to lose customers and could harm our reputation and cause us to face unexpected liabilities and expenses. If we continue to expand our business, we will put additional strains on these systems. As we continue to move additional product features to online systems or place more of our business online, all of these considerations will become more significant.

We may also need to grow, reconfigure or relocate our data centers in response to changing business needs, which may be costly and lead to unplanned disruptions of service.

We may incur losses associated with currency fluctuations and may not be able to effectively hedge our exposure, which could impair our financial performance.

Our operating results are subject to fluctuations in foreign currency exchange rates. We currently do not attempt to mitigate a portion of these risks through foreign currency hedging, based on our judgment of the appropriate trade-offs among risk, opportunity and expense. In the future, we might choose to engage in foreign currency hedging transactions, which would involve different risks and uncertainties.

Our revolving credit facility contains covenants which may adversely impact our business and the failure to comply with such covenants could cause any outstanding debt to become immediately payable.

Our revolving credit facility contains financial covenants currently applicable to us, as well as a number of restrictive covenants, including restrictions on incurring additional debt, making investments and other restricted payments, selling assets, paying dividends and redeeming or repurchasing capital stock and debt, subject to certain exceptions. Our $25 million revolving credit facility requires us to maintain a minimum Adjusted EBITDA and quick ratio during its term. Collectively, these covenants could constrain our ability to grow our business through acquisition or engage in other transactions. If we are not able to comply with all of these covenants, for any reason, some or all of any outstanding debt could become immediately due and payable which could have a material adverse effect on our liquidity and ability to conduct our business.

If our goodwill or indefinite-lived intangible assets become impaired, we may be required to record a significant charge to earnings.

Under GAAP, we review our goodwill and indefinite lived intangible assets for impairment at least annually and when there are changes in circumstances. Factors that may be considered a change in circumstances include a decline in stock price and market capitalization, future cash flows and slower growth rates in our industry. In the first quarter of 2014, we recorded a goodwill impairment loss of $2.2 million, which represents a full impairment of the ROW Consumer reporting unit’s goodwill and in the fourth quarter of 2014, we recorded a goodwill impairment loss of $18.0 million, which represents a full impairment of the North America Consumer Language reporting unit's goodwill. We may be required to record additional significant charges to earnings in our financial statements during the period in which any impairment of our goodwill or indefinite lived intangible assets is determined, resulting in a negative effect on our results of operations.

We may have exposure to greater than anticipated tax liabilities.

We are subject to income and indirect tax in the U.S. and many foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income and indirect taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. The application of indirect taxes (such as sales and use tax, value-added tax (VAT), goods and services tax, business tax and gross receipt tax) to our businesses and to our users is complex, uncertain and evolving, in part because many of the fundamental statutes and regulations that impose indirect taxes were established before the adoption and growth of the internet and e-commerce. We are subject to audit by multiple tax authorities throughout the world. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical tax provisions and accruals. The results of an audit or litigation could have a material effect on our financial statements in the period or periods for which that determination is made. Further, any changes to the U.S. or any foreign jurisdictions’ tax laws, tax rates, or the interpretation of such tax laws, including the Base Erosion Profit Shifting (“BEPS”) project being conducted by the Organization for Economic Co-operation and Development (“OECD”) could significantly impact how U.S. multinational corporations are taxed. Although we cannot predict whether or in what form any legislation changes may pass, if enacted it could have a material adverse impact on our tax expense, deferred tax assets and cash flows.

Our deferred tax assets may not be fully realizable.

At December 31, 2014, we had gross deferred tax assets of $61.1 million which was offset by a valuation allowance of $53.8 million for certain jurisdictions. We recorded the valuation allowance to reflect uncertainties about whether we will be able to realize some of our deferred tax assets before they expire. The valuation allowance is based on our estimates of taxable

income for the jurisdictions in which we operate and the period over which our deferred tax assets will be realizable. We could in the future be required to increase the valuation allowance to take into account additional deferred tax assets that we may be unable to realize. An increase in the valuation allowance would have an adverse impact, which could be material, on our income tax provision and net income in the period in which we record the increase.

We are subject to U.S. and foreign government regulation of online services which could subject us to claims, judgments, and remedies, including monetary liabilities and limitations on our business practices.

We are subject to regulations and laws directly applicable to providers of online services. The application of existing domestic and international laws and regulations to us relating to issues such as user privacy and data protection, data security, defamation, promotions, billing, consumer protection, accessibility, content regulation, quality of services, and intellectual property ownership and infringement in many instances is unclear or unsettled. Also, the collection and protection of information from children under the age of 13 is subject to the provisions of the Children's Online Privacy Protection Act (COPPA), which is particularly relevant to our learning solutions focused on children. In addition, we will also be subject to any new laws and regulations directly applicable to our domestic and international activities. Internationally, we may also be subject to laws regulating our activities in foreign countries and to foreign laws and regulations that are inconsistent from country to country. We may incur substantial liabilities for expenses necessary to defend litigation in connection with such regulations and laws or to comply with these laws and regulations, as well as potential substantial penalties for any failure to comply.

Changes in how network operators handle and charge for access to data that travel across their networks could adversely impact our business.

We rely upon the ability of customers to access many of our products through the internet. To the extent that network operators implement usage based pricing, including meaningful bandwidth caps, or otherwise try to monetize access to their networks by data providers, we could incur greater operating expenses and our customer acquisition and retention could be negatively impacted. Furthermore, to the extent network operators were to create tiers of internet access service and either charge us for or prohibit us from being available through these tiers, our business could be negatively impacted.

Protection of our intellectual property is limited, and any misuse of our intellectual property by others, including software piracy, could harm our business, reputation and competitive position.

Our intellectual property is important to our success. We believe our trademarks, copyrights, trade secrets, patents, pending patent applications, trade dress and designs are valuable and integral to our success and competitive position. To protect our proprietary rights, we rely on a combination of patents, copyrights, trademarks, trade dress, trade secret laws, confidentiality procedures, contractual provisions and technical measures. However, even if we are able to secure such rights in the United States, the laws of other countries in which our products are sold may not protect our intellectual property rights to the same extent as the laws of the United States.

In addition to issued patents, we have several patent applications on file in the U.S. and other countries. However, we do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims. Even if patents are issued from our patent applications, which are not certain, they may be challenged, circumvented or invalidated in the future. Moreover, the rights granted under any issued patents may not provide us with proprietary protection or competitive advantages, and, as with any technology, competitors may be able to develop similar or superior technologies now or in the future. In addition, we have not emphasized patents as a source of significant competitive advantage and have instead sought to primarily protect our proprietary rights under laws affording protection for trade secrets, copyright and trademark protection of our products, brands, and other intellectual property where available and appropriate. These measures afford only limited protection and may be challenged, invalidated or circumvented by third parties. In addition, these protections may not be adequate to prevent our competitors or customers from copying or reverse-engineering our products. Third parties could copy all or portions of our products or otherwise obtain, use, distribute and sell our proprietary information without authorization. Third parties may also develop similar or superior technology independently by designing around our intellectual property, which would decrease demand for our products. In addition, our patents may not provide us with any competitive advantages and the patents of others may seriously impede our ability to conduct our business.

We protect our products, trade secrets and proprietary information, in part, by requiring all of our employees to enter into agreements providing for the maintenance of confidentiality and the assignment of rights to inventions made by them while employed by us. We also enter into non-disclosure agreements with our technical consultants, customers, vendors and resellers to protect our confidential and proprietary information. We cannot guarantee that our confidentiality agreements with our employees, consultants and other third parties will not be breached, that we will be able to effectively enforce these agreements,

that we will have adequate remedies for any breach, or that our trade secrets and other proprietary information will not be disclosed or will otherwise be protected.

We rely on contractual and license agreements with third parties in connection with their use of our products and technology. There is no guarantee that such parties will abide by the terms of such agreements or that we will be able to adequately enforce our rights, in part because we rely, in many instances, on "click-wrap" and "shrink-wrap" licenses, which are not negotiated or signed by individual licensees. Accordingly, some provisions of our licenses, including provisions protecting against unauthorized use, copying, transfer, resale and disclosure of the licensed software program, could be unenforceable under the laws of several jurisdictions.

Protection of trade secret and other intellectual property rights in the places in which we operate and compete is highly uncertain and may involve complex legal questions. The laws of countries in which we operate may afford little or no protection to our trade secrets and other intellectual property rights. Although we defend our intellectual property rights and combat unlicensed copying and use of software and intellectual property rights through a variety of techniques, preventing unauthorized use or infringement of our intellectual property rights is inherently difficult. Despite our enforcement efforts against software piracy, we could lose significant revenue due to illegal use of our software and from counterfeit copies of our software. If piracy activities increase, it could further harm our business.

We also expect that competitors might try to illegally use our proprietary information and develop products that are similar to ours, which may infringe on our proprietary rights. In addition, we could potentially lose trade secret protection for our source code if any unauthorized disclosure of such code occurs. The loss of trade secret protection could make it easier for third parties to compete with our products by copying functionality. In addition, any changes in, or unexpected interpretations of, the trade secret and other intellectual property laws in any country in which we operate may compromise our ability to enforce our trade secret and intellectual property rights. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our confidential information and trade secret protection. If we are unable to protect our proprietary rights or if third parties independently develop or gain access to our or similar technologies, our business, revenue, reputation and competitive position could be harmed.

Third-party use of our trademarks as keywords in internet search engine advertising programs may direct potential customers to competitors' websites, which could harm our reputation and cause us to lose sales.

Competitors and other third parties, including counterfeiters, purchase our trademarks and confusingly similar terms as keywords in internet search engine advertising programs in order to divert potential customers to their websites. Preventing such unauthorized use is inherently difficult. If we are unable to protect our trademarks and confusingly similar terms from such unauthorized use, competitors and other third parties may continue to drive potential online customers away from our websites to competing and unauthorized websites, which could harm our reputation and cause us to lose sales.

Our trademarks are limited in scope and geographic coverage and might not significantly distinguish us from our competition.

We own several U.S. trademark registrations, including registrations of the *Rosetta Stone, Tell Me More, Livemocha,* and *Lexia* trademarks, as well as U.S. registrations of the color yellow as a trademark. In addition, we hold common law trademark rights and have trademark applications pending in the U.S. and abroad for additional trademarks. Even if federal registrations and registrations in other countries are granted to us, our trademark rights may be challenged. It is also possible that our competitors will adopt trademarks similar to ours, thus impeding our ability to build brand identity and possibly leading to customer confusion. In fact, various third parties have registered trademarks that are similar to ours in the U.S. and overseas. Furthermore, notwithstanding the fact that we may have secured trademark rights for our various trademarks in the United States and in some countries where we do business, in other countries we may not have secured similar rights and, in those countries there may be third parties who have prior use and prior or superior rights to our own. That prior use, prior or superior right could limit use of our trademarks and we could be challenged in our efforts to use the Company's trademarks. We could incur substantial costs in prosecuting or defending trademark infringement suits. If we fail to effectively enforce our trademark rights, our competitive position and brand recognition may be diminished.

We must monitor and protect our internet domain names to preserve their value. We may be unable to prevent third parties from acquiring domain names that are similar to, infringe on or otherwise decrease the value of our trademarks.

We own several domain names related to our business. Third parties may acquire substantially similar domain names or Top Level Domains ("TLDs") that decrease the value of our domain names and trademarks and other proprietary rights which may hurt our business. Third parties also may acquire country specific domain names in the form of Country Code TLDs that include our trademarks or similar terms and which prevent us from operating country specific websites from which customers can view our products and engage in transactions with us. Moreover, the regulation of domain names in the United States and foreign countries is subject to change. Governing bodies could appoint additional domain name registrars, modify the

requirements for holding domain names or release additional TLDs. As a result, we may have to incur additional costs to maintain control over potentially relevant domain names or may not maintain exclusive rights to all potentially relevant domain names in the United States or in other countries in which we conduct business, which could harm our business or reputation. Moreover, attempts may be made to register our trademarks as new TLDs or as domain names within new TLDs and we will have to make efforts to enforce our rights against such registration attempts.

Claims that we misuse the intellectual property of others could subject us to significant liability and disrupt our business.

We may become subject to material claims of infringement by competitors and other third parties with respect to current or future products, e-commerce and other web-related technologies, online business methods, trademarks or other proprietary rights. Our competitors, some of which may have made significant investments in competing products and technologies, and may have, or seek to apply for and obtain, patents, copyrights or trademarks that will prevent, limit or interfere with our ability to make, use and sell our current and future products and technologies, and we may not be successful in defending allegations of infringement of these patents, copyrights or trademarks. Further, we may not be aware of all of the patents and other intellectual property rights owned by third parties that may be potentially adverse to our interests. We may need to resort to litigation to enforce our proprietary rights or to determine the scope and validity of a third-party's patents or other proprietary rights, including whether any of our products, technologies or processes infringe the patents or other proprietary rights of third parties. We may incur substantial expenses in defending against third-party infringement claims regardless of the merit of such claims. The outcome of any such proceedings is uncertain and, if unfavorable, could force us to discontinue advertising and sale of the affected products or impose significant penalties, limitations or restrictions on our business. We do not conduct comprehensive patent searches to determine whether the technologies used in our products infringe upon patents held by others. In addition, product development is inherently uncertain in a rapidly evolving technological environment in which there may be numerous patent applications pending, many of which are confidential when filed, with regard to similar technologies.

We do not own all of the software, other technologies and content used in our products and services, and the failure to obtain rights to use such software, other technologies and content could harm our business.

Some of our products and services contain intellectual property owned by third parties, including software that is integrated with internally developed software and voice recognition software, which we license from third parties. From time to time we may be required to renegotiate with these third parties or negotiate with new third parties to include their technology or content in our existing products, in new versions of our existing products or in wholly new products. We may not be able to negotiate or renegotiate licenses on commercially reasonable terms, or at all, and the third-party software may not be appropriately supported, maintained or enhanced by the licensors. If we are unable to obtain the rights necessary to use or continue to use third-party technology or content in our products and services, this could harm our business, by resulting in increased costs, or in delays or reductions in product shipments until equivalent software could be developed, identified, licensed and integrated.

Our use of open source software could impose limitations on our ability to commercialize our products.

We incorporate open source software into our products and may use more open source software in the future. The use of open source software is governed by license agreements. The terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that these licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our products. Therefore, we could be required to seek licenses from third parties in order to continue offering our products, make generally available, in source code form, proprietary code that links to certain open source modules, re-engineer our products, discontinue the sale of our products if re-engineering could not be accomplished on a cost-effective and timely basis, or become subject to other consequences. In addition, open source licenses generally do not provide warranties or other contractual protections regarding infringement claims or the quality of the code. Thus, we may have little or no recourse if we become subject to infringement claims relating to the open source software or if the open source software is defective in any manner.

As our product and service offerings become more complex, our reported revenue may become less predictable.

During 2014, we continued to transition our consumer distribution to more online. The accounting policies that apply to these sources of revenue may be more complex than those that apply to our traditional products and services. In addition, we may change the manner in which we sell our software licenses, and such change could cause delays in revenue recognition in accordance with accounting standards. Under these accounting standards, even if we deliver products and services to, and collect cash from, a customer in a given fiscal period, we may be required to defer recognizing revenue from the sale of such product or service until a future period when all the conditions necessary for revenue recognition have been satisfied. If we move more of our consumer business online we will also collect less cash from our initial transactions with consumers which could substantially decrease our revenues in the short term. Conditions that can cause delays in revenue recognition include software arrangements that have undelivered elements for which we have not yet established vendor specific objective

evidence of fair value, requirements that we deliver services for significant enhancements or modifications to customize our software for a particular customer or material customer acceptance criteria.

Our consumer language-learning packages that include perpetual software and online services have increased our costs as a percentage of revenue, and these and future product introductions may not succeed and may harm our business, financial results and reputation.

Our consumer language-learning packages integrate our language-learning software solutions with online services, which provide opportunities for practice with dedicated language conversation coaches and other language learners to increase language socialization. The online services associated with this software package have decreased our margins. Customers may choose to not engage with conversation coaches or be willing to pay higher prices to do so. In addition, we are required to defer recognition of a portion of each sale of this packaged software in connection with the terms of our online service periods. We cannot assure you that our software package offerings will be successful or profitable, or if they are profitable, that they will provide an adequate return on capital expended. If our software package offering is not successful, our business, financial results and reputation may be harmed.

Substantially all of our inventory is located in one warehouse facility. Any damage or disruption at this facility could cause significant financial loss, including loss of revenue and harm to our reputation.

Substantially all of our inventory is located in one warehouse facility. We could experience significant interruption in the operation of this facility or damage or destruction of our inventory due to natural disasters, accidents, failures of the inventory locator or automated packing and shipping systems or other events. If a material portion of our inventory were to be damaged or destroyed, we might be unable to meet our contractual obligations which could cause us significant financial loss, including loss of revenue and harm to our reputation. As our business continues to move online, we expect that this risk will diminish over time.

Provisions in our organizational documents and in the Delaware General Corporation Law may prevent takeover attempts that could be beneficial to our stockholders.

Provisions in our second amended and restated certificate of incorporation and second amended and restated bylaws, and in the Delaware General Corporation Law, may make it difficult and expensive for a third party to pursue a takeover attempt we oppose even if a change in control of our company would be beneficial to the interests of our stockholders. Any provision of our second amended and restated certificate of incorporation or second amended and restated bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock. Our board of directors has the authority to issue up to 10,000,000 shares of preferred stock in one or more series and to fix the powers, preferences and rights of each series without stockholder approval. The ability to issue preferred stock could discourage unsolicited acquisition proposals or make it more difficult for a third party to gain control of our company, or otherwise could adversely affect the market price of our common stock. Further, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law. This section generally prohibits us from engaging in mergers and other business combinations with stockholders that beneficially own 15% or more of our voting stock, or with their affiliates, unless our directors or stockholders approve the business combination in the prescribed manner.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters are located in Arlington, Virginia, where we occupy space on one floor of an office building under a lease that ends December 31, 2018. For more information about our Arlington, Virginia lease and subleases, please see Note 16 of Item 8, *Financial Statements and Supplementary Data.* We currently own two facilities in Harrisonburg, Virginia, that provide operations and customer support services. We lease another facility in Virginia for use as a packing and distribution center for all of our U.S. and some of our international fulfillment.

In addition, the Company leases property in various locations in the U.S. and around the world as sales offices, for research and development activities, operations, product distribution, data centers, and market research. Our international locations are in or near cities including the following: Versailles, France; London, United Kingdom; Seoul, South Korea; Beijing and Shanghai, China; Vancouver, Canada; São Paulo, Brazil; Cologne, Germany; and Madrid, Spain.

Item 3. Legal Proceedings

In June 2011, Rosetta Stone GmbH, a subsidiary of the Company, was served with a writ filed by Langenscheidt KG ("Langenscheidt") in the District Court of Cologne, Germany alleging trademark infringement due to Rosetta Stone GmbH's use of the color yellow on its packaging of its language-learning software and the advertising thereof in Germany. Langenscheidt sought relief in the form of monetary damages and injunctive relief; however there has not been a demand for a specific amount of monetary damages and there has been no specific damage amount awarded to Langenscheidt. In January 2012, the District Court of Cologne ordered an injunction against specific uses of the color yellow made by Rosetta Stone GmbH in packaging, on its website and in television commercials and declared Rosetta Stone GmbH liable for damages, attorneys' fees and costs to Langenscheidt. In its decision, the District Court of Cologne also ordered the destruction of Rosetta Stone GmbH's product and packaging which utilized the color yellow and which was deemed to have infringed Langenscheidt's trademark. The Court of Appeals in Cologne and the German Federal Supreme Court have affirmed the District Court's decision. The Company has filed special complaints with the German Federal Supreme Court and the German Constitutional Court directed to constitutional issues in the German Federal Supreme Court's decision.

In August 2011, Rosetta Stone GmbH commenced a separate proceeding for the cancellation of Langenscheidt's German trademark registration of yellow as an abstract color mark. In June 2012, the German Patent and Trademark Office rendered a decision in the cancellation proceeding denying our request to cancel Langenscheidt's German trademark registration. The German Federal Supreme Court has denied Rosetta Stone GmbH's further appeal but has not yet issued its written decision denying further appeal.

Rosetta Stone GmbH expects that damages will be awarded to Langenscheidt based on the finding of trademark infringement. However, at this point, the Company cannot predict the amount of damages which Langenscheidt will be awarded nor when any damages will be required to be paid. The Company has concluded that Rosetta Stone GmbH will be required to pay court costs and opposing counsel fees and Langenscheidt has filed a Motion for Attorneys' Fees to which Rosetta Stone GmbH has objected. The Company will continue to incur legal fees and other costs in connection with the resolution of this case.

From time to time, we have been subject to various claims and legal actions in the ordinary course of our business. We are not currently involved in any legal proceeding the ultimate outcome of which, in our judgment based on information currently available, would have a material impact on our business, financial condition or results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market for Common Stock

Our common stock is listed on the New York Stock Exchange, or NYSE, under the symbol "RST." There were approximately 139 stockholders of record of our common stock as of March 11, 2015. The following table sets forth, for each of the periods indicated, the high and low reported sales price of our common stock on the NYSE.

	High	Low
Year ended December 31, 2014		
Fourth Quarter	$11.23	$ 7.42
Third Quarter	10.22	8.00
Second Quarter	12.32	9.20
First Quarter	12.50	10.53
Year ended December 31, 2013		
Fourth Quarter	$16.53	$11.34
Third Quarter	17.30	14.70
Second Quarter	18.30	14.46
First Quarter	15.44	11.55

On March 11, 2015, the last reported sales price of our common stock on the NYSE was $9.50 per share.

Dividends

We have not paid any cash dividends on our common stock and do not intend to do so in the foreseeable future. We currently intend to retain all available funds and any future earnings to support the operation of and to finance the growth and development of our business. Further, our revolving credit facility contains financial and restrictive covenants that, among other restrictions and subject to certain exceptions, limit our ability to pay dividends.

Securities Authorized For Issuance Under Equity Compensation Plans

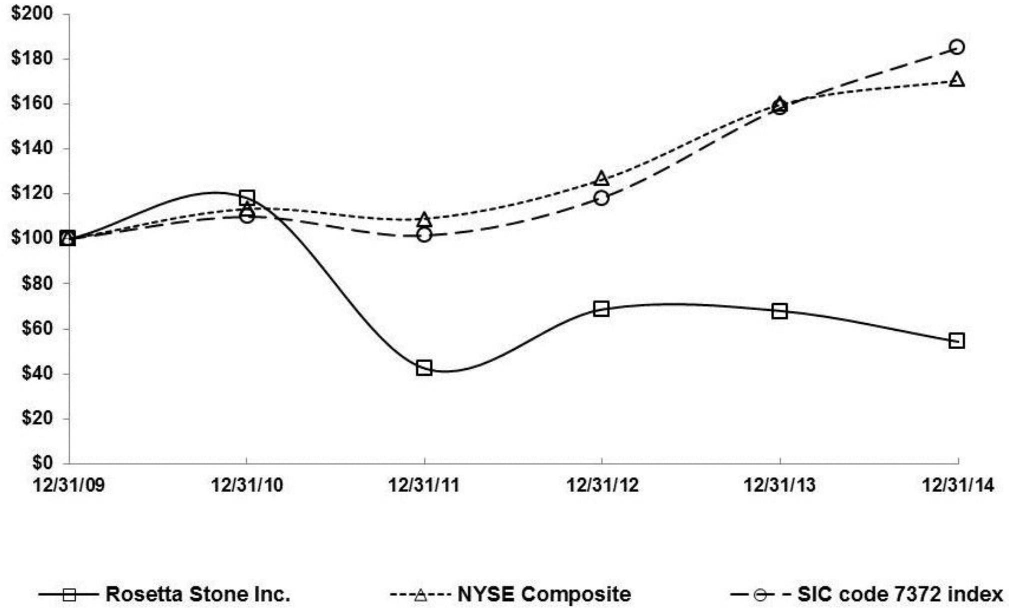
For information regarding securities authorized for issuance under equity compensation plans, see Part III "Item 12—Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

Purchases of Equity Securities

On August 22, 2013, our Board of Directors approved a share repurchase program under which we are authorized to repurchase up to $25 million of our outstanding common stock from time to time in the open market or in privately negotiated transactions depending on market conditions, other corporate considerations, and applicable legal requirements. Our revolving credit facility contains financial and restrictive covenants, that among other restrictions and subject to certain limitations, limits our ability to repurchase our shares. No shares were purchased during 2014.

Stockholder Return Performance Presentation

The following graph compares the change in the cumulative total stockholder return on our common stock during the 5-year period from December 31, 2009 through December 31, 2014, with the cumulative total return on the NYSE Composite Index and the SIC Code Index that includes all U.S. public companies in the Standard Industrial Classification (SIC) Code 7372-Prepackaged Software. The comparison assumes that $100 was invested on December 31, 2009 in our common stock and in each of the foregoing indices and assumes reinvestment of dividends, if any.



The foregoing graph shall not be deemed to be filed as part of this Annual Report on Form 10-K and does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other filing of the Company under the Securities Act, or the Exchange Act, except to the extent we specifically incorporate the graph by reference.

Item 6. Selected Consolidated Financial Data

The following tables set forth our selected consolidated statement of operations, balance sheet and other data for the periods indicated. The selected consolidated statement of operations data for the years ended December 31, 2014, 2013, 2012, 2011 and 2010, and the consolidated balance sheet data as of December 31, 2014, 2013, 2012, 2011 and 2010 have been derived from our audited consolidated financial statements. The selected consolidated financial data should be read in conjunction with the information under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," our consolidated financial statements, the related notes and the accompanying independent registered public accounting firm's report, which are included in "Item 15. Exhibits and Financial Statement Schedules." Our historical results for any prior period are not necessarily indicative of results to be expected in any future period.

	Year Ended December 31,				
	2014(1)	2013(2)	2012(3)	2011(4)	2010
	(in thousands, except per share data)				
Statements of Operations Data:					
Revenue	$ 261,853	$ 264,645	$ 273,241	$ 268,449	$ 258,868
Cost of revenue	53,054	45,714	48,910	49,116	38,999
Gross profit	208,799	218,931	224,331	219,333	219,869
Operating expenses:					
Sales and marketing	173,208	146,104	150,882	160,942	130,335
Research and development	33,176	33,995	23,453	24,218	23,437
General and administrative	57,120	56,432	55,262	62,031	53,239
Impairment	20,333	—	—	—	—
Lease abandonment and termination	3,812	842	—	—	(583)
Total operating expenses	287,649	237,373	229,597	247,191	206,428
Income (loss) from operations	(78,850)	(18,442)	(5,266)	(27,858)	13,441
Other income and expense:					
Interest income	17	117	187	302	262
Interest expense	(233)	(61)	—	(5)	(66)
Other (expense) income	(1,129)	368	3	142	(220)
Interest and other income (expense), net	(1,345)	424	190	439	(24)
Income (loss) before income taxes	(80,195)	(18,018)	(5,076)	(27,419)	13,417
Income tax expense (benefit)	(6,489)	(1,884)	28,909	(7,769)	(178)
Income (loss) attributable to common stockholders	(73,706)	(16,134)	(33,985)	(19,650)	13,595
Income (loss) per share attributable to common stockholders:					
Basic	$ (3.47)	$ (0.75)	$ (1.61)	$ (0.95)	$ 0.67
Diluted	$ (3.47)	$ (0.75)	$ (1.61)	$ (0.95)	$ 0.64
Common shares and equivalents outstanding:					
Basic weighted average shares	21,253	21,528	21,045	20,773	20,439
Diluted weighted average shares	21,253	21,528	21,045	20,773	21,187
Other Data:					
Stock-based compensation included in:					
Cost of revenue	$ 108	$ 175	$ 288	$ 55	$ 39
Sales and marketing	1,975	1,840	1,185	1,932	774
Research and development	958	1,460	1,547	2,448	1,181
General and administrative	3,721	5,766	4,989	7,918	2,393
Total stock-based compensation expense	$ 6,762	$ 9,241	$ 8,009	$ 12,353	$ 4,387
Intangible amortization included in:					
Cost of revenue	$ 586	$ 244	$ —	$ —	$ —
Sales and marketing	3,677	1,028	—	45	58
Research and development	2,000	550	40	40	—
General and administrative	—	—	—	—	—
Total intangible amortization expense	$ 6,263	$ 1,822	$ 40	$ 85	$ 58

(1) As discussed in Note 5 of Item 8, *Financial Statements and Supplementary Data*, the Company acquired Vivity Labs, Inc. on January 2, 2014 and Tell Me More S.A. on January 9, 2014. The results of operations from these entities have been included from the acquisition date.

(2) As discussed in Note 5 of Item 8, *Financial Statements and Supplementary Data*, the Company acquired Livemocha, Inc. on April 1, 2013 and acquired Lexia Learning Systems, Inc. on August 1, 2013. The results of operations from these entities have been included from the acquisition date.
(3) As discussed in Note 15 of Item 8, *Financial Statements and Supplementary Data*, the Company established a full valuation allowance to reduce the deferred tax assets of the Korea, Brazil, and Japan subsidiaries and the U.S.
(4) On January 4, 2011 the Company's Board of Directors approved the Rosetta Stone Inc. Long Term Incentive Program ("LTIP") and then subsequently cancelled the LTIP on November 30, 2011, resulting in $4.9 million additional operating expense.

	As of December 31,				
	2014	2013	2012	2011	2010
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 64,657	$ 98,825	$ 148,190	$ 106,516	$ 115,756
Total assets	288,404	290,776	279,446	280,059	278,804
Deferred revenue	128,169	78,857	63,416	51,895	47,158
Notes payable and capital lease obligation	3,748	242	5	12	—
Total stockholders' equity	$ 63,445	$ 131,243	$ 148,194	$ 172,951	$ 179,724

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") contains forward-looking statements within the meaning of the Private Securities Litigation Reforms Act of 1995. The MD&A should be read in conjunction with our consolidated financial statements and notes thereto which appear elsewhere in this Annual Report on Form 10-K. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those discussed under ("Risk Factors") and elsewhere in this Annual Report on Form 10-K.

Overview

Rosetta Stone Inc. (“Rosetta Stone,” “the Company,” “we” or “us”) is dedicated to changing the way the world learns. Our innovative, technology-driven language and reading solutions are used by thousands of schools, businesses, and government organizations millions of individuals around the world. Founded in 1992, Rosetta Stone pioneered the use of interactive software to accelerate language learning. Today we offer courses in 30 languages across a broad range of formats, including online subscriptions, digital downloads, mobile apps, and perpetual CD packages. Rosetta Stone has invested more in language learning and expanded beyond language learning and deeper into education-technology with its acquisitions of Livemocha Inc. ("Livemocha") and Lexia Learning Systems Inc, ("Lexia") in 2013 and Vivity Labs, Inc. ("Vivity"") and Tell Me More S.A. ("Tell Me More") in January 2014.

We derive our revenues from sales to both individual consumers and organizations. Our global consumer distribution channel comprises a mix of our call centers, websites, third party e-commerce websites such as Digital River and Apple iTunes, select retail resellers, such as Amazon.com, Barnes & Noble, Target, Best Buy, Books-a-Million, Staples, Costco, daily deal partners such as Groupon, home shopping networks such as GS Home Shopping in Korea and consignment distributors such as Wynit Distribution and Software Packaging Associates. Our Global Enterprise & Education distribution model is focused on targeted sales activity primarily through a direct sales force in five markets: K through 12 schools; colleges and universities; federal government agencies; corporations; and not-for-profit organizations, as well as through a network of third-party resellers of our literacy solutions.

Over the last two years, we have expanded the breadth of our language and literacy products with the acquisitions of Tell Me More and Lexia. These acquisitions have reinforced our belief that the Enterprise & Education segment is our largest opportunity for long-term value creation. The customers in these markets have demands that recur each year, creating a more predictable revenue opportunity. This demand profile also fits well with our suite of products and the well-known Rosetta Stone brand. We also believe the opportunity to deliver English language learning is growing around the globe.

As a result, we recently communicated a strategic reorganization and realignment of our business to accelerate and prioritize our focus on satisfying the needs of more serious Corporate and K-12 learners, and emphasizing those who need to speak and read English. This focus will carry over to the Consumer segment where we will prioritize more serious learners,

rather than trying to address the entire consumer marketplace. To position the organization for success, we are doing four things:

1. We are taking immediate action to reorganize our business around or Enterprise and Education segment;

2. We will be focusing our product investment on building effective, personalized English learning experiences that deliver clear and measurable outcomes;

3. We are beginning to right-size the entire cost base of the Company, with the first steps being

    ◦ optimization of our media spend and other marketing costs in Consumer sales and marketing;

    ◦ rationing our Consumer investment; and

    ◦ reducing our general and administrative costs.

4. We are cutting back on the number of new business initiatives we take on - particularly in Consumer - to improve focus and enhance efficacy.

In pursuing these priorities, we plan to grow the Global Enterprise & Education segment by focusing the majority of our resources and assets on providing a comprehensive language learning experience focused on more serious language learners while at the same time accelerating the migration of our Consumer business to digital as well as reducing the number of marketing and promotional campaigns aimed at the casual learner, relying less on promotional pricing to generate Consumer sales, reducing the number of retailers that sell our products, and streamlining operations with a clear focus to support the Global Enterprise & Education segment.

We have three operating segments: North America ("NA") Consumer; Rest of World ("ROW") Consumer; and Global Enterprise & Education.

We discuss the profitability of each segment in terms of segment contribution. Segment contribution is the measure of profitability used by our Chief Operating Decision Maker ("CODM"). Segment contribution includes segment revenue and expenses incurred directly by the segment, including material costs, service costs, customer care and coaching costs, sales and marketing expense and bad debt expense. North America Consumer segment contribution decreased from $72.5 million for the year ended December 31, 2013 to $33.8 million for the year ended December 31, 2014. The decrease in North America Consumer segment contribution is primarily due to a decrease in retail and direct-to-consumer revenues. ROW Consumer segment contribution increased from a loss of $1.6 million for the year ended December 31, 2013 to income of $1.1 million for the year ended December 31, 2014 driven by a reduction in expenses primarily the result of the reduced size of operations in Japan and Korea. Global Enterprise & Education segment contribution decreased to $16.1 million for the year ended December 31, 2014 as compared to $21.0 million for the year ended December 31, 2013, due to an increase in sales and marketing expense related to the addition of sales staff, particularly from the Lexia and Tell Me More acquisitions and the lower margin on our acquired service offerings. The decline in Global Enterprise & Education segment contribution is also due to the greater amount of commission earned by resellers of our literacy services.

For additional information regarding our segments, see Note 17 of Item 8, *Financial Statements and Supplementary Data*. For additional information regarding fluctuations in segment revenue, see Results of Operations, below. Prior periods are presented consistently with our current operating segments and definition of segment contribution.

Business Metrics

Management uses the following key business metrics to measure the success of sales of our legacy Rosetta Stone language-learning solutions in our combined North America and ROW Consumer segments. Management does not review these metrics at a disaggregated segment level. In addition, management does not currently use any comparable metrics to measure success of our Global Enterprise & Education segment nor does management currently have a business metric to measure success of our Rosetta Stone Fit Brains and Rosetta Stone Kids offerings. These business metrics do not include product software units, revenues, or learners gained from acquisitions.

- *Product software units.* A unit is a perpetual software license sold as either tangible packaged software or as a digital download.

- *Average revenue per product software unit.* Consumer revenues derived from product software units divided by the number of product software units sold in the same period. Revenue from product software includes global consumer language-learning revenue associated with perpetual product software licenses in addition to service revenues

associated with short-term online services that are bundled with our product software units. Approximately $25 to $39 in revenue per product software unit is derived from service revenues associated with this short-term online service.

- *Paid online learners.* As of the end of a specified period, the number of paid, active consumer language-learners derived from the sale of our web-based software subscription and purchasers of our product software who subsequently purchase renewals of their short-term online services.

- *Average monthly revenue per paid online learner.* Revenues derived from paid online learners for a specified period divided by the average number of paid online learners during the same period, adjusted to a monthly rate. The average number of paid online learners for a quarter is calculated as the average of the beginning and ending number of paid online learners for the specified period. The average number of paid online learners for a year-to-date period is calculated as the average of the average number of paid online learners for quarters included in the specified year-to-date period.

The following table sets forth these unit and online learner metrics for the years ended December 31, 2014, 2013 and 2012:

	Year Ended December 31,		
	2014	2013	2012
	(revenues stated in thousands)		
Product software revenue	$ 148,472	$ 179,211	$ 198,075
Paid online learner revenues	24,595	24,703	14,999
Total consumer revenues*	$ 173,067	$ 203,914	$ 213,074
Product software units*	743,074	681,612	629,779
Total paid online learners*	169,152	94,056	68,393
Average revenue per product software unit	$ 200	$ 263	$ 315
Average monthly revenue per online learner*	$ 16	$ 25	$ 26

** The unit and online learner metrics relate to the results for our global consumer language-learning offerings and do not include revenue and learners from Rosetta Stone Fit Brains, Rosetta Stone Kids, mobile applications and other offerings gained through acquisitions.*

Product software revenue, units and Average Revenue Per Product Software Unit (ARPU)

Product software revenue includes consumer sales of our global language-learning product software units. We anticipate the mix of product software units will shift from our traditional packaged product to digital downloads and web-based software subscriptions in future periods.

Worldwide language-learning consumer revenue from product software units decreased $30.7 million from the year ended December 31, 2013 to the year ended December 31, 2014, driven by a 24% decrease in the average revenue per product software unit, partially offset by a 9% increase in the number of units sold, compared to the prior year period. Worldwide consumer revenue from product software decreased $18.9 million from the year ended December 31, 2012 to the year ended December 31, 2013, driven by a 17% decrease in the average revenue per product software unit, partially offset by an 8% increase in the number of units sold, compared to the prior year period.

Worldwide consumer ARPU decreased $63, or 24%, from $263 for the year ended December 31, 2013 to $200 for the year ended December 31, 2014. More extensive promotional activity and deeper discounting were the primary causes of the overall decrease in ARPU year-over-year. In the fourth quarter of 2014, the amount of revenue deferred per unit increased from $25 to $39 which also contributed to the overall decrease in ARPU. This decrease was partially offset by a beneficial shift in channel mix in favor of direct-to-consumer and away from retail. Although we are testing strategies to mitigate the downward trend in prices, in the near term we expect ARPU to continue to decline. If lowering prices does not result in increased unit sales volume, our overall profitability could be negatively impacted. Worldwide ARPU decreased $52, or 17%, from $315 for the year ended December 31, 2012 to $263 for the year ended December 31, 2013 primarily driven by promotional pricing in North America Consumer, increased levels of daily deals at lower prices and increased price discounting in ROW Consumer, and our overall change in our sales channel mix.

Paid online learner revenues, online learners and average monthly revenue per online learner

Revenue from paid online learners decreased $0.1 million from the year ended December 31, 2013 to the year ended December 31, 2014, despite an 80% increase in the number of paid online learners as of December 31, 2014, compared to the prior period. The decrease in paid online learner revenues is primarily due to the extensive promotional activity and deeper discounting combined with a change in sales models that increased the subscription periods available for purchase from short-

term subscriptions to 36-month subscriptions. These factors have led to the overall decrease in the average monthly revenue per online learner and longer periods over which subscription revenue is recognized. Revenue from paid online learners increased $9.7 million from the year ended December 31, 2012 to the year ended December 31, 2013, driven by a 38% increase in the number of paid online learners as of December 31, 2012, compared to the prior period. This increase was partially offset by a decrease in the average revenue per online learner due to the decrease in paid subscription price points implemented in September 2013.

Bookings

In addition to the unit and learner metrics described above, management also uses bookings to evaluate the overall health of the business and evaluate performance. Bookings are a non-GAAP financial measure that represent executed sales contracts received that are either recorded immediately as revenue or as deferred revenue. Bookings are calculated in total and at the operating segment level as revenue plus the change in deferred revenue. Management believes that bookings provides useful information to investors regarding certain financial and business trends relating to our financial condition and results of operations.

Components of Our Statement of Operations

Revenue

We derive revenue from sales of language-learning, literacy, and brain fitness solutions. Revenue is presented as product revenue or subscription and service revenue in our consolidated financial statements. Product revenue primarily consists of revenues from our perpetual language-learning product software, our audio practice products, and certain mobile applications. Our audio practice products are often combined with our language-learning software and sold as a solution. Subscription and service revenue consist of sales from web-based software subscriptions, online services, professional services, and certain mobile applications. Our online services are typically sold in short-term service periods and include dedicated online conversational coaching services and access to online communities of language learners. Our professional services include training and implementation services.

In the consumer market, our perpetual product software is often bundled with our short-term online conversational coaching and online community services and sold as a package. Approximately $25 to $39 in revenue per unit is derived from these short-term online services. As a result, we typically defer 10%-35% of the revenue of each of these bundled sales to be recognized over the term of the service period. The content of our perpetual product software and our web-based language-learning subscription offerings are the same. We offer our customers the ability to choose which format they prefer without differentiating the learning experience.

We sell our solutions directly and indirectly to individuals, educational institutions, corporations, and government agencies. We distribute our consumer products predominantly through our direct sales channels, primarily our websites and call centers, which we refer to as our direct-to-consumer channel. We also distribute our consumer products through select third-party retailers. We sell to enterprise and education organizations primarily through our direct enterprise and education sales force as well as our network of resellers and organizations typically gain access to our solutions under a web-based subscription service. For purposes of explaining variances in our revenue, we separately discuss changes in our consumer and enterprise and education sales channels because the customers and revenue drivers of these channels are different.

Our consumer revenue is affected by seasonal trends associated with the holiday shopping season. As a result, our fourth quarter ended December 31, 2014 accounted for 30% of our annual revenue in 2014. Our enterprise and education revenue is seasonally stronger in the second and third quarters of the calendar year due to education and government purchasing cycles. We expect these trends to continue.

Cost of Product and Subscription and Service Revenue

Cost of product revenue consists of the direct and indirect materials and labor costs to produce and distribute our products. Such costs include packaging materials, computer headsets, freight, inventory receiving, personnel costs associated with product assembly, third-party royalty fees and inventory storage, obsolescence and shrinkage. The cost of subscription and service revenue primarily represents costs associated with supporting our web-based subscription services and online language-learning services, which includes online language conversation coaching, hosting costs and depreciation. We also include the cost of credit card processing and customer technical support in both cost of product revenue and cost of subscription and service revenue.

Operating Expenses

We classify our operating expenses into the following categories: sales and marketing, research and development, general and administrative, impairment, and lease abandonment and termination.

Our operating expenses primarily consist of personnel costs, direct advertising and marketing expenses and professional fees associated with contract product development, legal, accounting and consulting. Personnel costs for each category of operating expenses include salaries, bonuses, stock-based compensation and employee benefit costs. When certain events occur, we also recognize operating expenses related to asset impairment and operating lease terminations.

Sales and Marketing. Our sales and marketing expenses consist primarily of direct advertising expenses related to television, print, radio, online and other direct marketing activities, personnel costs for our sales and marketing staff, and commissions earned by our sales personnel. Sales commissions are generally paid at the time the customer is invoiced. However, sales commissions are deferred and recognized as expense in proportion to when the related revenue is recognized. In connection with our new strategy of focusing on the Global Enterprise & Education segment, we intend to reduce the number of marketing and promotional campaigns that we run, focusing more on brand messaging that withstands the test of time, and less on promotional pricing.

Research and Development. Research and development expenses consist primarily of personnel costs and contract development fees associated with the development of our solutions. Our development efforts are primarily based in the U.S. and are devoted to modifying and expanding our offering portfolio through the addition of new content and new paid and complementary products and services to our language-learning, literacy, and brain fitness solutions. We expect our investment in research and development expenses to increase in future years as we fund product initiatives that we expect to provide us with significant benefits in the future.

General and Administrative. General and administrative expenses consist primarily of shared services, such as personnel costs of our executive, finance, legal, human resources and other administrative personnel, as well as accounting and legal professional services fees including professional service fees related to acquisition and other corporate expenses. We expect our general and administrative expenses to decline as we take steps to reduce our non-Global Enterprise & Education headcount as well as other cost reductions.

Impairment. Impairment expenses consist primarily of goodwill impairment and impairment expense related to the abandonment of previously capitalized internal-use software projects.

Lease Abandonment and Termination. Lease abandonment and termination expenses include the recognition of costs associated with the termination or abandonment of certain of our office operating leases, such as early termination fees and expected lease termination costs.

Interest and Other Income (Expense)

Interest and other income (expense) primarily consist of interest income, interest expense, foreign exchange gains and losses, and income from litigation settlements. Interest expense is primarily related to interest on our capital leases and the amortization of deferred financing fees associated with our revolving credit facility. Interest income represents interest received on our cash and cash equivalents. Fluctuations in foreign currency exchange rates in our foreign subsidiaries cause foreign exchange gains and losses. Legal settlements are related to agreed upon settlement payments from various anti-piracy enforcement efforts.

Income Tax (Benefit) Expense

Income tax (benefit) expense consists of federal, state and foreign income taxes. For the year ended December 31, 2014, we incurred an income tax benefit of $6.5 million based on losses before taxes of $80.2 million resulting in a worldwide effective tax rate was approximately 8.1%. The tax rate resulted from tax benefits related to the tax impact of the goodwill impairment charges taken in the first and fourth quarters of 2014 and tax benefits related to current year losses in Canada and France. The tax benefits were only partially offset by tax expense related to current year income of operations in Germany and the UK, foreign withholding taxes, and the tax impact of amortization of indefinite lived intangible assets.

We regularly evaluate the recoverability of our deferred tax assets and establish a valuation allowance, if necessary, to reduce the deferred tax assets to an amount that is more likely than not to be realized (a likelihood of more than 50 percent). Significant judgment is required to determine whether a valuation allowance is necessary and the amount of such valuation allowance, if appropriate.

In assessing the recoverability of our deferred tax assets, we consider all available evidence, including:

- the nature, frequency, and severity of cumulative financial reporting losses in recent years;
- the carryforward periods for the net operating loss, capital loss, and foreign tax credit carryforwards;
- predictability of future operating profitability of the character necessary to realize the asset;

- prudent and feasible tax planning strategies that would be implemented, if necessary, to protect against the loss of the deferred tax assets; and
- the effect of reversing taxable temporary differences.

The evaluation of the recoverability of the deferred tax assets requires that we weigh all positive and negative evidence to reach a conclusion that it is more likely than not that all or some portion of the deferred tax assets will not be realized. The weight given to the evidence is commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, the more positive evidence is necessary and the more difficult it is to support a conclusion that a valuation allowance is not needed. Our valuation allowance analysis considers a number of factors, including our cumulative losses in recent years, our expectation of future taxable income and the time frame over which our net operating losses expire.

As of December 31, 2014, a full valuation allowance exists for the U.S., Korea, Japan, China, Hong Kong, Mexico, Spain and Brazil where we have determined the deferred tax assets will not more likely than not be realized. Further, in France a partial valuation allowance has been recorded on deferred tax assets we believe are not more likely than not to be realized.

The establishment of a valuation allowance has no effect on the ability to use the deferred tax assets in the future to reduce cash tax payments. We will continue to assess the likelihood that the deferred tax assets will be realizable at each reporting period, and the valuation allowance will be adjusted accordingly, which could materially affect our financial position and results of operations.

Critical Accounting Policies and Estimates

In presenting our financial statements in conformity with accounting principles generally accepted in the U.S., we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures.

Some of the estimates and assumptions we are required to make relate to matters that are inherently uncertain as they pertain to future events. We base these estimates and assumptions on historical experience or on various other factors that we believe to be reasonable and appropriate under the circumstances. On an ongoing basis, we reconsider and evaluate our estimates and assumptions. Our future estimates may change if the underlying assumptions change. Actual results may differ significantly from these estimates.

We believe that the critical accounting policies listed below involve our more significant judgments, assumptions and estimates and, therefore, could have the greatest potential impact on our consolidated financial statements. In addition, we believe that a discussion of these policies is necessary for readers to understand and evaluate our consolidated financial statements contained in this annual report on Form 10-K.

Revenue Recognition

Our primary sources of revenue are web-based software subscriptions, online services, perpetual product software, and bundles of perpetual product software and short-term online services. We also generate revenue from the sale of audio practice products, mobile applications, and professional services. Revenue is recognized when all of the following criteria are met: there is persuasive evidence of an arrangement; the product has been delivered or services have been rendered; the fee is fixed or determinable; and collectability is reasonably assured. Revenues are recorded net of discounts.

We identify the units of accounting contained within our sales arrangements and in doing so, we evaluate a variety of factors including whether the undelivered element(s) have value to the customer on a stand-alone basis or if the undelivered element(s) could be sold by another vendor on a stand-alone basis.

For multiple element arrangements that contain perpetual software products and related services, we allocate the total arrangement consideration to the deliverables based on vendor-specific objective evidence of fair value ("VSOE"). We generate a substantial portion of consumer revenue from the CD and digital download formats of the Rosetta Stone language-learning packaged software product which is a multiple-element arrangement that contains two deliverables: perpetual software, which is delivered at the time of sale, and a short-term online service, which is considered a software-related element. The online service includes short-term access to conversational coaching services. Because we only sell the perpetual language-learning software on a stand-alone basis in our homeschool version, we do not have a sufficient concentration of stand-alone sales to establish VSOE for this element. Accordingly, we allocate the arrangement consideration using the residual method based on the existence of VSOE of the undelivered element, the short-term online service. We determine VSOE of the short-term online service by reference to the range of stand-alone renewal sales of the three-month online service. We review these stand-alone

sales on a quarterly basis. VSOE is established if at least 80% of the stand-alone sales are within a range of plus or minus 15% of a midpoint of the range of prices, consistent with generally accepted industry practice.

For non-software multiple element arrangements we allocate revenue to all deliverables based on their relative selling prices. Our non-software multiple element arrangements primarily occur as sales to our Global Enterprise & Education customers. These arrangements can include a web-based subscription, audio practice tools and professional services or any combination thereof. We do not have a sufficient concentration of stand-alone sales of the various deliverables noted above to our Global Enterprise & Education customers, and therefore cannot establish VSOE for each deliverable. Third party evidence of fair value does not exist for the web-based software subscription services, audio practice products and professional services due to the lack of interchangeable language-learning products and services within the market. Accordingly, we determine the relative selling price of the web-based subscription, audio practice tools and professional services deliverables included in our non-software multiple element arrangements using our best estimate of selling price. We determine our best estimate of selling price based on our internally published price list which includes suggested sales prices for each deliverable based on the type of client and volume purchased. This price list is derived from past experience and from the expectation of obtaining a reasonable margin based on our cost of each deliverable.

In the U.S. and Canada, we offer consumers who purchase our packaged software and audio practice products directly from us a 30-day, unconditional, full money-back refund. We also permit some of our retailers and distributors to return unsold packaged products, subject to certain limitations. We estimate and establish revenue reserves for returns at the time of sale based on historical return rates, estimated channel inventory levels, the timing of new product introductions and other factors.

We distribute products and services both directly to the end customer and indirectly through resellers. Our resellers earn commissions generally calculated as a fixed percentage of the gross sale to the end customer. We evaluate each of our reseller relationships to determine whether the revenue recognized from indirect sales should be the gross amount of the contract with the end customer or reduced for the reseller commission. In making this determination we evaluate a variety of factors including whether we are the primary obligor to the end customer. Revenue is recorded net of taxes.

Revenue for online services and web-based subscriptions is recognized ratably over the term of the service or subscription period, assuming all revenue recognition criteria have been met. Our CD and digital download formats of Rosetta Stone language-learning product are bundled with a short-term online service where customers are allowed to begin their short-term online services at any point during a registration window, which is up to six months from the date of purchase from us or an authorized reseller. Short-term online services that are not activated during this registration window are forfeited and revenue is recognized upon expiry. Revenue from non-refundable upfront fees that are not related to products already delivered or services already performed is deferred and recognized over the term of the related arrangement because the period over which a customer is expected to benefit from the service that is included within our subscription arrangements does not extend beyond the contractual period. Accounts receivable and deferred revenue are recorded at the time a customer enters into a binding subscription agreement.

Software products include sales to end user customers and resellers. In many cases, revenue from sales to resellers is not contingent upon resale of the software to the end user and is recorded in the same manner as all other product sales. Revenue from the sales of packaged software is recognized as the products are shipped and title passes and risks of loss have been transferred. For many product sales, these criteria are met at the time the product is shipped. For some sales to resellers and certain other sales, we defer revenue until the customer receives the product because we legally retain a portion of the risk of loss on these sales during transit. In other cases where packaged software products are sold to resellers on a consignment basis, revenue is recognized for these consignment transactions once the end user sale has occurred, assuming the remaining revenue recognition criteria have been met. Cash sales incentives to resellers are accounted for as a reduction of revenue, unless a specific identifiable benefit is identified and the fair value is reasonably determinable. Price protection for changes in the manufacturer suggested retail value granted to resellers for the inventory that they have on hand at the date the price protection is offered is recorded as a reduction to revenue at the time of sale.

We offer our U.S. and Canada consumers the ability to make payments for packaged software purchases in installments over a period of time, which typically ranges between three and five months. Given that these installment payment plans are for periods less than 12 months, a successful collection history has been established and these fees are fixed and determinable, revenue is recognized at the time of sale, assuming the remaining revenue recognition criteria have been met.

In connection with packaged software product sales and web-based software subscriptions, technical support is provided to customers, including customers of resellers, via telephone support at no additional cost for up to six months from the time of purchase. As the fee for technical support is included in the initial licensing fees, the technical support and services are generally provided within one year, the estimated cost of providing such support is deemed insignificant and no unspecified upgrades/enhancements are offered, technical support revenues are recognized together with the software product and web-based software subscription revenue. Costs associated with the technical support service are accrued at the time of sale.

Sales commissions from non-cancellable web-based software subscription contracts are deferred and amortized in proportion to the revenue recognized from the related contract.

Stock-Based Compensation

All stock-based awards, including employee stock option grants, are recorded at fair value as of the grant date and recognized as expense in the statement of operations on a straight-line basis over the requisite service period, which is the vesting period.

As of December 31, 2014 and 2013, there were approximately $6.1 million and $6.8 million of unrecognized stock-based compensation expense related to non-vested stock option awards that are expected to be recognized over a weighted average period of 2.38 and 2.53 years, respectively.

The following table presents the stock-based compensation expense for stock options and restricted stock included in the related financial statement line items (in thousands):

	Year Ended December 31,		
	2014	**2013**	**2012**
Included in cost of revenue:			
Cost of product revenue	$ 95	$ 109	$ 110
Cost of subscription and service revenue	13	66	178
Total included in cost of revenue	108	175	288
Included in operating expenses:			
Sales and marketing	1,975	1,840	1,185
Research and development	958	1,460	1,547
General and administrative	3,721	5,766	4,989
Total included in operating expenses	6,654	9,066	7,721
Total	$ 6,762	$ 9,241	$ 8,009

The fair value of stock-based awards to employees is calculated as of the date of grant. Compensation expense is then recognized on a straight-line basis over the requisite service period of the award. We use the Black-Scholes pricing model to value our stock options, which requires the use of estimates, including future stock price volatility, expected term and forfeitures. Stock-based compensation expense recognized is based on the estimated portion of the awards that are expected to vest. Estimated forfeiture rates were applied in the expense calculation. The fair value of each option grant is estimated on the date of grant using the Black Scholes option pricing model as follows:

	Year Ended December 31,		
	2014	**2013**	**2012**
Expected stock price volatility	63%-65%	64%-67%	64%-66%
Expected term of options	6 years	6 years	6 years
Expected dividend yield	—	—	—
Risk-free interest rate	1.46%-1.80%	0.75%-1.65%	0.60%-0.88%

Prior to the completion of our initial public offering in April 2009, our stock was not publicly quoted and we had a limited history of stock option activity, so we reviewed a group of comparable industry-related companies to estimate our expected volatility over the most recent period commensurate with the estimated expected term of the awards. In addition to analyzing data from the peer group, we also considered the contractual option term and vesting period when determining the expected option life and forfeiture rate. Subsequent to the initial public offering, we continue to review a group of comparable industry-related companies to estimate volatility, but also review the volatility of our own stock since the initial public offering. We consider the volatility of the comparable companies to be the best estimate of future volatility. For the risk-free interest rate, we use a U.S. Treasury Bond rate consistent with the estimated expected term of the option award.

Given the nature of our granted stock options, we derive the estimated term of all stock options using a combination of peer company information and the simplified method. Prior to the completion of our initial public offering in April 2009, our stock was not publicly quoted and we had a limited history of stock option activity. We believe the limited historical exercise data related to our stock options does not provide a reasonable basis on which to estimate the expected term.

The following table sets forth a summary of stock option grants since the date of plan inception, through the date of this Annual Report on Form 10-K:

Grant Date	Number of Options Granted	Exercise Price	Common Stock Fair Value Per Share at Grant Date
2006	1,704,950	$3.85-$3.85	$4.57-$5.92
2007	436,254	3.85-11.19	6.35-11.30
2008	402,805	10.36-17.49	10.36-17.49
2009	472,589	16.74-22.30	16.74-22.30
2010	593,017	17.10-25.99	17.10-25.99
2011	698,327	6.88-20.91	6.88-20.91
2012	662,856	7.51-13.89	7.51-13.89
2013	636,656	12.34-16.96	12.34-16.96
2014	663,353	8.23-12.33	8.23-12.33

Goodwill

The value of goodwill is primarily derived from the acquisition of Rosetta Stone Ltd. (formerly known as Fairfield & Sons, Ltd.) in January 2006, the acquisition of certain assets of SGLC International Co. Ltd ("SGLC") in November 2009, the acquisitions of Livemocha and Lexia in 2013 and the acquisitions of Vivity and Tell Me More in January 2014.

Our reporting units are: North America Consumer Language, North America Consumer Fit Brains, Rest of World Consumer ("ROW Consumer"), Global Enterprise & Education Language, and Global Enterprise & Education Literacy. Each of these businesses is considered a reporting unit for goodwill impairment testing purposes. North America Consumer Language and North America Consumer Fit Brains are components of the North America Consumer operating segment. The combined Global Enterprise & Education Language and Global Enterprise & Education Literacy reporting units make up the Global Enterprise & Education operating segment. Prior to 2013, the reporting units were the same as our operating segments.

We test goodwill for impairment annually on June 30 of each year at the reporting unit level using a fair value approach or more frequently, if impairment indicators arise. We have the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If, based on a review of qualitative factors, it is more likely than not that the fair value of a reporting unit is less than its carrying value, then we perform "Step 1" of the traditional two-step goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. If the carrying value exceeds the fair value, we measure the amount of impairment loss, if any, by comparing the implied fair value of the reporting unit goodwill with its carrying amount ("Step 2").

In estimating the fair value of our reporting units in Step 1, we use a variety of techniques including the income approach (i.e., the discounted cash flow method) and the market approach (i.e., the guideline public company method). Our revenue, bookings and Adjusted EBITDA projections are estimates that can significantly affect the outcome of the analysis, both in terms of our ability to accurately project future results and in the allocation of fair value between reporting units.

The factors that we consider important, and which could trigger an interim impairment review, include, but are not limited to: a significant decline in the market value of our common stock for a sustained period; a material adverse change in economic, financial market, industry or sector trends; a material failure to achieve operating results relative to historical levels or projected future levels; and significant changes in operations or business strategy.

During the first quarter of 2014, we determined sufficient indication existed to require performance of an interim goodwill impairment analysis for the ROW Consumer reporting unit. This indicator was due to a further unexpected decline in the operations of the ROW Consumer reporting unit, with further decreases in revenue and bookings within the reporting unit driving lower than expected operating results for the quarter and impacting the forecast going forward. In this interim goodwill impairment test, the ROW Consumer reporting unit failed Step 1. The combination of the lower reporting unit fair value calculated in Step 1 and the identification of unrecognized fair value changes to the carrying values of other assets and liabilities (primarily tradename and deferred revenue) in Step 2 of the interim goodwill impairment test, resulted in an implied fair value of goodwill below the carrying value of goodwill for ROW Consumer. As a result, we recorded a goodwill impairment loss of $2.2 million, which represents a full impairment of ROW Consumer's goodwill.

In connection with the annual goodwill impairment analysis performed as of June 30, 2014, we determined that the fair value of each of our reporting units with material goodwill balances exceeded its carrying value, and therefore no goodwill impairment charges were recorded in connection with the annual analysis. There were no goodwill impairments in 2013 and 2012.

We conducted reviews on the remaining goodwill balances at the reporting unit level for potential impairment as of the end of the third and fourth quarters in 2014 and concluded that there were no indicators of impairment that would cause us to believe that it is more likely than not that the fair value of our reporting units is less than the carrying value other than for the North America Consumer Language reporting unit as of December 31, 2014. Accordingly, a detailed impairment test has not been performed, other than for the North America Consumer Language reporting unit as of December 31, 2014, discussed below.

As described above, in March 2015, we announced a plan to realign and reorganize the Company to focus on profitable growth in the Global Enterprise & Education segment. The accelerated focus on the Global Enterprise and Education segment is expected to result in significantly lower projected revenue and bookings as well as overall profitability in the North America Consumer Language reporting unit. As a result, we determined that sufficient indication existed to require performance of an interim goodwill impairment analysis for this reporting unit.

The combination of the lower reporting unit fair value of the North America Consumer Language reporting unit and the identification of unrecognized fair value changes to the carrying values of other assets and liabilities (primarily tradename, developed technology and deferred revenue) in Step 2 of the interim goodwill impairment test, resulted in an implied fair value of goodwill below the carrying value of goodwill for the North America Consumer Language reporting unit. As a result, we recorded our best estimate of the goodwill impairment loss of $18.0 million, which represents a full impairment of the North America Consumer Language goodwill. Any adjustment to the estimated impairment loss based on completion of the measurement of the impairment will be recognized in the first quarter of 2015.

Intangible Assets

Intangible assets consist of acquired technology, including developed and core technology, customer related assets, trade name and trademark and other intangible assets. Those intangible assets with finite lives are recorded at cost and amortized on a straight line basis over their expected lives. Intangible assets with finite lives are reviewed routinely for potential impairment as part of our internal control framework. As an indefinite-lived intangible asset, the Rosetta Stone tradename is routinely reviewed to determine if indicators of impairment exist. We have the option to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative test. If necessary, the quantitative test is performed by comparing the fair value of indefinite lived intangible assets to the carrying value. In the event the carrying value exceeds the fair value of the assets, the assets are written down to their fair value. There has been no impairment of intangible assets during 2014, 2013 and 2012.

Valuation of Long-Lived Assets

As part of our internal control framework we evaluate the recoverability of our long-lived assets. An impairment of long-lived assets is recognized in the event that the net book value of such assets exceeds the future undiscounted net cash flows attributable to such assets. Impairment, if any, is recognized in the period of identification to the extent the carrying amount of an asset exceeds the fair value of such asset. During 2014, we recorded a $0.2 million impairment expense related to the abandonment of a software project that was previously capitalized. There were no impairment charges for the years ended December 31, 2013 and 2012.

Income Taxes

We believe that the accounting estimate for the realization of deferred tax assets is a critical accounting estimate because judgment is required in assessing the likely future tax consequences of events that have been recognized in our financial statements or tax returns. Although it is possible there will be changes that are not anticipated in our current estimates, we believe it is unlikely such changes would have a material period-to-period impact on our financial position or results of operations.

We use the asset and liability approach to accounting for income taxes. Deferred tax assets and liabilities represent the future tax consequences of the differences between the financial statement carrying amounts of assets and liabilities versus the tax bases of assets and liabilities. Under this method, deferred tax assets are recognized for deductible temporary differences, and operating loss and tax credit carryforwards. Deferred tax liabilities are recognized for taxable temporary differences.

We reduce the carrying amounts of deferred tax assets by a valuation allowance if, based on available evidence, it is more likely than not that such assets will not be realized. Accordingly, the need to establish valuation allowances for deferred tax

assets is assessed quarterly based on the MLTN realization threshold criterion. In the assessment, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, our experience with operating loss and tax credit carryforwards not expiring unused, and tax planning alternatives. Significant judgment is required to determine whether a valuation allowance is necessary and the amount of such valuation allowance, if appropriate. The valuation allowance is reviewed quarterly and is maintained until sufficient positive evidence exists to support a reversal.

In assessing the recoverability of our deferred tax assets, we consider all available evidence, including:

- the nature, frequency, and severity of cumulative financial reporting losses in recent years;
- the carryforward periods for the net operating loss, capital loss, and foreign tax credit carryforwards;
- predictability of future operating profitability of the character necessary to realize the asset;
- prudent and feasible tax planning strategies that would be implemented, if necessary, to protect against the loss of the deferred tax assets; and
- the effect of reversing taxable temporary differences.

The evaluation of the recoverability of the deferred tax assets requires that we weigh all positive and negative evidence to reach a conclusion that it is more likely than not that all or some portion of the deferred tax assets will not be realized. The weight given to the evidence is commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, the more positive evidence is necessary and the more difficult it is to support a conclusion that a valuation allowance is not needed. Our valuation allowance analysis considers a number of factors, including our cumulative losses in recent years, our expectation of future taxable income and the time frame over which our net operating losses expire.

As of December 31, 2014, a full valuation allowance exists for the U.S., Korea, Japan, China, Hong Kong, Mexico, Spain and Brazil where we have determined the deferred tax assets will not more likely than not be realized. Further, in France a partial valuation allowance has been recorded on deferred tax assets we believe are not more likely than not to be realized.

All of the jurisdictions mentioned above have cumulative losses and pre-tax losses for the most recent year ended December 31, 2014. The establishment of a valuation allowance has no effect on the ability to use the deferred tax assets in the future to reduce cash tax payments. We will continue to assess the likelihood that the deferred tax assets will be realizable at each reporting period and the valuation allowance will be adjusted accordingly, which could materially affect our financial position and results of operations.

As of December 31, 2014 and 2013, our net deferred tax liability was $4.2 million and $9.6 million, respectively.

Results of Operations

The following table sets forth our consolidated statement of operations for the periods indicated.

	Year Ended December 31,		
	2014	2013	2012
	(in thousands, except per share data)		
Statements of Operations Data:			
Revenue			
Product	$ 136,251	$ 156,792	$ 180,919
Subscription and service	125,602	107,853	92,322
Total revenue	261,853	264,645	273,241
Cost of revenue			
Cost of product revenue	34,192	32,191	33,684
Cost of subscription and service revenue	18,862	13,523	15,226
Total cost of revenue	53,054	45,714	48,910
Gross profit	208,799	218,931	224,331
Operating expenses:			
Sales and marketing	173,208	146,104	150,882
Research and development	33,176	33,995	23,453
General and administrative	57,120	56,432	55,262
Impairment	20,333	—	—
Lease abandonment and termination	3,812	842	—
Total operating expenses	287,649	237,373	229,597
Loss from operations	(78,850)	(18,442)	(5,266)
Other income and (expense):			
Interest income	17	117	187
Interest expense	(233)	(61)	—
Other income and (expense)	(1,129)	368	3
Other income and (expense), net	(1,345)	424	190
Loss before income taxes	(80,195)	(18,018)	(5,076)
Income tax (benefit) expense	(6,489)	(1,884)	28,909
Net loss	$ (73,706)	$ (16,134)	$ (33,985)
Loss per share:			
Basic	$ (3.47)	$ (0.75)	(1.61)
Diluted	$ (3.47)	$ (0.75)	$ (1.61)
Common shares and equivalents outstanding:			
Basic weighted average shares	21,253	21,528	21,045
Diluted weighted average shares	21,253	21,528	21,045
Stock-based compensation included in:			
Cost of sales	108	175	288
Sales and marketing	1,975	1,840	1,185
Research and development	958	1,460	1,547
General and administrative	3,721	5,766	4,989
	$ 6,762	$ 9,241	$ 8,009

Comparison of the Year Ended December 31, 2014 and the Year Ended December 31, 2013

Our total revenue decreased to $261.9 million for the year ended December 31, 2014 from $264.6 million for the year ended December 31, 2013. The change in total revenue is due to decreases in North America Consumer revenues of $21.0 million and ROW Consumer revenues of $6.3 million, partially offset by an increase in Global Enterprise & Education revenues of $24.5 million. Bookings increased to $309.0 million for the year ended December 31, 2014 from $278.1 million for the year ended December 31, 2013. The increase was due to increases of $36.9 million and $1.2 million in worldwide Global Enterprise & Education bookings and North America Consumer, respectively, offset by a decrease in ROW Consumer bookings of $7.2 million compared to the prior year.

We reported an operating loss of $78.9 million for the year ended December 31, 2014 compared to an operating loss of $18.4 million for the year ended December 31, 2013. The increase in operating loss was due to a decrease in gross profit of $10.1 million, driven by a $2.8 million decrease in revenue and a $7.3 million increase in cost of revenue. Operating expenses increased $50.3 million due to increases of $27.1 million in sales and marketing, $0.7 million in general and administrative, $20.3 million in impairment expenses, and $3.0 million in lease abandonment, offset slightly by a decrease of $0.8 million in research and development expenses.

Revenue by Operating Segment

The following table sets forth revenue for each of our three operating segments for the years ended December 31, 2014 and 2013:

	Year ended December 31,				2014 versus 2013	
	2014		2013		Change	% Change
	(in thousands, except percentages)					
North America Consumer	$ 153,003	58.4%	$ 174,016	65.7%	$ (21,013)	(12.1)%
Rest of World Consumer	24,150	9.2%	30,420	11.5%	$ (6,270)	(20.6)%
Global Enterprise & Education	84,700	32.4%	60,209	22.8%	$ 24,491	40.7 %
Total Revenue	$ 261,853	100.0%	$ 264,645	100.0%	$ (2,792)	(1.1)%

North America Consumer revenue decreased $21.0 million, or 12%, from the year ended December 31, 2013 to the year ended December 31, 2014. This decrease was due to reductions in revenue from our global retail, direct-to-consumer, kiosk, and home school sales channels of $13.0 million, $6.4 million, $3.8 million, and $0.7 million, respectively; partially offset by an increase of approximately $2.6 million in revenue from Fit Brains North America Consumer bookings increased $1.2 million to $173.0 million for the year ended December 31, 2014 from $171.9 million for the year ended December 31, 2013. The variance by sales channel is due to increases of $11.9 million and $5.1 million in our direct-to-consumer sales channel and Fit Brains, respectively, partially offset by decreases of $12.2 million, $3.1 million, and $0.7 million in our global retail, kiosk, and homeschool sales channels, respectively. The decrease in our global retail sales channel was due to certain of our larger retail partners significantly reducing inventory levels during 2014, resulting in fewer units ordered and lower revenue compared to last year. In the second quarter of 2013 we closed our entire kiosk sales channel in the North America Consumer segment. In recent quarters we have focused on driving customers to purchase through our direct-to-consumer channel, particularly through our website. Lower pricing is one tactic we used to increase sales volume in this channel. The overall decrease in pricing combined with the closure of our U.S. kiosks resulted in lower North America Consumer bookings. As a result of our strategic realignment and our focus on the needs of more serious learners, we plan to stabilize the price of our consumer offerings and expect that this will result in lower unit volumes and overall lower sales.

While direct-to-consumer revenue is down, the direct-to-consumer bookings have increased, primarily due to the late 2013 change in sales models that increased the subscription periods from short-term subscriptions to 36-month subscriptions, thus increasing the period over which revenue is recognized.

ROW Consumer revenue decreased $6.3 million, or 21%, from the year ended December 31, 2013 to the year ended December 31, 2014. ROW Consumer revenue decreases were primarily driven by lower revenues of $3.6 million, $2.3 million and $0.8 million in Japan, Korea, and Germany, respectively, offset by an increase of $0.5 million in revenue from indirect, digital resellers. ROW Consumer bookings decreased to $22.7 million for the year ended December 31, 2014 from $30.0 million for the year ended December 31, 2013. Bookings decreased primarily due to decreases of $4.5 million and $3.2 million in Japan and Korea, respectively, offset by an increase of $1.0 million in bookings from indirect, digital resellers. In January 2014, we announced plans to streamline our Japan and Korea operations and use a partner model to continue to serve the Japanese market and have reorganized our Korea operations to focus more directly on further scaling the Proctor Assisted Learning ("PAL") sales channel.

Global Enterprise & Education revenue increased $24.5 million, or 41%, from $60.2 million for the year ended December 31, 2013 to $84.7 million for the year ended December 31, 2014. Global Enterprise & Education language revenue increased $9.9 million, $3.7 million, $1.4 million, and $1.2 million in France, the U.S., Germany, and the UK, respectively, primarily due to the sales of learning solutions acquired in 2014. Global Enterprise & Education literacy revenue increased $8.7 million from Lexia, which was acquired on August 1, 2013. Global Enterprise & Education bookings increased $36.9 million to $113.2 million for the year ended December 31, 2014 from $76.3 million for the year ended December 31, 2013. Global Enterprise & Education literacy bookings contributed $14.8 million of the increase due to the acquisition of Lexia. Global Enterprise & Education language bookings increased $7.6 million in the U.S. and $14.5 million internationally. The increase in the U.S. includes a $3.0 million, 5-year contract with a K-12 customer which includes a blended Rosetta Stone Foundations and Rosetta Stone Advantage language-learning solution. We have seen a decline in renewal rates from existing Global Enterprise & Education language customers while Global Enterprise & Education language bookings are increasing, primarily due to the sales of multi-year deals. With Global Enterprise & Education language bookings increasing, we expect to see an increase in bookings from new customers, which has a higher cost of acquisition when compared to the renewal of an existing customer.

Revenue by Product Revenue and Subscription and Service Revenue

We categorize and report our revenue in two categories—product revenue and subscription and service revenue. Product revenue includes revenues allocated to our perpetual language-learning product software, revenues from the sale of audio practice products, and sales of certain mobile applications. Subscription and service revenue includes web-based software subscriptions, online services for our conversational coaching and language-learning community access, as well as revenues from professional services. Subscription and service revenues are typically deferred at the time of sale and then recognized ratably over the subscription or service period. We bundle our perpetual product software with short-term online services. As a result, we typically defer 10%-35% of the revenue of each of these bundled sales. We recognize the deferred revenue over the term of the service period.

The following table sets forth revenue for products and subscription and services for the years ended December 31, 2014 and 2013:

	Year ended December 31,				2014 versus 2013	
	2014		2013		Change	% Change
	(in thousands, except percentages)					
Product revenue	$ 136,251	52.0%	$ 156,792	59.2%	$ (20,541)	(13.1)%
Subscription and service revenue	125,602	48.0%	107,853	40.8%	17,749	16.5 %
Total revenue	$ 261,853	100.0%	$ 264,645	100.0%	$ (2,792)	(1.1)%

Product Revenue

Product revenue decreased $20.5 million, or 13%, to $136.3 million during the year ended December 31, 2014 from $156.8 million during the year ended December 31, 2013. Product revenue primarily decreased $11.6 million, $6.2 million and $3.7 million in the global retail, direct-to-consumer, and kiosk sales channels, respectively. This was partially offset by an increase of $1.8 million in the corporate sales channel. The decrease in product revenue is driven by lower prices on our Rosetta Stone language-learning product software bundle driven by promotional pricing in our North America Consumer segment, increased levels of daily deals, and a shift in our sales channel mix.

Subscription and Service Revenue

Subscription and service revenue increased $17.7 million, or 16%, to $125.6 million for the year ended December 31, 2014. The increase in subscription and service revenues was due to increases of $13.9 million in the education sales channel, $9.0 million in the corporate channel, and $2.6 million related to Fit Brains. These increases were partially offset by decreases of $4.8 million, $2.6 million and $1.5 million in consumer service revenues for the direct-to-consumer, global retail, and kiosk sales channels, respectively.

Cost of Product Revenue and Subscription and Service Revenue and Gross Profit

The following table sets forth cost of product revenue and subscription and service revenue, as well as gross profit for the years ended December 31, 2014 and 2013:

	Year Ended December 31,		2014 versus 2013	
	2014	2013	Change	% Change
	(in thousands, except percentages)			
Revenue				
Product	$ 136,251	$ 156,792	$ (20,541)	(13.1)%
Subscription and service	125,602	107,853	17,749	16.5 %
Total revenue	261,853	264,645	(2,792)	(1.1)%
Cost of revenue				
Cost of product revenue	34,192	32,191	2,001	6.2 %
Cost of subscription and service revenue	18,862	13,523	5,339	39.5 %
Total cost of revenue	53,054	45,714	7,340	16.1 %
Gross profit	$ 208,799	$ 218,931	$ (10,132)	(4.6)%
Gross margin percentages	79.7%	82.7%	(3.0)%	

Cost of Product Revenue

Cost of product revenue for the year ended December 31, 2014 was $34.2 million, an increase of $2.0 million, or 6% from the year ended December 31, 2013. As a percentage of product revenue, cost of product revenue increased to 25% from 20% for the year ended December 31, 2014 compared to the prior year period. The increase in cost as a percentage of revenue was primarily attributable to a decline in the price per unit combined with an increase in the volume of units sold. The dollar increase in cost of product is primarily due to increased payroll and benefits as a result of the acquisitions that occurred during the first quarter of 2014.

Cost of Subscription and Service Revenue

Cost of subscription and service revenue for the year ended December 31, 2014 was $18.9 million, an increase of $5.3 million, or 39% from the year ended December 31, 2013. As a percentage of subscription and service revenue, cost of subscription and service revenue increased to 15% from 13% for the year ended December 31, 2014 compared to the prior year period. The dollar increase in cost of subscription and service revenue is due to increased payroll and benefits, primarily as a result of the acquisitions that occurred during the first quarter of 2014 and second and third quarters of 2013. There was an increase in hosting expense due to the support of additional companies and a transition to cloud-based platforms. An increase in depreciation and amortization on acquired intangible assets also contributed to the overall increase in cost of subscription and service revenue.

Operating Expenses

	Year ended December 31,		2014 versus 2013	
	2014	2013	Change	% Change
	(in thousands, except percentages)			
Sales and marketing	$ 173,208	$ 146,104	$ 27,104	18.6 %
Research and development	33,176	33,995	(819)	(2.4)%
General and administrative	57,120	56,432	688	1.2 %
Impairment	20,333	—	20,333	100.0 %
Lease abandonment and termination	3,812	842	2,970	352.7 %
Total operating expenses	$ 287,649	$ 237,373	$ 50,276	21.2 %

Sales and Marketing Expenses

Sales and marketing expenses for the year ended December 31, 2014 were $173.2 million, an increase of $27.1 million, or 19%, from the year ended December 31, 2013. As a percentage of total revenue, sales and marketing expenses were 66% for the year ended December 31, 2014, and 55% for the year ended December 31, 2013. The dollar and percentage increases in sales and marketing expenses were primarily attributable to a $11.0 million increase in media expense due to increased internet and social media marketing campaigns, partially offset by decreased spend in television and print as online marketing was determined to be more cost-effective. Increased marketing expenses of $4.9 million related to the "millennial" advertising campaign using newly developed creative which runs across television, videos and our website, the new 2014 online chat support services feature, and an increase in general media expenses to drive visits, leads and bookings. In 2014 there was a $5.4 million increase in payroll and a $1.6 million increase in benefits expenses as a result of our acquisitions. In addition, there was a $5.5 million increase in commission expense mainly driven from the increased bookings in the Global Enterprise & Education segment, slightly offset by a decrease in commission expense for the ROW Consumer segment. There was a $1.5 million increase in third party services driven from new social media monitoring services, increased email messaging and related overage fees. Additionally, there was a $2.0 million increase in depreciation and amortization on acquired intangible assets. These increases were partially offset by a $2.3 million decrease in professional services driven from decreased spend in call centers, $1.9 million decrease in rent and related lease termination expenses due to the closure of the remaining kiosks in the second quarter of 2013, and removal of kiosk staffing support that did not recur in 2014. While the overall yield on marketing spend in our NA Consumer segment has declined, we expect that we will continue marketing and advertising media campaigns to generate sufficient web visits and leads in order to grow overall bookings.

Research and Development Expenses

Research and development expenses were $33.2 million for the year ended December 31, 2014, a decrease of $0.8 million, or 2%, from the year ended December 31, 2013. As a percentage of revenue, research and development expenses remained flat at 13% for the years ended December 31, 2014 and 2013. The dollar decrease was primarily attributable to a $2.9 million decrease in payroll expense due to the increased level of capitalized labor costs associated with the development of new service offerings and a decrease in severance compensation expenses driven from the software development team re-organization during the year ended December 31, 2013. An additional $0.5 million decrease of research and development expenses was driven from the reduction of relocation expense related to the hiring of a new software development team in 2013. These decreases were partially offset by a $0.7 million increase in benefits due to the additional employee costs as a result of the acquisitions, a $1.5 million increase in amortization expense related to acquired intangible assets, and a $0.5 million increase in rent expense due to the opening of new offices in Austin, TX and San Francisco, CA, and taking over leases through acquisitions in various locations, including Seattle, WA and Concord, MA.

General and Administrative Expenses

General and administrative expenses for the year ended December 31, 2014 were $57.1 million, an increase of $0.7 million, or 1%, from the year ended December 31, 2013. As a percentage of revenue, general and administrative expenses increased to 22% for the year ended December 31, 2014 compared to 21% for year ended December 31, 2013. The dollar and percentage increases were primarily attributable to a $1.3 million increase in building expenses related to a Japan office lease termination and higher dues and subscription fees incurred by the human resources and finance groups. The dollar increase was also attributable to a $1.0 million increase in bad debt expense driven from increased accounts receivable aging and additional reserves related to acquired receivables. In addition, general and administrative expense increased $0.5 million due to increased acquisition related software and systems maintenance and integration work performed during the year ended December 31, 2014. These increases were partially offset by a $1.3 million decrease in payroll due to a decrease in long-term incentive plan expense and bonus expense as well as a decrease in restricted stock and stock option expenses as a result of the decrease in our stock price during the year ended December 31, 2014. Rent expense also decreased by $0.6 million due to the lease abandonment of the Arlington, Virginia 6th floor lease during early 2014.

Impairment

Impairment expense for the year ended December 31, 2014 was $20.3 million, an increase of $20.3 million, from the year ended December 31, 2013. The increase was primarily attributable to a $2.2 million goodwill impairment charge related to our ROW Consumer reporting unit taken in the first quarter of 2014 and an $18.0 million goodwill impairment charge related to North America Consumer Language reporting unit taken in the fourth quarter of 2014. The goodwill impairment charges were primarily a result of the decline in demand for consumer language-learning products and services at their current pricing levels and a change in international go-to-market strategy. In an effort to compensate for the consumer preferences, we lowered our prices and used retail partnerships to increase sales. Despite these actions, the results were significantly lower than the forecasted sales. As a result of the above events, we performed an impairment analysis and determined that the North America Consumer Language and the ROW Consumer reporting units were fully impaired and recorded goodwill impairment charges

totaling $20.2 million. The additional $0.2 million of expense related to the abandonment of a previously capitalized internal-use software project.

Lease Abandonment and Termination

Lease abandonment and termination expenses for the year ended December 31, 2014 were $3.8 million, compared to $0.8 million for the year ended December 31, 2013. The increase was primarily attributable to the lease abandonment of the sixth floor space in the Arlington, VA office of $3.2 million, as well as the closure of the Japan office resulting in lease abandonment costs of $0.4 million.

Other Income and (Expense)

	Year Ended December 31,		2014 versus 2013	
	2014	2013	Change	% Change
	(in thousands, except percentages)			
Interest income	$ 17	$ 117	$ (100)	(85.5)%
Interest expense	(233)	(61)	(172)	282.0 %
Other (expense) and income	(1,129)	368	(1,497)	(406.8)%
Total other income and (expense)	$ (1,345)	$ 424	$ (1,769)	(417.2)%

Interest income represents interest earned on our cash and cash equivalents. Interest income for the year ended December 31, 2014 was $17 thousand, a decrease of $0.1 million, or 85%, from the year ended December 31, 2013.

Interest expense for the year ended December 31, 2014 was $0.2 million, an increase of $0.2 million, from the year ended December 31, 2013. This increase was primarily attributable to interest on our capital leases and the amortization of deferred financing fees associated with our revolving credit facility, which we entered into in November 2014.

Other income (expense) for the year ended December 31, 2014 was an expense of $1.1 million, an increase of $1.5 million, as compared to other income of $0.4 million for the year ended December 31, 2013. The increase in expense was primarily attributable to foreign exchange losses.

Income Tax Expense (Benefit)

	Year Ended December 31,		2014 versus 2013	
	2014	2013	Change	% Change
	(in thousands, except percentages)			
Income tax benefit	$ (6,489)	$ (1,884)	$ (4,605)	244.4%

Our income tax benefit for the year ended December 31, 2014 was $6.5 million, compared to income tax benefit of $1.9 million for the year ended December 31, 2013. The change from the prior year primarily resulted from the tax benefits related to the goodwill impairment taken during the first quarter of 2014 related to the ROW Consumer reporting unit, the goodwill impairment taken during the fourth quarter of 2014 related to the North America Consumer Language reporting unit, and current year losses in Canada and France. The goodwill that was written off related to acquisitions from prior years, a portion of which resulted in a tax benefit as a result of writing off a deferred tax liability previously recorded (i.e., goodwill had tax basis and was amortized for tax). In the current year, these tax benefit amounts were partially offset by income tax expense related to current year profits from certain foreign operations and foreign withholding taxes. The tax benefit was also partially offset by the tax expense related to the tax impact of the amortization of indefinite lived intangibles, and the inability to recognize tax benefits associated with current year losses of operations in all other foreign jurisdictions and in the U.S. due to the valuation allowance recorded against the deferred tax asset balances of these entities.

Comparison of the Year Ended December 31, 2013 and the Year Ended December 31, 2012

Our revenue decreased to $264.6 million for the year ended December 31, 2013 from $273.2 million for the year ended December 31, 2012. The change in revenue was due to a decrease in ROW Consumer revenues of $9.8 million, partially offset by a $1.2 million increase in North American Consumer revenues. Global Enterprise & Education revenues were essentially flat year over year. Bookings decreased to $278.1 million for the year ended December 31, 2013 from $284.8 million for the year ended December 31, 2012. The decline was due to a $7.3 million decrease in North America Consumer bookings and an $11.2 million decrease in ROW Consumer bookings, offset by an increase of $11.9 million in worldwide Global Enterprise & Education bookings compared to the prior year.

We reported an operating loss of $18.4 million for the year ended December 31, 2013 compared to an operating loss of $5.3 million for the year ended December 31, 2012. The increase in operating loss was due to a decrease in gross profit of $5.4 million, driven by an $8.6 million decrease in revenue, partially offset by a $3.2 million decrease in cost of revenue. Operating expenses increased $7.8 million due to an increase of $10.5 million in research and development, an increase of $1.1 million in general and administrative expenses and an increase of $0.8 million in lease abandonment expense, partially offset by a decrease of $4.8 million in sales and marketing expenses.

Revenue by Operating Segment

The following table sets forth revenue for each of our three operating segments for the years ended December 31, 2013 and 2012:

	Year ended December 31,				2013 versus 2012	
	2013		2012		Change	% Change
	(in thousands, except percentages)					
North America Consumer	$ 174,016	65.7%	$ 172,826	63.3%	$ 1,190	0.7 %
Rest of World Consumer	30,420	11.5%	40,248	14.7%	$ (9,828)	(24.4)%
Global Enterprise & Education	60,209	22.8%	60,167	22.0%	$ 42	0.1 %
Total Revenue	$ 264,645	100.0%	$ 273,241	100.0%	$ (8,596)	(3.1)%

North America Consumer revenue increased $1.2 million, or 1%, from the year ended December 31, 2012 to the year ended December 31, 2013, the result of increases in revenue from our direct-to-consumer and retail sales channels of $12.6 million and $1.3 million, respectively, offset by reductions of $11.8 million and $1.0 million in revenue from our kiosk and homeschool sales channels, respectively. In the second quarter of 2013 we closed our entire kiosk sales channel in the U.S. North America Consumer bookings decreased $7.3 million to $171.9 million for the year ended December 31, 2013 from $179.2 million for the year ended December 31, 2012. The year-over-year variance by sales channel includes decreases of $12.0 million, $2.5 million and $0.9 million in our kiosk, retail and homeschool sales channels, respectively, partially offset by an increase of $8.1 million in our direct-to-consumer channel. During 2013 we focused on driving customers to purchase through our direct-to-consumer channel, particularly through our website. Lower pricing is one tactic we used to increase sales volume in this channel. Although we successfully increased volume and bookings in our direct-to-consumer channel year-over-year, the decrease in overall pricing combined with the closure of our U.S. kiosks resulted in lower North America Consumer bookings year-over-year.

ROW Consumer revenue decreased $9.8 million, or 24%, from the year ended December 31, 2012 to the year ended December 31, 2013. ROW Consumer revenue decreased $5.8 million, $3.7 million and $2.0 million in Korea, Japan, and the UK, respectively, offset by an increase of $1.7 million in Germany. ROW Consumer bookings decreased to $30.0 million for the year ended December 31, 2013 from $41.2 million for the year ended December 31, 2012. Bookings decreased $5.0 million, $4.7 million, and $2.3 million in Korea, Japan and the UK, respectively, offset by an increase of $0.6 million in Germany. The increase in revenue and bookings in Germany is due to the increase in sales of downloads of our perpetual software.

Global Enterprise & Education revenue was $60.2 million for the years ended December 31, 2013 and December 31, 2012. Within the U.S., enterprise and education revenue decreased $1.6 million due to decreases of $2.2 million and $1.7 million in our government and education channels, respectively, offset by an increase of $1.2 million in literacy revenue due to the August 1, 2013 acquisition of Lexia. International enterprise and education revenues increased $1.6 million driven by increases in the United Kingdom ("U.K.") and Germany. Global Enterprise & Education bookings increased $11.8 million to $76.3 million for the year ended December 31, 2013 from $64.4 million for the year ended December 31, 2012. $8.3 million of the increase in bookings was driven by the acquisition of Lexia and $2.1 million of the increase is due to an increase in the U.K.

Revenue by Product Revenue and Subscription and Service Revenue

The following table sets forth revenue for products and subscription and services for the years ended December 31, 2013 and 2012:

	Year ended December 31,				2013 versus 2012	
	2013		2012		Change	% Change
	(in thousands, except percentages)					
Product revenue	$ 156,792	59.2%	$ 180,919	66.2%	$ (24,127)	(13.3)%
Subscription and service revenue	107,853	40.8%	92,322	33.8%	15,531	16.8 %
Total revenue	$ 264,645	100.0%	$ 273,241	100.0%	$ (8,596)	(3.1)%

Product Revenue

Product revenue decreased $24.1 million, or 13%, to $156.8 million during the year ended December 31, 2013 from $180.9 million during the year ended December 31, 2012. Consumer product revenue decreased $19.7 million driven by lower prices on our Rosetta Stone language-learning product software bundle driven by promotional pricing in our North America Consumer segment, increased levels of daily deals and a shift in our sales channel mix. $2.9 million of the decrease in Global Enterprise & Education product revenues is a result of a shift from sales of product licenses to sales associated with the renewal of online subscriptions.

Subscription and Service Revenue

Subscription and service revenue increased $15.5 million, or 17%, to $107.9 million for the year ended December 31, 2013. The increase in subscription and service revenues was due to an $11.1 million increase in consumer service revenues related to online services bundled with our language-learning product software packages as well as a growing base of exclusively online web-based software subscription sales. Enterprise and education subscription and service revenues also increased $4.5 million related to growth in the enterprise and education customer base with renewing online subscriptions. $1.2 million of the increase in Global Enterprise & Education revenue is attributable to literacy due to the acquisition of Lexia on August 1, 2013.

Deferred revenue increased $15.4 million during the year ended December 31, 2013, primarily related to acquired deferred revenue of $2.0 million, an increase of $7.1 million in literacy deferred revenue and the increase in our base of paid subscribers.

Cost of Product Revenue and Subscription and Service Revenue and Gross Profit

The following table sets forth cost of product revenue and subscription and service revenue, as well as gross profit for the years ended December 31, 2013 and 2012:

	Year Ended December 31,		2013 versus 2012	
	2013	2012	Change	% Change
	(in thousands, except percentages)			
Revenue				
Product	$ 156,792	$ 180,919	$ (24,127)	(13.3)%
Subscription and service	107,853	92,322	15,531	16.8 %
Total revenue	264,645	273,241	(8,596)	(3.1)%
Cost of revenue				
Cost of product revenue	32,191	33,684	(1,493)	(4.4)%
Cost of subscription and service revenue	13,523	15,226	(1,703)	(11.2)%
Total cost of revenue	45,714	48,910	(3,196)	(6.5)%
Gross profit	$ 218,931	$ 224,331	$ (5,400)	(2.4)%
Gross margin percentages	82.7%	82.1%	0.6%	

Cost of Product Revenue

Cost of product revenue for the year ended December 31, 2013 was $32.2 million, a decrease of $1.5 million, or 4% from the year ended December 31, 2012. As a percentage of product revenue, cost of product revenue increased to 20% from 19% for the year ended December 31, 2013 compared to the prior year period. The percent increase in cost as a percentage of revenue was primarily attributable to a decline in product revenue while fixed costs remained the same. The dollar decrease in cost of product is due to the decrease in product revenue.

Cost of Subscription and Service Revenue

Cost of subscription and service revenue for the year ended December 31, 2013 was $13.5 million, a decrease of $1.7 million, or 11% from the year ended December 31, 2012. As a percentage of subscription and service revenue, cost of subscription and service revenue decreased to 13% from 17% for the year ended December 31, 2013 compared to the prior year period. Beginning in the fourth quarter of 2012, we capped the number of studio sessions compared to our former unlimited policy, decreasing our coaching costs for the year-ended December 31, 2013.

Operating Expenses

	Year ended December 31,		2013 versus 2012	
	2013	2012	Change	% Change
	(in thousands, except percentages)			
Sales and marketing	$ 146,104	$ 150,882	$ (4,778)	(3.2)%
Research and development	33,995	23,453	10,542	44.9 %
General and administrative	56,432	55,262	1,170	2.1 %
Lease abandonment and termination	842	—	842	100.0 %
Total operating expenses	$ 237,373	$ 229,597	$ 7,776	3.4 %

Sales and Marketing Expenses

Sales and marketing expenses for the year ended December 31, 2013 were $146.1 million, a decrease of $4.8 million, or 3%, from the year ended December 31, 2012. As a percentage of total revenue, sales and marketing expenses were 55% for the years ended December 31, 2013, and 2012. The dollar decrease in sales and marketing expenses were primarily attributable to a $2.8 million decrease in rent as the number of kiosk leases decreased from 87 at December 31, 2012 to three as of December 31, 2013. We exited our U.S. kiosks in the second quarter of 2013. In addition, media and marketing expenses decreased $1.7 million as we focused our efforts on advertising through online channels such as Facebook, Google AdWords, and email, and less on more expensive television and radio commercials, which generally drive potential customers to our call centers. Professional services expenses decreased $2.7 million. These decreases were partially offset by a $2.1 million increase in payroll and benefits from the addition of Lexia and Livemocha personnel, severance expenses and the 2013 long-term incentive plan and a $1.1 million increase in amortization due to the intangible assets acquired in the Livemocha and Lexia acquisitions.

Research and Development Expenses

Research and development expenses were $34.0 million for the year ended December 31, 2013, an increase of $10.5 million, or 45%, from the year ended December 31, 2012. As a percentage of revenue, research and development expenses increased to 13% from 9% for the year ended December 31, 2013 compared to the year ended December 31, 2012. The dollar and percentage increases were the result of our investment in strengthening our platforms and bringing new innovative products to market including the opening of our new offices in San Francisco, CA and Austin, TX in the first quarter of 2013 and our newly acquired office in Seattle, WA with the acquisition of Livemocha in April 2013. Compensation and relocation expenses increased $5.1 million as a result of hiring more senior level managers as well as hiring in the more expensive markets of San Francisco, CA, and Seattle, WA. As a result of opening new offices in 2013, rent expenses increased $0.6 million. In addition, with the acquisitions of Livemocha and Lexia, amortization of intangible assets increased $0.5 million. Consulting expenses increased $3.6 million as we continue to develop new products.

General and Administrative Expenses

General and administrative expenses for the year ended December 31, 2013 were $56.4 million, an increase of $1.2 million, or 2%, from the year ended December 31, 2012. As a percentage of revenue, general and administrative expenses increased to 21% for the year ended December 31, 2013 compared to 20% for year ended December 31, 2012. The dollar and percentage increases were primarily attributable to a $1.0 million increase in personnel related expenses due to the start of the 2013 Rosetta Stone Inc. Long Term Incentive Plan ("2013 LTIP"), $0.5 million increase in professional services and a $0.4

million increase in rent expense. These increases were partially offset by a $0.4 million increase in bad debt recoveries and $0.4 million decrease in depreciation expense related to certain assets being fully depreciated early in the second quarter of 2012.

Lease Abandonment and Termination

In March 2013, we exited a portion of our facility in Japan as a result of excess office space. Accrued exit costs of $0.8 million associated with the partial abandonment were charged to lease abandonment expenses in the first quarter of 2013.

Interest and Other Income (Expense)

	Year Ended December 31,		2013 versus 2012	
	2013	2012	Change	% Change
	(in thousands, except percentages)			
Interest Income	$ 117	$ 187	$ (70)	(37.4)%
Interest Expense	(61)	—	(61)	n/a
Other Income (Expense)	368	3	365	12,166.7 %
Total other income (expense)	$ 424	$ 190	$ 234	123.2 %

Interest income represents interest earned on our cash and cash equivalents. Interest income for the year ended December 31, 2013 was $117,000, a decrease of $70,000, or 37%, from the year ended December 31, 2012.

Interest expense for the year ended December 31, 2013 was $61,000, an increase of $61,000, or 100% from the year ended December 31, 2012. This increase was primarily attributable to interest on our capital leases.

Other income for the year ended December 31, 2013 was $368,000, an increase of $365,000, as compared to other income of $3,000 for the year ended December 31, 2012. The increase was primarily due to a donation of software to a children's foundation in Korea and an increase in legal settlements in connection with our anti-piracy enforcement efforts, partially offset by foreign exchange losses.

Income Tax Expense (Benefit)

	Year Ended December 31,		2013 versus 2012	
	2013	2012	Change	% Change
	(in thousands, except percentages)			
Income tax (benefit) expense	$ (1,884)	$ 28,909	$ (30,793)	(106.5)%

Our income tax benefit for the year ended December 31, 2013 was $1.9 million, compared to income tax expense of $28.9 million for the year ended December 31, 2012. The change primarily resulted from partial valuation allowance releases of $5.4 million related to the Livemocha and Lexia acquisitions in 2013 and a $26.0 million non-cash charge associated with establishing a valuation allowance for our U.S. and certain foreign operations in 2012.

Liquidity and Capital Resources

Cash, cash equivalents, and short-term investments were $64.7 million and $98.8 million as of December 31, 2014 and 2013, respectively. Our primary operating cash requirements include the payment of salaries, incentive compensation, employee benefits and other personnel related costs, as well as direct advertising expenses, costs of office facilities and costs of information technology systems. We fund these requirements through cash flow from our operations.

We expect that our future growth may continue to require additional working capital. Our future capital requirements will depend on many factors, including development of new products, market acceptance of our products, the levels of advertising and promotion required to launch additional products and improve our competitive position in the marketplace, the expansion of our sales, support and marketing organizations, the establishment of additional offices in the U.S. and worldwide and building the infrastructure necessary to support our growth, the response of competitors to our products and services, and our relationships with suppliers and clients.

On October 28, 2014, we entered into a $25 million revolving credit Loan and Security Agreement with Silicon Valley Bank. The revolving credit facility has a term of three years during which we may borrow and re-pay loan amounts and re-borrow the loan amounts subject to customary borrowing conditions. As of the date of this filing, no borrowings have been

made under the revolving credit agreement. As of December 31, 2014, we were in compliance with all of the covenants under the revolving credit agreement.

We believe our current cash and cash equivalents, short-term investments and funds generated from our operations or drawn from our revolving credit facility will be sufficient to meet our working capital and capital expenditure requirements through the foreseeable future, including at least the next 12 months. Thereafter, we may need to raise additional funds through public or private financings or additional borrowings to develop or enhance products, to fund expansion, to respond to competitive pressures or to acquire complementary products, businesses or technologies. If required, additional financing may not be available on terms that are favorable to us, if at all. If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders will be reduced and these securities might have rights, preferences and privileges senior to those of our current stockholders.

As a result of our strategic realignment and our focus on the needs of more serious learners, we expect that our total expenditures will decrease in the near term as the size of the Consumer business declines, partially offset by increases in our Global Enterprise & Education business. In addition, our business is affected by variations in seasonal trends. These seasonal trends create a situation in which we typically expend cash in the first and second quarters of the year and generate cash in the third and fourth quarters of the year. Also, as our Global Enterprise & Education segment grows, we expect that a larger portion of our sales transactions will continue to take place at the end of each quarter. In addition, we extend payments to certain vendors in order to minimize the amount of working capital deployed in the business. We expect these trends to continue.

The total amount of cash that was held by foreign subsidiaries as of December 31, 2014 was $17.3 million. If we were to repatriate the cash from our foreign subsidiaries, we may be subject to a significant tax liability.

Cash Flow Analysis

Net Cash Provided By Operating Activities

Net cash provided by operating activities was $6.7 million for the year ended December 31, 2014 compared to $8.1 million for the year ended December 31, 2013, a decrease of $1.4 million. The decrease in net cash provided by operating activities was primarily due to an increase in our net loss after adjusting for depreciation, amortization, stock compensation, loss on foreign currency transactions, bad debt expense, deferred income taxes, loss on disposal of equipment, amortization of debt issuance costs, and loss on impairment. This was partially offset by favorable fluctuations in working capital, primarily deferred revenue of $48.9 million which is principally due to the sales of subscription services in our Global Enterprise & Education language and literacy sales channels and Fit Brains.

Net Cash Used in Investing Activities

Net cash used in investing activities was $39.1 million for the year ended December 31, 2014, compared to net cash used of $46.9 million for the year ended December 31, 2013, a decrease of $7.8 million. Net cash used by investing activities related primarily to the $41.7 million for the 2014 acquisitions (net of cash) of Vivity and Tell Me More, a decrease in restricted cash related to the Vivity acquisition of $12.3 million, and $9.7 million in purchase of property and equipment primarily associated with capitalized labor for internal-use software development.

Net Cash Used in Financing Activities

Net cash used in financing activities was $0.3 million for the year ended December 31, 2014 compared to cash used in financing activities of $10.5 million for the year ended December 31, 2013. Net cash used in financing activities during the year ended December 31, 2014 was primarily due to payments made under capital lease obligations of $0.6 million and payment of debt issuance costs of $0.4 million, offset by net cash provided of $0.7 million from the exercise of stock options.

During the last three years, inflation has not had a material effect on our business and we do not expect that inflation or changing prices will materially affect our business in the foreseeable future.

Off-Balance Sheet Arrangements

We do not engage in any off-balance sheet financing arrangements. We do not have any interest in entities referred to as variable interest entities, which include special purpose entities and other structured finance entities.

Contractual Obligations

As discussed in Notes 9 and 16 of Item 8, *Financial Statements and Supplementary Data*, we lease buildings, parking spaces, equipment, and office space under operating lease agreements. We also lease certain equipment, software and a building near Versailles, France under capital lease agreements. The following table summarizes our future minimum rent

payments under non-cancellable operating and capital lease agreements as of December 31, 2014 and the effect such obligations are expected to have on our liquidity and cash flow in future periods.

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
			(in thousands)		
Capitalized leases and other financing arrangements	$ 4,441	$ 754	$ 1,102	$ 1,090	$ 1,495
Operating leases	15,291	4,836	7,389	3,031	35
Total	$ 19,732	$ 5,590	$ 8,491	$ 4,121	$ 1,530

Recent Accounting Pronouncements

During 2014, we adopted the following recently issued Accounting Standard Updates (ASUs):

In July 2013, the Financial Accounting Standards Board ("FASB") issued ASU No. 2013-11*, Income Taxes (Topic 740): Presentation of Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* (“ASU 2013-11”), which requires that an unrecognized tax benefit be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except for a situation in which some or all of such net operating loss carryforward, a similar loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable tax jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. We adopted this guidance beginning in fiscal year 2014 and the adoption of such guidance did not have a material impact on the presentation of our reported results of operations or financial position.

The following ASUs were recently issued but have not yet been adopted:

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40) ("ASU 2014-15"). ASU 2014-15 addresses management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. Management’s evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. ASU 2014-15 will be effective for the first interim period within annual reporting periods beginning after December 15, 2016. Early adoption is permitted. We do not expect to early adopt this guidance and do not believe that the adoption of this guidance will have a material impact on our financial statements and disclosures.

In June 2014, the FASB issued ASU No. 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* ("ASU 2014-12"). ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2015. Early adoption is permitted. We do not expect to early adopt this guidance and does not believe that the adoption of this guidance will have a material impact on our financial statements and disclosures.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), which replaces the current revenue accounting guidance. ASU 2014-09 is effective for annual periods beginning after December 15, 2016. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply a five step model to 1) identify the contract(s) with a customer, 2) identify the performance obligations in the contract, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations in the contract and 5) recognize revenue when (or as) the entity satisfies a performance obligation. Entities may choose from two adoption methods, with certain practical expedients. We are in the process of evaluating the impact of the new guidance on our financial statements and disclosures and our adoption method.

In April 2014, the FASB issued ASU No. 2014-08 *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of Equity* ("ASU 2014-08"), which amends the definition of a discontinued operation and requires entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued operations criteria. The new guidance

changes the definition of a discontinued operation and requires discontinued operations treatment for disposals of a component or group of components that represents a strategic shift that has or will have a major impact on an entity's operations or financial results. ASU 2014-08 is effective prospectively for all disposals (except disposals classified as held for sale before the adoption date) or components initially classified as held for sale in periods beginning on or after December 15, 2014; earlier adoption is permitted. The adoption of this guidance affects prospective presentation of disposals and therefore, is not expected to have a material impact on our consolidated financial condition, results of operations or cash flows.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exchange Risk

The functional currency of our foreign subsidiaries is their local currency. Accordingly, our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. The volatility of the prices and applicable rates are dependent on many factors that we cannot forecast with reliable accuracy. In the event our foreign sales and expenses increase, our operating results may be more greatly affected by fluctuations in the exchange rates of the currencies in which we do business. At this time we do not, but we may in the future, invest in derivatives or other financial instruments in an attempt to hedge our foreign currency exchange risk.

Interest Rate Sensitivity

Interest income and expense are sensitive to changes in the general level of U.S. interest rates. However, based on the nature and current level of our marketable securities, which are primarily short-term investment grade and government securities and our notes payable, we believe that there is no material risk of exposure.

Credit Risk

Accounts receivable and cash and cash equivalents present the highest potential concentrations of credit risk. We reserve for credit losses and do not require collateral on our trade accounts receivable. In addition, we maintain cash and investment balances in accounts at various banks and brokerage firms. We have not experienced any losses on cash and cash equivalent accounts to date and we believe we are not exposed to any significant credit risk related to cash. We sell products to retailers, resellers, government agencies, and individual consumers and extend credit based on an evaluation of the customer's financial condition, without requiring collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. We monitor exposure for credit losses and maintain allowances for anticipated losses. We maintain trade credit insurance for certain customers to provide coverage, up to a certain limit, in the event of insolvency of some customers.

Item 8. Financial Statements and Supplementary Data

Our consolidated financial statements, together with the related notes and the report of independent registered public accounting firm, are set forth on the pages indicated in Item 15.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2014. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of

December 31, 2014, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's annual report on internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over our financial reporting. Management has assessed the effectiveness of internal control over financial reporting as of December 31, 2014. Management's assessment was based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, in Internal Control—Integrated Framework (1992).

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

(1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets;

(2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and board of directors; and

(3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on using the COSO criteria, management believes our internal control over financial reporting as of December 31, 2014 was effective.

Our independent registered public accounting firm, Deloitte & Touche LLP, has audited the financial statements included in this Annual Report on Form 10-K and has issued a report on the effectiveness of our internal control over financial reporting. The attestation report of Deloitte & Touche LLP is included on page F-3 of this Form 10-K.

In May 2013, COSO released an update to the 1992 Integrated Framework. This update is commonly referred to as the COSO 2013 Integrated Framework and as of December 15, 2014, superseded the 1992 Integrated Framework. We are currently in the process of transitioning our internal controls over financial reporting to be in compliance with the COSO 2013 Integrated Framework.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) or 15d-15(d) of the Exchange Act that occurred during the quarter ended December 31, 2014 that had materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Certain information required by Part III is omitted from this Annual Report on Form 10-K as we intend to file our definitive Proxy Statement for the 2015 Annual Meeting of Stockholders pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after the end of the fiscal year covered by this Annual Report, and certain information included in the Proxy Statement is incorporated herein by reference.

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated herein by reference to the information provided under the headings "Our Board of Directors and Nominees," "Security Ownership of Certain Beneficial Owners and Management—Section 16(A) Beneficial Ownership Reporting Compliance," "Corporate Governance—Code of Ethics," "Corporate Governance—Composition of our Board of Directors; Classified Board," "Corporate Governance—Committees of our Board of Directors," "Corporate Governance—Audit Committee," "Corporate Governance—Compensation Committee," and "Corporate Governance—Corporate Governance and Nominating Committee" in our definitive proxy statement for the 2015 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission no later than 120 days after the fiscal year ended December 31, 2014 (the "2015 Proxy Statement").

Code of Ethics and Business Conduct

We have adopted a code of ethics and business conduct ("code of conduct") that applies to all of our employees, officers and directors, including without limitation our principal executive officer, principal financial officer and controller or principal accounting officer. Copies of both the code of conduct, as well as any waiver of a provision of the code of conduct granted to any senior officer or director or material amendment to the code of conduct, if any, are available, without charge, under the "Corporate Governance" tab of the "Investor Relations" section on our website at www.rosettastone.com. We intend to disclose any amendments or waivers of this code on our website.

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the information provided under the headings "Compensation Committee Report," "Executive Compensation," "Director Compensation," "Compensation Committee" and "Corporate Governance—Interlocks and Insider Participation" in the 2015 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated herein by reference to the information provided under the headings "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation" in the 2015 Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated herein by reference to the information provided under the headings "Corporate Governance—Director Independence," and "Transactions with Related Persons" in the 2015 Proxy Statement.

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated herein by reference to the information provided under the heading "Principal Accountant Fees and Services" in the 2015 Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) ***Consolidated Financial Statements***

1. *Consolidated Financial Statements.* The consolidated financial statements as listed in the accompanying "Index to Consolidated Financial Information" are filed as part of this Annual Report.

2. *Consolidated Financial Statement Schedules.* Schedules have been omitted because they are not applicable or are not required or the information required to be set forth in those schedules is included in the consolidated financial statements or related notes.

All other schedules not listed in the accompanying index have been omitted as they are either not required or not applicable, or the required information is included in the consolidated financial statements or the notes thereto.

(b) ***Exhibits***

The exhibits listed in the Index to Exhibits are filed as part of this Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ROSETTA STONE INC.

By: /s/ STEPHEN M. SWAD
Stephen M. Swad
Chief Executive Officer

Date: March 16, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ STEPHEN M. SWAD Stephen M. Swad	Chief Executive Officer and Director (Principal Executive Officer)	March 16, 2015
/s/ THOMAS M. PIERNO Thomas M. Pierno	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 16, 2015
/s/ PATRICK W. GROSS Patrick W. Gross	Chairman of the Board, Director	March 16, 2015
/s/ JAMES P. BANKOFF James P. Bankoff	Director	March 16, 2015
/s/ LAURENCE FRANKLIN Laurence Franklin	Director	March 16, 2015
/s/ A. JOHN HASS III A. John Hass III	Director	March 13, 2015
/s/ MARGUERITE W. KONDRACKE Marguerite W. Kondracke	Director	March 16, 2015
/s/ CAROLINE J. TSAY Caroline J. Tsay	Director	March 16, 2015
/s/ LAURA L. WITT Laura L. Witt	Director	March 16, 2015
Steven P. Yankovich	Director	

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Reports of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets	F-4
Consolidated Statements of Operations	F-5
Consolidated Statements of Comprehensive Loss	F-6
Consolidated Statements of Changes in Stockholders' Equity	F-7
Consolidated Statements of Cash Flows	F-8
Notes to Consolidated Financial Statements	F-9

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Rosetta Stone Inc.
Arlington, Virginia

We have audited the accompanying consolidated balance sheets of Rosetta Stone Inc. and subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Rosetta Stone Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 16, 2015, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP
McLean, Virginia
March 16, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Rosetta Stone Inc.
Arlington, Virginia

We have audited the internal control over financial reporting of Rosetta Stone Inc. and subsidiaries (the "Company") as of December 31, 2014, based on criteria established in *Internal Control-Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's annual report on internal control over financial reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control-Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2014 of the Company and our report dated March 16, 2015, expressed an unqualified opinion on those consolidated financial statements.

/s/ Deloitte & Touche LLP
McLean, Virginia
March 16, 2015

ROSETTA STONE INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

	As of December 31,	
	2014	**2013**
Assets		
Current assets:		
Cash and cash equivalents	$ 64,657	$ 98,825
Restricted cash	123	12,424
Accounts receivable (net of allowance for doubtful accounts of $1,434 and $1,000, respectively)	76,757	60,342
Inventory, net	6,500	6,639
Deferred sales commissions	10,740	6,079
Prepaid expenses and other current assets	5,038	6,215
Income tax receivable	464	197
Total current assets	164,279	190,721
Deferred sales commissions	4,362	1,809
Property and equipment, net	25,277	17,766
Goodwill	58,584	50,059
Intangible assets, net	34,377	29,006
Other assets	1,525	1,415
Total assets	$ 288,404	$ 290,776
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 19,548	$ 10,326
Accrued compensation	14,470	16,380
Obligations under capital lease	594	256
Other current liabilities	56,157	41,936
Deferred revenue	95,240	67,173
Total current liabilities	186,009	136,071
Deferred revenue	32,929	11,684
Deferred income taxes	1,554	9,022
Obligations under capital lease	3,154	217
Other long-term liabilities	1,313	2,539
Total liabilities	224,959	159,533
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Preferred stock, $0.001 par value; 10,000 and 10,000 shares authorized, zero and zero shares issued and outstanding at December 31, 2014 and December 31, 2013, respectively	—	—
Non-designated common stock, $0.00005 par value, 190,000 and 190,000 shares authorized, 22,936 and 22,588 shares issued and 21,936 and 21,588 shares outstanding at December 31, 2014 and December 31, 2013, respectively	2	2
Additional paid-in capital	178,554	171,123
Accumulated loss	(102,998)	(29,292)
Accumulated other comprehensive (loss) income	(678)	845
Treasury stock, at cost, 1,000 and 1,000 shares at December 31, 2014 and December 31, 2013, respectively	(11,435)	(11,435)
Total stockholders' equity	63,445	131,243
Total liabilities and stockholders' equity	$ 288,404	$ 290,776

See accompanying notes to consolidated financial statements

ROSETTA STONE INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Year Ended December 31,		
	2014	**2013**	**2012**
Revenue:			
Product	$ 136,251	$ 156,792	$ 180,919
Subscription and service	125,602	107,853	92,322
Total revenue	261,853	264,645	273,241
Cost of revenue:			
Cost of product revenue	34,192	32,191	33,684
Cost of subscription and service revenue	18,862	13,523	15,226
Total cost of revenue	53,054	45,714	48,910
Gross profit	208,799	218,931	224,331
Operating expenses			
Sales and marketing	173,208	146,104	150,882
Research and development	33,176	33,995	23,453
General and administrative	57,120	56,432	55,262
Impairment	20,333	—	—
Lease abandonment and termination	3,812	842	—
Total operating expenses	287,649	237,373	229,597
Loss from operations	(78,850)	(18,442)	(5,266)
Other income and (expense):			
Interest income	17	117	187
Interest expense	(233)	(61)	—
Other income and (expense)	(1,129)	368	3
Total other income and (expense)	(1,345)	424	190
Loss before income taxes	(80,195)	(18,018)	(5,076)
Income tax (benefit) expense	(6,489)	(1,884)	28,909
Net loss	$ (73,706)	$ (16,134)	$ (33,985)
Loss per share:			
Basic	$ (3.47)	$ (0.75)	$ (1.61)
Diluted	$ (3.47)	$ (0.75)	$ (1.61)
Common shares and equivalents outstanding:			
Basic weighted average shares	21,253	21,528	21,045
Diluted weighted average shares	21,253	21,528	21,045

See accompanying notes to consolidated financial statements

ROSETTA STONE INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

	Years Ended December 31,		
	2014	**2013**	**2012**
Net loss	$ (73,706)	$ (16,134)	$ (33,985)
Other comprehensive income, net of tax:			
Foreign currency translation (loss) gain	(1,523)	188	336
Unrealized gain on available-for-sale securities	—	—	23
Other comprehensive (loss) income	(1,523)	188	359
Comprehensive loss	$ (75,229)	$ (15,946)	$ (33,626)

See accompanying notes to consolidated financial statements

ROSETTA STONE INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands)

	Non-Designated Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)
	Shares	Amount					
Balance—January 1, 2012	20,936	$ 2	$ 151,824	$ —	$ 20,827	$ 298	$ 172,951
Stock Issued Upon the Exercise of Stock Options	118	—	860	—	—	—	860
Restricted Stock Award Vesting	134	—	—	—	—	—	—
Stock-based Compensation Expense	—	—	8,009	—	—	—	8,009
Net loss	—	—	—	—	(33,985)	—	(33,985)
Other comprehensive income	—	—	—	—	—	359	359
Balance—December 31, 2012	21,188	$ 2	$ 160,693	$ —	$ (13,158)	$ 657	$ 148,194
Stock Issued Upon the Exercise of Stock Options	550	—	2,457	—	—	—	2,457
Restricted Stock Award Vesting	301	—	—	—	—	—	—
Stock-based Compensation Expense	—	—	9,241	—	—	—	9,241
Repurchase of Stock Option Exercised	(123)	—	(1,040)	—	—	—	(1,040)
Sale of Shares in Secondary Offering	10	—	160	—	—	—	160
Secondary Offering Costs	—	—	(388)	—	—	—	(388)
Purchase of Treasury Stock	(1,000)	—	—	(11,435)	—	—	(11,435)
Net loss	—	—	—	—	(16,134)	—	(16,134)
Other comprehensive income	—	—	—	—	—	188	188
Balance—December 31, 2013	20,926	$ 2	$ 171,123	$ (11,435)	$ (29,292)	$ 845	$ 131,243
Stock Issued Upon the Exercise of Stock Options	116	—	669	—	—	—	669
Restricted Stock Award Vesting	287	—	—	—	—	—	—
Stock-based Compensation Expense	—	—	6,762	—	—	—	6,762
Net loss	—	—	—	—	(73,706)	—	(73,706)
Other comprehensive loss	—	—	—	—	—	(1,523)	(1,523)
Balance—December 31, 2014	21,329	$ 2	$ 178,554	$ (11,435)	$ (102,998)	$ (678)	$ 63,445

See accompanying notes to consolidated financial statements

ROSETTA STONE INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (73,706)	$ (16,134)	$ (33,985)
Adjustments to reconcile net loss to cash provided by operating activities:			
Stock-based compensation expense	6,762	9,241	8,009
Loss on foreign currency transactions	1,171	—	—
Bad debt expense	2,405	1,420	1,820
Depreciation and amortization	13,904	9,635	8,077
Deferred income tax (benefit) expense	(7,667)	(3,869)	25,953
Loss on disposal of equipment	184	278	783
Amortization of debt issuance costs	21	—	—
Loss on impairment	20,333	—	—
Net change in:			
Restricted cash	(13)	(37)	1
Accounts receivable	(16,478)	(9,477)	309
Inventory	341	(108)	185
Deferred sales commissions	(7,268)	(4,245)	(764)
Prepaid expenses and other current assets	1,844	(878)	1,869
Income tax receivable	(147)	827	6,515
Other assets	446	(68)	226
Accounts payable	8,394	3,702	(1,240)
Accrued compensation	(4,494)	(897)	5,093
Other current liabilities	11,318	4,250	635
Other long term liabilities	459	481	(99)
Deferred revenue	48,864	13,947	11,514
Net cash provided by operating activities	6,673	8,068	34,901
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(9,736)	(8,941)	(4,187)
Proceeds from sales of available-for-sale securities	—	—	9,711
Decrease (increase) in restricted cash related to Vivity Labs acquisition	12,314	(12,314)	—
Acquisitions, net of cash acquired	(41,687)	(25,675)	—
Net cash (used in) provided by investing activities	(39,109)	(46,930)	5,524
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from the exercise of stock options	669	2,457	862
Repurchase of shares from exercised stock options	—	(1,040)	—
Purchase of treasury stock	—	(11,435)	—
Proceeds from equity offering, net of issuance costs	—	(228)	—
Payment of financing fees	(381)	—	—
Payments under capital lease obligations	(593)	(241)	(215)
Net cash (used in) provided by financing activities	(305)	(10,487)	647
(Decrease) increase in cash and cash equivalents	(32,741)	(49,349)	41,072
Effect of exchange rate changes in cash and cash equivalents	(1,427)	(16)	602
Net (decrease) increase in cash and cash equivalents	(34,168)	(49,365)	41,674
Cash and cash equivalents—beginning of year	98,825	148,190	106,516
Cash and cash equivalents—end of year	$ 64,657	$ 98,825	$ 148,190
SUPPLEMENTAL CASH FLOW DISCLOSURE:			
Cash paid during the periods for:			
Interest	$ 211	$ 18	$ —
Income taxes	$ 1,722	$ 3,290	$ 4,040
Noncash financing and investing activities:			
Accrued purchase price of business acquisition	$ —	$ 3,375	$ —
Accrued liability for purchase of property and equipment	$ 561	$ 192	$ 1,228
Equipment acquired under capital lease	$ —	$ 702	$ —

See accompanying notes to consolidated financial statements

ROSETTA STONE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

Rosetta Stone Inc. and its subsidiaries ("Rosetta Stone," or the "Company") develop, market and support a suite of language-learning, literacy, and brain fitness solutions consisting of perpetual software products, web-based software subscriptions, online and professional services, audio practice tools and mobile applications. The Company's software products are sold on a direct basis and through select retailers. In January 2014, the Company acquired Vivity Labs Inc. ("Vivity") and Tell Me More S.A. ("Tell Me More") (see Note 5, Business Combinations). The Company provides its solutions to customers through the sale of packaged software and web-based software subscriptions, domestically and in certain international markets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Rosetta Stone Inc. and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Certain amounts in the prior period consolidated financial statements have been reclassified to conform to the current period presentation which primarily relate to the discrete presentation of deferred sales commissions.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires that management make certain estimates and assumptions. Significant estimates and assumptions have been made regarding the allowance for doubtful accounts, estimated sales returns, stock-based compensation, fair value of intangibles and goodwill, inventory reserve, disclosure of contingent assets and liabilities, disclosure of contingent litigation, and allowance for valuation of deferred tax assets. Actual results may differ from these estimates.

Revenue Recognition

The Company's primary sources of revenue are web-based software subscriptions, online services, perpetual product software, and bundles of perpetual product software and short-term online services. The Company also generates revenue from the sale of audio practice products, mobile applications, and professional services. Revenue is recognized when all of the following criteria are met: there is persuasive evidence of an arrangement; the product has been delivered or services have been rendered; the fee is fixed or determinable; and collectability is reasonably assured. Revenues are recorded net of discounts.

The Company identifies the units of accounting contained within sales arrangements in accordance with Accounting Standards Codification ("ASC") 605-25 *Revenue Recognition - Multiple Element Arrangements* (“ASC 605-25”). In doing so, the Company evaluates a variety of factors including whether the undelivered element(s) have value to the customer on a stand-alone basis or if the undelivered element(s) could be sold by another vendor on a stand-alone basis.

For multiple element arrangements that contain perpetual software products and related services, the Company allocates the total arrangement consideration to its deliverables based on vendor-specific objective evidence of fair value, or vendor-specific objective evidence ("VSOE"), in accordance with ASC subtopic 985-605-25 *Software: Revenue Recognition-Multiple-Element Arrangements* ("ASC 985-605-25"). The Company generates a substantial portion of its consumer revenue from the CD and digital download formats of the Rosetta Stone language-learning product which is a multiple-element arrangement that includes two deliverables: the perpetual software, delivered at the time of sale, and the short-term online service, which is considered a software-related element. The online service includes short-term access to conversational coaching services. Because the Company only sells the perpetual language-learning software on a stand-alone basis in its homeschool version, the Company does not have a sufficient concentration of stand-alone sales to establish VSOE for this element. Accordingly, the Company allocates the arrangement consideration using the residual method based on the existence of VSOE of the undelivered element, the short-term online service. The Company determines VSOE of the short-term online service by reference to the range of stand-alone renewal sales of the three-month online service. The Company reviews these stand-alone sales on a quarterly basis. VSOE is established if at least 80% of the stand-alone sales are within a range of plus or minus 15% of a midpoint of the range of prices, consistent with generally accepted industry practice.

For non-software multiple element arrangements the Company allocates revenue to all deliverables based on their relative selling prices. The Company's non-software multiple element arrangements primarily occur as sales to its Global Enterprise & Education customers. These arrangements can include web-based subscription services, audio practice materials and professional services or any combination thereof. The Company does not have a sufficient concentration of stand-alone sales of the various deliverables noted above to its Global Enterprise & Education customers, and therefore cannot establish VSOE for

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

each deliverable. Third party evidence of fair value does not exist for the web-based subscription, audio practice and professional services due to the lack of interchangeable language-learning products and services within the market. Accordingly, the Company determines the relative selling price of the web-based subscription, audio practice tools and professional services deliverables included in its non-software multiple element arrangements using the best estimated selling price. The Company determines the best estimated selling price based on its internally published price list which includes suggested sales prices for each deliverable based on the type of client and volume purchased. This price list is derived from past experience and from the expectation of obtaining a reasonable margin based on what each deliverable costs the Company.

In the U.S. and Canada, the Company offers consumers who purchase packaged software and audio practice products directly from the Company a 30-day, unconditional, full money-back refund. The Company also permits some of our retailers and distributors to return unsold packaged products, subject to certain limitations. In accordance with ASC subtopic 985-605, *Software: Revenue Recognition* ("ASC 985-605"), the Company estimates and establishes revenue reserves for packaged product returns at the time of sale based on historical return rates, estimated channel inventory levels, the timing of new product introductions and other factors.

The Company distributes its products and services both directly to the end customer and indirectly through resellers. Resellers earn commissions generally calculated as a fixed percentage of the gross sale to the end customer. The Company evaluates each of its reseller relationships in accordance with ASC 605-45 *Revenue Recognition - Principal Agent Considerations* (“ASC 605-45”) to determine whether the revenue recognized from indirect sales should be the gross amount of the contract with the end customer or reduced for the reseller commission. In making this determination the Company evaluates a variety of factors including whether it is the primary obligor to the end customer. Revenue is recorded net of taxes.

Revenue for online services and web-based subscriptions is recognized ratably over the term of the service or subscription period, assuming all revenue recognition criteria have been met. Our CD and digital download formats of Rosetta Stone language-learning product are bundled with a short-term online service where customers are allowed to begin their short-term online services at any point during a registration window, which is up to six months from the date of purchase from us or an authorized reseller. The short-term online services that are not activated during this registration window are forfeited and revenue is recognized upon expiry. Revenue from non-refundable upfront fees that are not related to products already delivered or services already performed is deferred and recognized over the term of the related arrangement because the period over which a customer is expected to benefit from the service that is included within our subscription arrangements does not extend beyond the contractual period. Accounts receivable and deferred revenue are recorded at the time a customer enters into a binding subscription agreement.

Software products include sales to end user customers and resellers. In many cases, revenue from sales to resellers is not contingent upon resale of the software to the end user and is recorded in the same manner as all other product sales. Revenue from sales of packaged software products and audio practice products is recognized as the products are shipped and title passes and risks of loss have been transferred. For many product sales, these criteria are met at the time the product is shipped. For some sales to resellers and certain other sales, the Company defers revenue until the customer receives the product because the Company legally retains a portion of the risk of loss on these sales during transit. In other cases where packaged software products are sold to resellers on a consignment basis, revenue is recognized for these consignment transactions once the end user sale has occurred, assuming the remaining revenue recognition criteria have been met. In accordance with ASC subtopic 605-50 *Revenue Recognition: Customer Payments and Incentives* (“ASC 605-50”), cash sales incentives to resellers are accounted for as a reduction of revenue, unless a specific identified benefit is identified and the fair value is reasonably determinable. Price protection for changes in the manufacturer suggested retail value granted to resellers for the inventory that they have on hand at the date the price protection is offered is recorded as a reduction to revenue at the time of sale.

The Company offers customers the ability to make payments for packaged software purchases in installments over a period of time, which typically ranges between three and five months. Given that these installment payment plans are for periods less than 12 months, a successful collection history has been established and these fees are fixed and determinable, revenue is recognized at the time of sale, assuming the remaining revenue recognition criteria have been met.

In connection with packaged software product sales and web-based software subscriptions, technical support is provided to customers, including customers of resellers, via telephone support at no additional cost for up to six months from the time of purchase. As the fee for technical support is included in the initial licensing fee, the technical support and services are generally provided within one year, the estimated cost of providing such support is deemed insignificant and no unspecified upgrades/enhancements are offered, technical support revenues are recognized together with the software product and web-based software subscription revenue. Costs associated with the technical support are accrued at the time of sale.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sales commissions from non-cancellable web-based software subscription contracts are deferred and amortized in proportion to the revenue recognized from the related contract.

Business Combinations

The Company recognizes all of the assets acquired, liabilities assumed and contractual contingencies from an acquired company as well as contingent consideration at fair value on the acquisition date. The excess of the total purchase price over the fair value of the assets and liabilities acquired is recognized as goodwill. Acquisition-related costs are recognized separately from the acquisition and expensed as incurred. Generally, restructuring costs incurred in periods subsequent to the acquisition date are expensed when incurred. Subsequent changes to the purchase price (i.e., working capital adjustments) or other fair value adjustments determined during the measurement period are recorded as adjustments to goodwill.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less and demand deposits with financial institutions.

Restricted Cash

Restricted cash is generally used to reimburse funds to employees under the Company's flexible benefit plan and as security for a credit card processing vendor. $12.3 million of restricted cash as of December 31, 2013 was restricted for the payment of the purchase price for the acquisition of Vivity Labs, Inc. which occurred on January 2, 2014 (see Note 5, Business Combinations).

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consist of amounts due to the Company from its normal business activities. The Company provides an allowance for doubtful accounts to reflect the expected non-collection of accounts receivable based on past collection history and specific risks identified.

Inventories

Inventories are stated at the lower of cost, determined on a first-in first-out basis, or market. The Company reviews inventory for excess quantities and obsolescence based on its best estimates of future demand, product lifecycle status and product development plans. The Company uses historical information along with these future estimates to establish a new cost basis for obsolete and potential obsolete inventory.

Concentrations of Credit Risk

Accounts receivable and cash and cash equivalents subject the Company to its highest potential concentrations of credit risk. The Company reserves for credit losses and does not require collateral on its trade accounts receivable. In addition, the Company maintains cash and investment balances in accounts at various banks and brokerage firms. The Company has not experienced any losses on cash and cash equivalent accounts to date and the Company believes it is not exposed to any significant credit risk related to cash. The Company sells products to retailers, resellers, government agencies, and individual consumers and extends credit based on an evaluation of the customer's financial condition, without requiring collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. The Company monitors its exposure for credit losses and maintains allowances for anticipated losses. No customer accounted for more than 10% of the Company's revenue during the years ended December 31, 2014, 2013 or 2012. The Company had four customers that collectively accounted for 33% of accounts receivable at December 31, 2014 and four customers that collectively accounted for 31% of accounts receivable at December 31, 2013. The Company maintains trade credit insurance for certain customers to provide coverage, up to a certain limit, in the event of insolvency of some customers.

Fair Value of Financial Instruments

The Company values its assets and liabilities using the methods of fair value as described in ASC topic 820, *Fair Value Measurements and Disclosures,* ("ASC 820"). ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The three levels of the fair value hierarchy are described below:

Level 1: Quoted prices for identical instruments in active markets.

ROSETTA STONE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3: Significant inputs to the valuation model are unobservable.

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, restricted cash, accounts receivable, accounts payable and other accrued expenses approximate fair value due to relatively short periods to maturity.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation on property, leasehold improvements, equipment, and software is computed on a straight-line basis over the estimated useful lives of the assets, as follows:

Software	3 years
Computer equipment	3-5 years
Automobiles	5 years
Furniture and equipment	5-7 years
Building	39 years
Building improvements	15 years
Leasehold improvements	lesser of lease term or economic life
Assets under capital leases	lesser of lease term or economic life

Expenses for repairs and maintenance that do not extend the life of equipment are charged to expense as incurred. Expenses for major renewals and betterments, which significantly extend the useful lives of existing property and equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized.

Valuation of Long-Lived Assets

In accordance with ASC topic 360, *Property, Plant and Equipment* ("ASC 360"), the Company evaluates the recoverability of its long-lived assets. ASC 360 requires recognition of impairment of long-lived assets in the event that the net book value of such assets exceeds the future undiscounted net cash flows attributable to such assets. Impairment, if any, is recognized in the period of identification to the extent the carrying amount of an asset exceeds the fair value of such asset. During 2014, the Company recorded a $0.2 million impairment expense related to the abandonment of a previously capitalized internal-use software project. There were no impairments of its long-lived assets during the year ended December 31, 2013.

Intangible Assets

Intangible assets consist of acquired technology, including developed and core technology, customer related assets, trade name and trademark, and other intangible assets. Those intangible assets with finite lives are recorded at cost and amortized on a straight line basis over their expected lives in accordance with ASC topic 350, *Intangibles—Goodwill and Other* ("ASC 350"). Annually, as of December 31, and more frequently if a triggering event occurs, the Company reviews its indefinite-lived intangible asset for impairment in accordance with ASC 350. This guidance provides the option to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative test. If necessary, the quantitative test is performed by comparing the fair value of indefinite lived intangible assets to the carrying value. In the event the carrying value exceeds the fair value of the assets, the assets are written down to their fair value. The Rosetta Stone trade name is the Company's only indefinite-lived intangible asset. There has been no impairment of intangible assets during any of the periods presented.

Goodwill

Goodwill represents purchase consideration paid in a business combination that exceeds the values assigned to the net assets of acquired businesses. The Company tests goodwill for impairment annually on June 30 of each year or more frequently if impairment indicators arise. Goodwill is tested for impairment at the reporting unit level using a fair value approach, in

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

accordance with the provisions of ASC 350. This guidance provides the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If, based on a review of qualitative factors, it is more likely than not that the fair value of a reporting unit is less than its carrying value the Company performs "Step 1" of the traditional two-step goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. If the carrying value exceeds the fair value, the Company measures the amount of impairment loss, if any, by comparing the implied fair value of the reporting unit goodwill with its carrying amount.

In the first quarter of 2014, the Company determined sufficient indication existed to require performance of an interim goodwill impairment analysis for the ROW Consumer reporting unit. As a result, the Company recorded a goodwill impairment loss of$2.2 million, which represents a full impairment of ROW Consumer's goodwill.

At June 30, 2014 the Company performed its annual impairment test beginning with Step 1. At the time of the annual quantitative impairment test, the fair value of each of the Company's reporting units with remaining goodwill balances exceeded its carrying value.

In the fourth quarter of 2014, the Company determined sufficient indication existed to require performance of an interim goodwill impairment analysis for the North America Consumer Language reporting unit. As a result of this test, the Company recorded its best estimate of a goodwill impairment loss of $18.0 million, which represents a full impairment of North America Consumer Language's goodwill. Any adjustment to the estimated impairment loss based on the completion of the measurement of the impairment will be recognized in the first quarter of 2015.

For income tax purposes, the goodwill balances with tax basis are amortized over a period of 15 years.

Guarantees

Indemnifications are provided of varying scope and size to certain enterprise and education customers against claims of intellectual property infringement made by third parties arising from the use of its products. The Company has not incurred any costs or accrued any liabilities as a result of such obligations.

Cost of Product and Subscription and Service Revenue

Cost of product revenue consists of the direct and indirect materials and labor costs to produce and distribute the Company's products. Such costs include packaging materials, computer headsets, freight, inventory receiving, personnel costs associated with product assembly, third-party royalty fees and inventory storage, obsolescence and shrinkage. The Company believes cost of subscription and service revenue primarily represents costs associated with supporting the online language-learning service, which includes online language conversation coaching, hosting costs and depreciation. Also included are the costs of credit card processing and customer technical support in both cost of product revenue and cost of subscription and service revenue.

Research and Development

Research and development expenses include employee compensation costs, consulting fees and overhead costs associated with product development. The Company develops the majority of its language-learning software products for perpetual sale to external customers. The Company considers technological feasibility to be established when all planning, designing, coding, and testing has been completed according to design specifications. The Company has determined that technological feasibility for such software products is reached shortly before the products are released to manufacturing. Costs incurred after technological feasibility is established have not been material, and accordingly, the Company has expensed all research and development costs when incurred.

Software Developed for Internal Use

The Company capitalizes software development costs related to certain of its software platforms developed exclusively to provide its web-based subscription services and other general and administrative use software in accordance with ASC subtopic 350-40: *Internal-Use Software*. Development costs for internal-use software are expensed as incurred until the project reaches the application development stage. Internal-use software is defined to have the following characteristics: (a) the software is internally developed, or modified solely to meet the entity's internal needs, and (b) during the software's development or modification, no substantive plan exists or is being developed to market the software externally. Internally developed software is amortized over a three-year useful life.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For the years ended December 31, 2014, 2013 and 2012, the Company capitalized $8.8 million, $4.8 million, and $2.2 million in internal-use software, respectively.

For the years ended December 31, 2014, 2013 and 2012, the Company recorded amortization expense relating to internal-use software of $3.4 million, $1.8 million, and $0.9 million, respectively.

Income Taxes

The Company accounts for income taxes in accordance with ASC topic 740, *Income Taxes* ("ASC 740"), which provides for an asset and liability approach to accounting for income taxes. Deferred tax assets and liabilities represent the future tax consequences of the differences between the financial statement carrying amounts of assets and liabilities versus the tax basis of assets and liabilities. Under this method, deferred tax assets are recognized for deductible temporary differences, and operating loss and tax credit carryforwards. Deferred liabilities are recognized for taxable temporary differences. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The impact of tax rate changes on deferred tax assets and liabilities is recognized in the year that the change is enacted.

ASC 740 requires a reduction of the carrying amounts of deferred tax assets by a valuation allowance if, based on available evidence, it is more likely than not that such assets will not be realized. Accordingly, the need to establish valuation allowances for deferred tax assets is assessed periodically based on the ASC 740 more-likely-than-not realization ("MLTN") threshold criterion. In the assessment for a valuation allowance, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, the Company's experience with operating loss and tax credit carryforwards not expiring unused, tax credits, and tax planning alternatives.

Significant judgment is required to determine whether a valuation allowance is necessary and the amount of such valuation allowance, if appropriate. The valuation allowance is reviewed at each reporting period and is maintained until sufficient positive evidence exists to support a reversal.

When assessing the realization of the Company's deferred tax assets, the Company considers all available evidence, including:

- the nature, frequency, and severity of cumulative financial reporting losses in recent years;
- the carryforward periods for the net operating loss, capital loss, and foreign tax credit carryforwards;
- predictability of future operating profitability of the character necessary to realize the asset;
- prudent and feasible tax planning strategies that would be implemented, if necessary, to protect against the loss of the deferred tax assets; and
- the effect of reversing taxable temporary differences.

The evaluation of the recoverability of the deferred tax assets requires that the Company weigh all positive and negative evidence to reach a conclusion that it is more likely than not that all or some portion of the deferred tax assets will not be realized. The weight given to the evidence is commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, the more positive evidence is necessary and the more difficult it is to support a conclusion that a valuation allowance is not needed.

The establishment of a valuation allowance has no effect on the ability to use the deferred tax assets in the future to reduce cash tax payments. The Company will continue to assess the likelihood that the deferred tax assets will be realizable at each reporting period and the valuation allowance will be adjusted accordingly, which could materially affect the Company's financial position and results of operations.

Stock-Based Compensation

The Company accounts for its stock-based compensation in accordance ASC topic 718, *Compensation—Stock Compensation* ("ASC 718"). Under ASC 718, all stock-based awards, including employee stock option grants, are recorded at

ROSETTA STONE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

fair value as of the grant date and recognized as expense in the statement of operations on a straight-line basis over the requisite service period, which is the vesting period.

Net Loss Per Share

Net loss per share is computed under the provisions of ASC topic 260, *Earnings Per Share*. Basic loss per share is computed using net loss and the weighted average number of shares of common stock outstanding. Diluted loss per share reflect the weighted average number of shares of common stock outstanding plus any potentially dilutive shares outstanding during the period. Potentially dilutive shares consist of shares issuable upon the exercise of stock options, restricted stock awards, restricted stock units and conversion of shares of preferred stock. Common stock equivalent shares are excluded from the diluted computation if their effect is anti-dilutive. When there is a net loss, there is a presumption that there are no dilutive shares as these would be anti-dilutive.

The following table sets forth the computation of basic and diluted net loss per common share:

	Year Ended December 31,		
	2014	2013	2012
	(dollars in thousands, except per share amounts)		
Numerator:			
Net loss	$ (73,706)	$ (16,134)	$ (33,985)
Denominator:			
Weighted average number of common shares:			
Basic	21,253	21,528	21,045
Diluted	21,253	21,528	21,045
Loss per common share:			
Basic	$ (3.47)	$ (0.75)	$ (1.61)
Diluted	$ (3.47)	$ (0.75)	$ (1.61)

For the years ended December 31, 2014, 2013 and 2012, no common stock equivalent shares were included in the calculation of the Company’s diluted net loss per share. The following is a summary of common stock equivalents for the securities outstanding during the respective periods that have been excluded from the earnings per share calculations as their impact was anti-dilutive.

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Stock options	67	279	363
Restricted stock units	103	90	66
Restricted stocks	89	248	193
Total common stock equivalent shares	259	617	622

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) refers to revenues, expenses, gains, and losses that are not included in net income (loss), but rather are recorded directly in stockholders' equity. For the years ended December 31, 2014, 2013 and 2012, the Company's comprehensive income (loss) consisted of net income (loss), foreign currency translation gains (losses) and the net unrealized gains (losses) on available-for-sale securities.

Components of accumulated other comprehensive income (loss) as of December 31, 2014 are as follows (in thousands):

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	Foreign Currency	Total
Balance at beginning of period	$ 845	$ 845
Other comprehensive loss before reclassifications	(1,523)	(1,523)
Amounts reclassified from accumulated other comprehensive income	—	—
Net current period other comprehensive loss	(1,523)	(1,523)
Accumulated other comprehensive loss	$ (678)	$ (678)

During the year ended December 31, 2014, there were no reclassifications out of accumulated other comprehensive income.

Foreign Currency Translation and Transactions

The functional currency of the Company's foreign subsidiaries is their local currency. Accordingly, assets and liabilities of the foreign subsidiaries are translated into U.S. dollars at exchange rates in effect on the balance sheet date. Income and expense items are translated at average rates for the period. Translation adjustments are recorded as a component of other comprehensive income (loss) in stockholders' equity.

Cash flows of consolidated foreign subsidiaries, whose functional currency is the local currency, are translated to U.S. dollars using average exchange rates for the period. The Company reports the effect of exchange rate changes on cash balances held in foreign currencies as a separate item in the reconciliation of the changes in cash and cash equivalents during the period. The following table presents the effect of exchange rate changes and the net unrealized gains and losses from the available-for-sale securities on total comprehensive income (loss) (dollars in thousands):

	Year Ended December 31,		
	2014	2013	2012
Net loss	$ (73,706)	$ (16,134)	$ (33,985)
Foreign currency translation (loss) gain	(1,523)	188	336
Unrealized gain on available-for-sale securities	—	—	23
Total comprehensive loss	$ (75,229)	$ (15,946)	$ (33,626)

Advertising Costs

Costs for advertising are expensed as incurred. Advertising expense for the years ended December 31, 2014, 2013, and 2012 were $79.6 million, $63.6 million and $66.2 million, respectively.

Recently Issued Accounting Standards

During 2014, the Company adopted the following recently issued Accounting Standard Updates (ASUs):

In July 2013, the Financial Accounting Standards Board ("FASB") issued ASU No. 2013-11*, Income Taxes (Topic 740): Presentation of Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* (“ASU 2013-11”), which requires that an unrecognized tax benefit be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except for a situation in which some or all of such net operating loss carryforward, a similar loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable tax jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The Company adopted this guidance beginning in fiscal year 2014 and the adoption of such guidance did not have a material impact on the presentation of the Company’s reported results of operations or financial position.

The following ASUs were recently issued but have not yet been adopted by the Company:

ROSETTA STONE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40) ("ASU 2014-15"). ASU 2014-15 addresses management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. ASU 2014-15 will be effective for the first interim period within annual reporting periods beginning after December 15, 2016. Early adoption is permitted. The Company does not expect to early adopt this guidance and does not believe that the adoption of this guidance will have a material impact on the Company's financial statements and disclosures.

In June 2014, the FASB issued ASU No. 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* ("ASU 2014-12"). ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2015. Early adoption is permitted. The Company does not expect to early adopt this guidance and does not believe that the adoption of this guidance will have a material impact on the Company's financial statements and disclosures.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), which replaces the current revenue accounting guidance. ASU 2014-09 is effective for annual periods beginning after December 15, 2016. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply a five step model to 1) identify the contract(s) with a customer, 2) identify the performance obligations in the contract, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations in the contract and 5) recognize revenue when (or as) the entity satisfies a performance obligation. Entities may choose from two adoption methods, with certain practical expedients. The Company is in the process of evaluating the impact of the new guidance on the Company's financial statements and disclosures and the adoption method.

In April 2014, the FASB issued ASU No. 2014-08 *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of Equity* ("ASU 2014-08"), which amends the definition of a discontinued operation and requires entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued operations criteria. The new guidance changes the definition of a discontinued operation and requires discontinued operations treatment for disposals of a component or group of components that represents a strategic shift that has or will have a major impact on an entity's operations or financial results. ASU 2014-08 is effective prospectively for all disposals (except disposals classified as held for sale before the adoption date) or components initially classified as held for sale in periods beginning on or after December 15, 2014; earlier adoption is permitted. The adoption of this guidance affects prospective presentation of disposals and therefore, is not expected to have a material impact on the Company's consolidated financial condition, results of operations or cash flows.

3. INVENTORY

Inventory consisted of the following (in thousands):

	As of December 31,	
	2014	**2013**
Raw materials	$ 3,163	$ 3,267
Finished goods	3,337	3,372
Total inventory	$ 6,500	$ 6,639

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following (in thousands):

ROSETTA STONE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. PROPERTY AND EQUIPMENT (Continued)

	As of December 31,	
	2014	2013
Land	$ 950	$ 390
Buildings and improvements	12,477	8,170
Leasehold improvements	1,408	1,657
Computer equipment	16,400	17,077
Software	31,240	24,594
Furniture and equipment	3,457	4,190
	65,932	56,078
Less: accumulated depreciation and amortization	(40,655)	(38,312)
Property and equipment, net	$ 25,277	$ 17,766

The Company leases certain computer equipment, software, buildings, and machinery under capital lease agreements. As of December 31, 2014 and 2013, assets under capital lease included in property and equipment above was $5.6 million and $0.7 million, respectively. As of December 31, 2014 and 2013, accumulated depreciation and amortization relating to property and equipment under capital lease arrangements totaled $1.0 million and $0.2 million, respectively.

The Company recorded total depreciation and amortization expense for its property and equipment for the years ended December 31, 2014, 2013 and 2012 in the amount of $7.6 million, $7.8 million and $8.0 million, respectively. Depreciation and amortization expense related to property and equipment includes depreciation related to its physical assets and amortization expense related to amounts capitalized in the development of internal-use software.

During 2014, the Company recorded a $0.2 million impairment expense related to the abandonment of a previously capitalized internal-use software project. There were no impairment charges for the years ended December 31, 2013 and 2012.

5. BUSINESS COMBINATIONS

In January 2014, the Company acquired Vivity Labs, Inc. and Tell Me More S.A. The Company acquired Livemocha Inc. and Lexia Learning Systems Inc. in April and August of 2013, respectively. Under the acquisition method of accounting, the total purchase price was allocated to the tangible and intangible assets acquired on the basis of their respective estimated fair values at the date of acquisition. The valuation of the identifiable intangible assets and their useful lives acquired reflects management's estimates.

Livemocha, Inc.

On April 1, 2013, the Company completed its acquisition of Livemocha, Inc. (the “Livemocha Merger” and "Livemocha"). Livemocha is one of the world’s largest online language-learning communities with over 16 million registered members. The acquisition of Livemocha's technology platform has accelerated the Company’s transition to cloud-based learning solutions and reinforced its leadership position in the competitive language-learning industry. The aggregate amount of consideration paid by the Company was $8.4 million in cash.

The acquisition of Livemocha resulted in goodwill of approximately $5.2 million, none of which is deductible for tax purposes. This amount represents the residual amount of the total purchase price after allocation to the assets acquired and liabilities assumed.

All expenditures incurred in connection with the Livemocha Merger were expensed and are included in general and administrative expenses. Transaction costs incurred in connection with the Livemocha Merger were $0.4 million during the year ended December 31, 2013. The results of operations for Livemocha have been included in the consolidated results of operations since April 1, 2013.

The Company allocated the purchase price based on current estimates of the fair values of assets acquired and liabilities assumed in connection with the Livemocha Merger. The table below summarizes the estimates of fair value of the Livemocha assets acquired, liabilities assumed and related deferred income taxes as of the acquisition date.

5. BUSINESS COMBINATIONS (Continued)

The Company finalized its allocation of the purchase price for Livemocha as of March 31, 2014. The purchase price was allocated as follows (in thousands):

Cash	$	191
Accounts receivable		227
Other current assets		93
Fixed assets		35
Accounts payable and accrued expenses		(956)
Deferred revenue		(743)
Net deferred tax liability		(1,161)
Net tangible assets acquired		(2,314)
Goodwill		5,185
Amortizable intangible assets		5,500
Purchase Price	$	8,371

The acquired amortizable intangible assets and the related estimated useful lives consist of the following (in thousands):

	Estimated Useful Lives		Estimated Value April 1, 2013
Online community	3 years	$	1,800
Enterprise relationships	5 years		100
Technology platform	5 years		3,400
Tradename	2 years		200
Total assets		$	5,500

In connection with the Livemocha Merger, the Company recorded deferred tax liabilities related to definite-lived intangible assets that were acquired. As a result of this deferred tax liability balance, the Company reduced its deferred tax asset valuation allowance by $1.2 million. Such reduction was recognized as an income tax benefit in the consolidated statement of operations for the year ended December 31, 2013.

Lexia Learning Systems, Inc.

On August 1, 2013, the Company completed its acquisition of Lexia Learning Systems, Inc. (the "Lexia Merger" and "Lexia"). Lexia is one of the most trusted and established companies in the literacy technology market. The transaction marked the Company's first extension beyond language learning and took the Company deeper into the Education Technology industry. The aggregate amount of consideration paid by the Company was $21.1 million in cash, net of working capital and deferred revenue adjustments, including a holdback of $3.4 million with 50% of such holdback paid within 30 days of the Company filing its Form 10-K for the year ended December 31, 2013 and 50% of such holdback to be paid on the 18 month anniversary of the acquisition. The Company paid $1.7 million of the holdback in April of 2014 and paid the remaining $1.7 million in February 2015.

The acquisition of Lexia resulted in goodwill of approximately $9.9 million, none of which is deductible for tax purposes. This amount represents the residual amount of the total purchase price after allocation to the assets acquired and liabilities assumed.

All expenditures incurred in connection with the Lexia Merger were expensed and are included in general and administrative expenses. Transaction costs incurred in connection with the Lexia Merger were $0.1 million during the year ended December 31, 2013. The results of operations for Lexia have been included in the consolidated results of operations for the period since August 1, 2013.

5. BUSINESS COMBINATIONS (Continued)

The Company allocated the purchase price based on current estimates of the fair values of assets acquired and liabilities assumed in connection with the Lexia Merger. The table below summarizes the estimates of fair value of the Lexia assets acquired, liabilities assumed and related deferred income taxes as of the acquisition date.

The Company finalized its allocation of the purchase price for Lexia as of June 30, 2014. The purchase price was allocated as follows (in thousands):

Cash	$	263
Accounts receivable		2,404
Other current assets		105
Fixed assets		255
Accounts payable and accrued expenses		(899)
Deferred revenue		(1,223)
Net deferred tax liability		(4,210)
Net tangible assets acquired		(3,305)
Goodwill		9,938
Amortizable intangible assets		14,500
Purchase price	$	21,133

The acquired amortizable intangible assets and the related estimated useful lives consist of the following (in thousands):

	Estimated Useful Lives		Estimated Value August 1, 2013
Enterprise relationships	10 years	$	9,400
Technology platform	7 years		4,100
Tradename	5 years		1,000
Total assets		$	14,500

In connection with the Lexia Merger, the Company recorded deferred tax liabilities related to definite-lived intangible assets that were acquired. As a result of this deferred tax liability balance, the Company reduced its deferred tax asset valuation allowance by $4.2 million. Such reduction was recognized as an income tax benefit in the consolidated statement of operations for the year ended December 31, 2013.

Vivity Labs Inc.

On January 2, 2014, the Company completed its acquisition of Vivity Labs Inc. (the "Vivity Labs Merger" and "Vivity"). Vivity's principal business activity is the development of brain fitness games aimed at improving the user's cognitive function through activity, awareness and motivation through its flagship product, Fit Brains. The applications are designed for use on mobile, web and social platforms. Vivity's emphasis on mobile solutions is especially compatible with Rosetta Stone's focus on cloud-based technology to enable on-the-go learning. The aggregate amount of consideration paid by the Company was $12.2 million in cash.

The acquisition of Vivity resulted in goodwill of approximately $9.3 million, none of which is deductible for tax purposes. This amount represents the residual amount of the total purchase price after allocation to the assets acquired and liabilities assumed.

All expenditures incurred in connection with the Vivity Labs Merger were expensed and are included in general and administrative expenses. Transaction costs incurred in connection with the Vivity Labs Merger were $57 thousand and $51 thousand during the years ended December 31, 2014 and 2013, respectively. The results of operations for Vivity have been included in the consolidated results of operations since January 2, 2014.

5. BUSINESS COMBINATIONS (Continued)

The Company has allocated the purchase price based on current estimates of the fair values of assets acquired and liabilities assumed in connection with the Vivity Labs Merger. The table below summarizes the estimates of fair value of the Vivity assets acquired, liabilities assumed and related deferred income taxes as of the acquisition date.

The Company finalized its allocation of the purchase price for Vivity as of December 31, 2014. The purchase price was allocated as follows (in thousands):

Cash	$	14
Accounts receivable		452
Other current assets		(3)
Accounts payable and accrued expenses		(307)
Net deferred tax liability		(919)
Net tangible assets acquired		(763)
Goodwill		9,336
Amortizable intangible assets		3,577
Purchase price	$	12,150

The acquired amortizable intangible assets and the related estimated useful lives consist of the following (in thousands):

	Estimated Useful Lives		Estimated Value January 2, 2014
Tradename	3 years	$	188
Technology platform	5 years		2,448
Customer relationships	3 years		941
Total assets		$	3,577

Tell Me More S.A.

On January 9, 2014, the Company completed its acquisition of Tell Me More S.A., (the "Tell Me More Merger" and "Tell Me More") a company organized under the laws of France. Tell Me More provides online language-learning subscriptions and learning services primarily to corporate and educational organizations. Tell Me More offers a robust suite of SaaS-based language-learning products and services that provide intermediate, advanced and business language solutions in nine languages. The Tell Me More Merger strengthens the Company's growing Enterprise & Education business and expands its global footprint. The aggregate amount of consideration paid by the Company was €22.1 million ($30.2 million), including assumed net debt.

The Tell Me More Merger resulted in goodwill of approximately $21.7 million, none of which is deductible for tax purposes. This amount represents the residual amount of the total purchase price after allocation to the assets acquired and liabilities assumed.

All expenditures incurred in connection with the Tell Me More Merger were expensed and are included in general and administrative expenses. Transaction costs incurred in connection with the Merger were $1.0 million and $0.5 million during the years ended December 31, 2014 and 2013, respectively. The results of operations for Tell Me More have been included in the consolidated results of operations since January 9, 2014.

The Company has allocated the purchase price based on current estimates of the fair values of assets acquired and liabilities assumed in connection with the Tell Me More Merger. The table below summarizes the estimates of fair value of the Tell Me More assets acquired, liabilities assumed and related deferred income taxes as of the acquisition date.

The Company finalized its allocation of the purchase price for Tell Me More as of December 31, 2014. The purchase price was allocated as follows (in thousands):

ROSETTA STONE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. BUSINESS COMBINATIONS (Continued)

Cash	$	2,323
Accounts receivable		2,979
Inventory		246
Prepaid expenses		243
Fixed assets		5,595
Other non-current assets		330
Accounts payable		(732)
Accrued compensation		(2,855)
Deferred revenue		(2,190)
Other current liabilities		(1,211)
Obligation under capital lease		(3,958)
Net deferred tax liability		(1,392)
Net tangible assets acquired		(622)
Goodwill		21,703
Amortizable intangible assets		9,105
Purchase price	$	30,186

The acquired amortizable intangible assets and the related estimated useful lives consist of the following (in thousands):

	Estimated Useful Lives		Estimated Value January 9, 2014
Customer relationships	5 years		4,348
Technology platform	5 years		4,144
Tradename	1 year		613
Total assets		$	9,105

Pro Forma Adjusted Summary

The results of Livemocha, Lexia, Vivity and Tell Me More's operations have been included in the consolidated financial statements subsequent to the acquisition date.

The following schedule presents unaudited consolidated pro forma results of operations data as if the Vivity Labs and Tell Me More Mergers had occurred on January 1, 2013 and the Livemocha and Lexia Mergers had occurred on January 1, 2012 (collectively "the Mergers"). This information does not purport to be indicative of the actual results that would have occurred if the Mergers had actually been completed on the dates indicated, nor is it necessarily indicative of the future operating results or the financial position of the combined company (in thousands, except per share amounts):

	Year Ended December 31,			
	2014		2013	
Revenue	$	274,218	$	290,565
Net loss	$	(60,787)	$	(28,856)
Basic loss per share	$	(2.86)	$	(1.34)
Diluted loss per share	$	(2.86)	$	(1.34)

The operations of Livemocha and Tell Me More have been integrated into the overall operations of the Company. The results of Livemocha and Tell Me More are reported within the results of the Company's operating segments and are not recorded on a stand-alone basis. Therefore, it is impracticable to report revenue and earnings from Livemocha and Tell Me More for the year ended December 31, 2014. For the year ended December 31, 2014, revenue and net loss from Lexia were

5. BUSINESS COMBINATIONS (Continued)

$9.9 million and $7.6 million, respectively. For the year ending December 31, 2014, revenue and net loss from Vivity were $2.6 million and $1.2 million, respectively.

6. GOODWILL

The value of goodwill is primarily derived from the acquisition of Rosetta Stone Ltd. (formerly known as Fairfield & Sons, Ltd.) in January 2006, the acquisition of certain assets of SGLC International Co. Ltd ("SGLC") in November 2009, the acquisition of Livemocha and Lexia in 2013 and the acquisition of Vivity and Tell Me More in January 2014.

The Company tests goodwill for impairment annually on June 30 of each year at the reporting unit level using a fair value approach, in accordance with the provisions of ASC 350, or more frequently, if impairment indicators arise. The Company's reporting units are: North America Consumer Language, North America Consumer Fit Brains, Rest of World Consumer, Global Enterprise & Education Language, and Global Enterprise & Education Literacy. Each of these businesses is considered a reporting unit for goodwill impairment testing purposes. The North America Consumer Language and North America Consumer Fit Brains reporting units are components of the North America Consumer operating segment. The combined Global Enterprise & Education Language and Global Enterprise & Education Literacy reporting units make up the Global Enterprise & Education operating segment. Prior to 2013, the Company's reporting units were the same as its operating segments.

The following table represents the balance and changes in goodwill for the Company's reporting units and operating segments for the years ended December 31, 2014 and 2013 (in thousands):

	North America Consumer		Rest of World	Global Enterprise & Education		
	Language	Fit Brains	Consumer	Language	Literacy	Total
Balance as of January 1, 2013	$ 13,499	$ —	$ 2,199	$ 19,198	$ —	$ 34,896
Acquisition of Livemocha	4,472	—	—	720	—	5,192
Acquisition of Lexia	—	—	—	—	9,962	9,962
Effect of change in foreign currency rate	—	—	1	8	—	9
Balance as of December 31, 2013	17,971	—	2,200	19,926	9,962	50,059
Acquisition of Vivity	—	9,336	—	—	—	9,336
Acquisition of Tell Me More	—	—	—	21,703	—	21,703
Impairment Charge	(17,971)	—	(2,199)	—	—	(20,170)
Effect of change in foreign currency rate	—	(798)	(1)	(1,545)	—	(2,344)
Balance as of December 31, 2014	$ —	$ 8,538	$ —	$ 40,084	$ 9,962	$ 58,584

ROW Consumer Goodwill Impairment

During the three months ended March 31, 2014, the Company determined sufficient indication existed to require performance of an interim goodwill impairment analysis as of March 31, 2014 for the ROW Consumer reporting unit (“ROW Consumer”). This indicator was due to unexpected declines in the operations of the ROW Consumer reporting unit, with further decreases in revenue and bookings within the reporting unit driving lower than expected operating results for the quarter and impacting the forecast going forward. In this interim goodwill impairment test, the ROW Consumer reporting unit failed Step 1 of the goodwill impairment test.

The combination of the lower reporting unit fair value calculated in Step 1 and the identification of unrecognized fair value changes to the carrying values of other assets and liabilities (primarily tradename and deferred revenue) in Step 2 of the interim goodwill impairment test, resulted in an implied fair value of goodwill below the carrying value of goodwill for ROW Consumer. As a result, the Company recorded a goodwill impairment loss of $2.2 million, which represents a full impairment of ROW Consumer’s goodwill.

Annual Impairment Testing of Goodwill

6. GOODWILL (Continued)

In connection with the annual goodwill impairment analysis performed as of June 30, 2014, the Company determined that the fair value of each of the Company's reporting units with remaining goodwill balances exceeded its carrying value, and therefore no additional goodwill impairment charges were recorded in connection with the annual analysis.

Interim Impairment Review

The Company also routinely reviews goodwill at the reporting unit level for potential impairment as part of the Company's internal control framework. The Global Enterprise & Education Language, Global Enterprise & Education Literacy, and North America Fit Brains reporting units were evaluated to determine if a triggering event has occurred. As of December 31, 2014, the Company concluded that there were no indicators of impairment that would cause it to believe that it is more likely than not that the fair value of these reporting units is less than the carrying value. Accordingly, a detailed impairment test has not been performed and no goodwill impairment charges were recorded in connection with the interim impairment reviews of these reporting units.

North America Consumer Language Goodwill Impairment

In the fourth quarter of 2014, the North America Consumer Language reporting unit experienced a decline in the demand for its products and services at its current pricing levels. In an attempt to increase demand, the Company lowered prices in its direct-to-consumer and retail sales channels. This strategy resulted in 293,808 units sold and $47.3 million in revenue for the North America Consumer Language reporting unit during the fourth quarter of 2014. In the fourth quarter of 2013, 216,775 units were sold and generated $54.0 million in revenue. Despite the 35% increase in the number of units sold, revenue recognized decreased by 12% due to the lower prices in 2014. Additionally, these results were significantly lower than the forecasted bookings, meaning that while the Company was able to increase the number of units sold over the year ago period, the per unit price was lower than expected. As a result of the reduced demand and the need to offer lower prices in the fourth quarter of 2014 to generate sales, the Company began to evaluate whether the decline in demand at prior price levels has resulted in the need for a permanent price decline. In addition, given the results in the fourth quarter of 2014, the Company began to evaluate its overall long-term strategy. In March 2015, the Company announced a plan to realign and reorganize the Company to focus on profitable growth in the Global Enterprise and Education operating segment. The new plan results in significantly lower projected revenue and overall profitability for its North America Consumer Language reporting unit.

As a result of the above events, the Company considered it appropriate to perform an interim goodwill impairment test for the North America Consumer Language reporting unit.

The combination of the lower reporting unit fair value of the North America Consumer Language reporting unit and the identification of unrecognized fair value changes to the carrying values of other assets and liabilities (primarily tradename, developed technology and deferred revenue) in Step 2 of the interim goodwill impairment test, resulted in a negative implied fair value of goodwill for the North America Consumer Language reporting unit. As a result, the Company recorded its best estimate of the goodwill impairment loss of $18.0 million, which represents a full impairment of the North America Consumer Language goodwill. Any adjustment to the estimated impairment loss based on completion of the measurement of the impairment will be recognized in the first quarter of 2015.

7. INTANGIBLE ASSETS

Intangible assets consisted of the following items as of the dates indicated (in thousands):

	December 31, 2014			December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trade name/ trademark	$ 12,526	$ (1,062)	$ 11,464	$ 11,807	$ (158)	$ 11,649
Core technology	15,890	(5,661)	10,229	9,954	(3,207)	6,747
Customer relationships	26,889	(14,344)	12,545	22,152	(11,720)	10,432
Website	12	(12)	—	12	(12)	—
Patents	300	(161)	139	300	(122)	178
Total	$ 55,617	$ (21,240)	$ 34,377	$ 44,225	$ (15,219)	$ 29,006

ROSETTA STONE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. INTANGIBLE ASSETS (Continued)

The Company recorded intangible assets of $23.8 million, associated with the acquisition of Rosetta Stone Ltd. in January 2006, including its indefinite-lived Rosetta Stone trade name.

The Company recorded intangible assets of $5.5 million with the acquisition of Livemocha in April 2013, consisting of an online community, enterprise relationships, technology platform and the Livemocha trade name. The estimated useful lives of these intangible assets range from two to five years.

The Company recorded intangible assets of $14.5 million with the acquisition of Lexia in August 2013, consisting of enterprise relationships, technology platform and the Lexia trade name. The estimated useful lives of these intangible assets range from five to ten years.

The Company recorded intangible assets of $3.6 million with the acquisition of Vivity in January 2014, consisting of customer relationships, technology platform and the Vivity trade name. The estimated useful lives of these intangible assets range from three to five years.

The Company recorded intangible assets of $9.1 million with the acquisition of Tell Me More in January 2014, consisting of customer relationships, technology platform and the Tell Me More trade name. The estimated useful lives of these intangible assets range from one to five years.

Included within the Trade name/ trademark intangible assets is the Rosetta Stone trade name with a carrying amount of approximately $10.6 million. This intangible asset is considered to have an indefinite useful life and is therefore not amortized, but rather tested for impairment on at least an annual basis.

The Company computes amortization of intangible assets on a straight-line basis over the estimated useful life. Below are the weighted average remaining useful lives of the Company's amortizing intangible assets:

	Weighted Average Life
Trade name / trademark	39 months
Core technology	44 months
Customer relationships	80 months
Patents	42 months

There were no impairment charges for the years ended December 31, 2014, 2013 and 2012.

ROSETTA STONE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. INTANGIBLE ASSETS (Continued)

Amortization expense consisted of the following (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Included in cost of revenue:			
Cost of product revenue	$ 377	$ —	$ —
Cost of subscription and service revenue	209	244	—
Total included in cost of revenue	586	244	—
Included in operating expenses:			
Sales and marketing	3,677	1,028	—
Research & development	2,000	550	40
General and administrative	—	—	—
Total included in operating expenses	5,677	1,578	40
Total	$ 6,263	$ 1,822	$ 40

The following table summarizes the estimated future amortization expense related to intangible assets as of December 31, 2014 (in thousands):

	As of December 31, 2014
2015	$ 5,395
2016	4,913
2017	4,417
2018	3,803
2019	1,532
Thereafter	3,710
Total	$ 23,770

The Company also routinely reviews indefinite-lived intangible assets and long-lived intangible assets for potential impairment as part of the Company's internal control framework. As an indefinite-lived intangible asset, the Rosetta Stone tradename was evaluated as of December 31, 2014 to determine if indicators of impairment exist. In connection with the fourth quarter of 2014 goodwill impairment test performed for the North America Consumer reporting unit, the Company also performed a quantitative impairment review of the trade name indefinite-lived intangible asset and concluded it was not impaired. Additionally, all long-lived intangible assets were evaluated to determine if indicators of impairment exist and the Company concluded that there are no potential indicators of impairment.

8. OTHER CURRENT LIABILITIES

The following table summarizes other current liabilities (in thousands):

	As of December 31,	
	2014	2013
Accrued marketing expenses	$ 31,985	$ 19,885
Accrued professional and consulting fees	2,804	4,570
Sales return reserve	3,570	4,834
Sales, withholding, and property taxes payable	5,875	3,968
Accrued purchase price of business acquisition	1,688	1,688
Other	10,235	6,991
Total other current liabilities	$ 56,157	$ 41,936

9. FINANCING ARRANGEMENTS

Revolving Line of Credit

On October 28, 2014, Rosetta Stone Ltd ("RSL"), a wholly owned subsidiary of parent company Rosetta Stone Inc., executed a Loan and Security Agreement with Silicon Valley Bank ("Bank") to obtain a $25 million revolving credit facility (the "credit facility"). Borrowings by RSL under the credit facility are guaranteed by the Company as the ultimate parent. The credit facility has a term of three years during which RSL may borrow and re-pay loan amounts and re-borrow the loan amounts subject to customary borrowing conditions. RSL may elect to have interest on borrowed amounts accrue at either a LIBOR rate plus a margin of 2.25% percent or a prime rate plus a margin of 1.25% percent. RSL may select LIBOR interest periods of certain defined intervals ranging from one month to one year. All portions of outstanding loans may be converted from one interest rate method to the other. Proceeds of loans made under the credit facility may be used as working capital or to fund general business requirements.

All obligations under the credit facility are secured by a security interest on substantially all of the Company's assets including intellectual property rights and by a stock pledge by the Company of 100% of their ownership interests in U.S. subsidiaries and 66% of their ownership interests in certain foreign subsidiaries.

The Company is subject to certain financial and restrictive covenants under the credit facility. The credit facility contains customary affirmative and negative covenants, including covenants that limit or restrict our ability to, among other things, incur additional indebtedness, dispose of assets, execute a material change in business, acquire or dispose of an entity, grant liens, make share repurchases, and make distributions, including payment of dividends. The Company is required to maintain compliance with a capitalization ratio, maintain a minimum Adjusted EBITDA and maintain a minimum level of total liquidity. As of December 31, 2014, the Company was in compliance with all covenants.

The credit facility contains customary events of default, including among others, non-payment defaults, covenant defaults, bankruptcy and insolvency defaults, and a change of control default, in each case, subject to customary exceptions. The occurrence of a default event could result in the Bank's acceleration of repayment obligations of any loan amounts then outstanding.

The Company incurred and paid $0.4 million of debt issuance costs in connection with this credit facility in the fourth quarter of 2014. Such costs are included in other non-current assets on the consolidated balance sheet and are being amortized to interest expense over the life of the credit facility on a straight-line basis.

As of December 31, 2014, there were no borrowings outstanding and the Company was eligible to borrow the entire $25 million of available credit. A quarterly commitment fee accrues on any unused portion of the credit facility at a nominal annual rate.

Capital Leases

The Company enters into capital leases under non-committed arrangements for equipment and software. In addition, as a result of the Tell Me More Merger, the Company assumed a capital lease for a building near Versailles, France, where Tell Me More's headquarters are located. The fair value of the lease liability at the date of acquisition was $4.0 million.

During the year ended December 31, 2014, no equipment or software was acquired through the issuance of capital leases. During the year ended December 31, 2013 the Company acquired $0.7 million in equipment and software through the issuance of capital leases. This non-cash investing activity has been excluded from the consolidated statement of cash flows.

As of December 31, 2014, the future minimum payments under capital leases with initial terms of one year or more are as follows (in thousands):

ROSETTA STONE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. FINANCING ARRANGEMENTS (Continued)

Periods Ending December 31,		
2015	$	754
2016		551
2017		551
2018		545
2019		545
Thereafter		1,495
Total minimum lease payments	$	4,441
Less amount representing interest		693
Present value of net minimum lease payments	$	3,748
Less current portion		594
Obligations under capital lease, long-term	$	3,154

10. STOCK-BASED COMPENSATION

2006 Stock Incentive Plan

On January 4, 2006, the Company established the Rosetta Stone Inc. 2006 Stock Incentive Plan (the "2006 Plan") under which the Company's Board of Directors, at its discretion, could grant stock options to employees and certain directors of the Company and affiliated entities. The 2006 Plan initially authorized the grant of stock options for up to 1,942,200 shares of common stock. On May 28, 2008, the Board of Directors authorized the grant of additional stock options for up to 195,000 shares of common stock under the plan, resulting in total stock options available for grant under the 2006 Plan of 2,137,200 as of December 31, 2008. The stock options granted under the 2006 Plan generally expire at the earlier of a specified period after termination of service or the date specified by the Board or its designated committee at the date of grant, but not more than ten years from such grant date. Stock issued as a result of exercises of stock options will be issued from the Company's authorized available stock.

2009 Omnibus Incentive Plan

On February 27, 2009, the Company's Board of Directors approved the 2009 Omnibus Incentive Plan (the "2009 Plan") that provides for the ability of the Company to grant up to 2,437,744 new stock incentive awards or options including Incentive and Nonqualified Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Units, Performance Shares, Performance based Restricted Stock, Share Awards, Phantom Stock and Cash Incentive Awards. The stock incentive awards and options granted under the 2009 Plan generally expire at the earlier of a specified period after termination of service or the date specified by the Board or its designated committee at the date of grant, but not more than ten years from such grant date. On May 26, 2011 the Board of Directors authorized and the Company's shareholders' approved the allocation of an additional 1,000,000 shares of common stock to the 2009 Plan. On May 23, 2012, the Board of Directors authorized and the Company's shareholders approved the allocation of 1,122,930 additional shares of common stock to the 2009 Plan. On May 23, 2013, the Board of Directors authorized and the Company's shareholders approved the allocation of 2,317,000 additional shares of common stock to the 2009 Plan. On May 20, 2014, the Board of Directors authorized and the Company's shareholders approved the allocation of 500,000 additional shares of common stock to the 2009 Plan.

Concurrent with the approval of the 2009 Plan, the 2006 Plan was terminated for purposes of future grants. At December 31, 2014 there were 2,832,337 shares available for future grant under the 2009 Plan.

In accordance with ASC 718, the fair value of stock-based awards to employees is calculated as of the date of grant. Compensation expense is then recognized on a straight-line basis over the requisite service period of the award. The Company uses the Black-Scholes pricing model to value its stock options, which requires the use of estimates, including future stock price volatility, expected term and forfeitures. Stock-based compensation expense recognized is based on the estimated portion of the awards that are expected to vest. Estimated forfeiture rates were applied in the expense calculation.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model as follows:

10. STOCK-BASED COMPENSATION (Continued)

	Year Ended December 31,		
	2014	2013	2012
Expected stock price volatility	63%-65%	64%-67%	64%-66%
Expected term of options	6 years	6 years	6 years
Expected dividend yield	—	—	—
Risk-free interest rate	1.46%-1.80%	0.75%-1.65%	0.60%-0.88%

Prior to the completion of the Company's initial public offering in April 2009, the Company's stock was not publicly quoted and the Company had a limited history of stock option activity, so the Company reviewed a group of comparable industry-related companies to estimate its expected volatility over the most recent period commensurate with the estimated expected term of the awards. In addition to analyzing data from the peer group, the Company also considered the contractual option term and vesting period when determining the expected option life and forfeiture rate. Subsequent to the initial public offering, the Company continues to review a group of comparable industry-related companies to estimate volatility, but also reviews the volatility of its own stock since the initial public offering. The Company considers the volatility of the comparable companies to be the best estimate of future volatility. For the risk-free interest rate, the Company uses a U.S. Treasury Bond rate consistent with the estimated expected term of the option award.

The expected term of options granted represents the period of time that they are expected to be outstanding and is derived using a combination of peer company information and the simplified method as described in ASC 718-10-S99. Prior to the completion of the Company's initial public offering in April 2009, the stock was not publicly quoted and there was a limited history of stock option activity.

Stock Options—The following table summarizes the Company's stock option activity from January 1, 2014 to December 31, 2014:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Contractual Life (years)	Aggregate Intrinsic Value
Options Outstanding, January 1, 2014	1,927,552	$ 13.61	7.54	$ 2,829,380
Options granted	672,302	11.42		
Options exercised	(115,915)	5.77		
Options cancelled	(466,297)	14.02		
Options Outstanding, December 31, 2014	2,017,642	13.24	7.32	760,925
Vested and expected to vest at December 31, 2014	1,890,081	13.31	7.23	752,048
Exercisable at December 31, 2014	918,285	$ 14.61	5.97	$ 597,989

During the second quarter of 2013, the Company allowed a former executive to net exercise 213,564 vested stock options with an exercise price of $3.85. In the net exercise, the Company repurchased 123,367 shares from the former employee based on the Company's stock price on the exercise date of $15.09 for $1.0 million.

As of December 31, 2014 and 2013, there was approximately $6.1 million and $6.8 million of unrecognized stock-based compensation expense related to non-vested stock option awards that is expected to be recognized over a weighted average period of 2.38 and 2.53 years, respectively.

Stock options are granted at the discretion of the Board of Directors or the Compensation Committee (or its authorized member(s)) and expire 10 years from the date of the grant. Options generally vest over a four-year period based upon required service conditions. No options have performance or market conditions. The Company calculates the pool of additional paid-in capital associated with excess tax benefits using the "simplified method" in accordance with ASC 718.

The weighted average remaining contractual term and the aggregate intrinsic value for options outstanding at December 31, 2014 was 7.32 years and $0.8 million, respectively. The weighted average remaining contractual term and the aggregate intrinsic value for options exercisable at December 31, 2013 was 7.54 years and $2.8 million, respectively. As of December 31, 2014, options that were vested and exercisable totaled 918,285 shares of common stock with a weighted average exercise price per share of $14.61.

10. STOCK-BASED COMPENSATION (Continued)

The weighted average grant-date fair value per share of stock options granted was $6.73 and $8.88 for the years ended December 31, 2014 and 2013, respectively.

The aggregate intrinsic value disclosed above represents the total intrinsic value (the difference between the fair market value of the Company's common stock as of December 31, 2014, and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2014. This amount is subject to change based on changes to the fair market value of the Company's common stock.

Restricted Stock Awards—The following table summarizes the Company's restricted stock activity for the years ended December 31, 2014 and 2013, respectively:

	Nonvested Outstanding	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Nonvested Awards, January 1, 2013	758,103	$ 11.00	$ 8,339,133
Awards granted	352,985	14.83	
Awards vested	(304,560)	11.72	
Awards canceled	(172,497)	12.88	
Nonvested Awards, December 31, 2013	634,031	12.28	7,785,901
Awards granted	236,338	11.69	
Awards vested	(253,526)	10.72	
Awards canceled	(134,198)	13.23	
Nonvested Awards, December 31, 2014	482,645	12.59	6,074,136

During 2014 and 2013, 236,338 and 352,985 shares of restricted stock were granted, respectively. The aggregate grant date fair value of the awards in 2014 and 2013 was $2.8 million and $5.2 million, respectively, which will be recognized as expense on a straight-line basis over the requisite service period of the awards, which is also the vesting period. The Company's restricted stock grants are accounted for as equity awards. The grant date fair value is based on the market price of the Company's common stock at the date of grant. The Company did not grant any restricted stock prior to April 2009.

During 2014, 134,198 shares of restricted stock were forfeited. As of December 31, 2014, future compensation cost related to the nonvested portion of the restricted stock awards not yet recognized in the statement of operations was $5.1 million and is expected to be recognized over a period of 2.39 years.

Restricted stock awards are considered outstanding at the time of grant as the stockholders are entitled to voting rights and to receive any dividends declared subject to the loss of the right to receive accumulated dividends if the award is forfeited prior to vesting. Unvested restricted stock awards are not considered outstanding in the computation of basic earnings per share.

Restricted Stock Units—During 2014 and 2013, 43,842 and 24,779 restricted stock units were granted, respectively. The aggregate grant date fair value of the awards in 2014 and 2013 was $0.4 million and $0.4 million, respectively, which was recognized as expense on the grant date, as the awards were immediately vested. The Company's restricted stock units are accounted for as equity awards. The grant date fair value is based on the market price of the Company's common stock at the date of grant. The Company did not grant any restricted stock units prior to April 2009.

Long Term Incentive Program—On February 21, 2013, the Company’s board of directors approved the 2013 Rosetta Stone Inc. Long Term Incentive Program (“2013 LTIP”). The 2013 LTIP was administered under the Rosetta Stone Inc. 2009 Omnibus Incentive Plan (the “2009 Plan”) and the shares awarded under the 2013 LTIP will be taken from the shares reserved under the 2009 Plan. The purpose of the 2013 LTIP was to: motivate senior management and other executives to achieve key financial and strategic business objectives of the Company; offer eligible executives of the Company a competitive total compensation package; reward executives in the success of the Company; provide ownership in the Company; and retain key talent. The 2013 LTIP was effective from January 1, 2013 until December 31, 2014.

Certain executives were designated for eligibility by the board of directors to receive performance stock awards and cash upon the Company’s achievement of specified performance goals between January 1, 2013 and December 31, 2014. In order for

10. STOCK-BASED COMPENSATION (Continued)

any performance stock award grants or any cash payments to be made under the 2013 LTIP, the Company must have met the minimum threshold requirements for a performance goal for the 2014 fiscal year in addition to the cumulative threshold performance goals for the two year period ended December 31, 2014. Each performance goal was mutually exclusive. Each performance goal had a range of payout levels depending on the achievement of the goal ranging from zero to 200% of the incentive target. The performance stock awards granted will be 100% vested as of the date of grant. There will be no subsequent holding period requirement.

Before any granting of performance stock awards or payment of cash pursuant to an award granted under the 2013 LTIP can be made, the material terms of the performance goals must be disclosed to, and subsequently approved by, the stockholders, in accordance with Treasury Regulation Section 1.162-27(e)(4). The Company's stockholders approved the material terms of the performance goals on May 23, 2013, the grant date for the performance stock awards.

The amount of share-based compensation expense recognized related to the 2013 LTIP was $1.3 million and $1.4 million for the years ended December 31, 2014 and 2013, respectively. Expense of $0.3 million and $0.6 million was recognized related to the cash-based portion of the 2013 LTIP for the years ended December 31, 2014 and 2013, respectively. In the first quarter of 2015, the Company will issue 160,860 performance share awards related to the conclusion of the 2013 LTIP.

The following table presents the stock-based compensation expense for stock options and restricted stock included in the related financial statement line items (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Included in cost of revenue:			
Cost of product revenue	$ 95	$ 109	$ 110
Cost of subscription and service revenue	13	66	178
Total included in cost of revenue	108	175	288
Included in operating expenses:			
Sales and marketing	1,975	1,840	1,185
Research & development	958	1,460	1,547
General and administrative	3,721	5,766	4,989
Total included in operating expenses	6,654	9,066	7,721
Total	$ 6,762	$ 9,241	$ 8,009

11. STOCKHOLDERS' EQUITY

At December 31, 2014, the Company's board of directors had the authority to issue 200,000,000 shares of stock, of which 190,000,000 were designated as Common Stock, with a par value of $0.00005 per share, and 10,000,000 were designated as Preferred Stock, with a par value of $0.001 per share. At December 31, 2014 and 2013, the Company had shares of Common Stock issued of 22,935,620 and 22,588,484, respectively, and shares of Common Stock outstanding of 21,935,620 and 21,588,484, respectively.

On May 8, 2013, the Company filed a universal shelf registration statement which became effective on May 30, 2013. The registration statement permitted certain holders of the Company's stock to offer the shares of common stock held by them. On June 11, 2013 the selling shareholders, ABS Capital Partners IV Trust and Norwest Equity Partners VIII, LP, sold a combined total of 3,490,000 shares at an offering price of $16.00 per share. During November and December 2013, ABS Capital Partners IV Trust sold the remainder of its common stock holdings in the Company. The shelf also provides the Company with the flexibility to offer an amount of equity or issue debt in the amount of $150.0 million. The Company issued and sold an additional 10,000 shares at a per share price of $16.00 in the offering.

On August 22, 2013, the Company's Board of Directors approved a share repurchase program under which the Company is authorized to repurchase up to $25 million of its outstanding common stock from time to time in the open market or in privately negotiated transactions depending on market conditions, other corporate considerations, and applicable legal requirements. The Company expects to fund the repurchases through existing cash balances and cash generated from

operations. For the year ended December 31, 2013, the Company paid $11.4 million to repurchase 1.0 million shares at a weighted average price of $11.44 per share as part of this program. No shares were repurchased during the year ended December 31, 2014. Shares repurchased under the program were recorded as treasury stock on the Company's consolidated balance sheet. The shares repurchased under this program during the year ended December 31, 2013 were not the result of an accelerated share repurchase agreement. Management has not made a decision on whether shares purchased under this program will be retired or reissued.

Holders of the Company's common stock are entitled to receive dividends when and if declared by the Board of Directors out of assets or funds legally available for that purpose. Future dividends are dependent on the Company's financial condition and results of operations, the capital requirements of its business, covenants associated with financing arrangements, other contractual restrictions, legal requirements, regulatory constraints, industry practice and other factors deemed relevant by its Board of Directors.

12. EMPLOYEE BENEFIT PLAN

The Company maintains a defined contribution 401(k) Plan (the "Plan"). The Company matches employee contributions to the Plan up to 4% of their compensation. The Company recorded expenses for the Plan totaling $2.2 million, $1.9 million, and $1.6 million for the years ended December 31, 2014, 2013 and 2012, respectively.

13. EMPLOYEE SEVERENCE

On January 9, 2014, the Company completed its acquisition of Tell Me More, a company organized under the laws of France. At acquisition, the plan was to fully integrate Tell Me More into the operations of the Company. Following the acquisition, the Company undertook a plan to review the financial performance of the Company and of the French entity and as a result the Company identified the need to reduce expenses. In the second quarter of 2014, the Company began to create a plan to address the economic issues of the business through the reduction of expense. The result of this economic planning was to reduce headcount within certain business units of the French entity.

Under the requirements of French Labour Law, there is an expectation on the part of both the employer and employee that if an employee is terminated, the employer will be required to pay a minimum amount of severance. Accordingly, the Company has concluded that the termination benefits to be paid to certain employees as the result of the reduction in force in France are payable based upon an ongoing benefit arrangement. A severance liability becomes probable and estimable when the Company received approval from the French Labour Administration and the specific employees to be impacted were determined. These criteria were met in the third quarter of 2014 and the Company recorded an accrual and the related expense of $1.0 million. Severance payments totaling $0.5 million related to this reduction in force were paid during the fourth quarter of 2014 and the remaining liability of $0.5 million is expected to be paid in 2015.

During 2014, the Company initiated other actions across its business to reduce headcount in order to align resources to support business needs. The Company recorded $3.2 million in severance costs associated with these actions. As of December 31, 2014, $2.3 million was paid during 2014 and the remaining liability of $0.9 million is expected to be paid during 2015.

14. LEASE ABANDONMENT AND TERMINATION

As part of the Company's effort to reduce general and administrative expenses through a planned space consolidation at its Arlington, Virginia headquarters location, the Company incurred a lease abandonment charge of $3.2 million for the year ended December 31, 2014. Prior to January 31, 2014, the Company occupied the 6th and 7th floors at its Arlington, Virginia headquarters. The Company estimated the liability under the operating lease agreements and accrued lease abandonment costs in accordance with ASC 420, *Exit or Disposal Cost Obligations* ("ASC 420"), as the Company has no future economic benefit from the abandoned space and the lease does not terminate until December 31, 2018. All leased space related to the 6th floor was abandoned and ceased to be used by the Company on January 31, 2014.

In March 2013 Rosetta Stone Japan Inc. partially abandoned its Japan office as a result of excess office space due to reduction in staff along with overall local operations business performance. The Company estimated the liability under the operating lease agreement reduced for anticipated sublease income in accordance with ASC 420 as the Company has no future economic benefit from the abandoned space and the lease does not terminate until February 28, 2015. As of March 31, 2014, the Company ceased to use the remaining office space in this facility and simultaneously negotiated and paid a lease

14. LEASE ABANDONMENT AND TERMINATION (Continued)

termination fee of $0.4 million. The Company has been released from all obligations under the lease arrangement as of December 31, 2014.

In the fourth quarter of 2014, Rosetta Stone Korea Inc. implemented a plan to consolidate office locations. The Company closed its two existing office spaces and moved all personnel into a new office location. As of December 31, 2014, the Company ceased to use the office space and the Company incurred lease termination expenses of $0.1 million. The lease termination fees were fully paid as of December 31, 2014.

A summary of the Company's lease abandonment activity for the years ended December 31, 2014 and 2013 is as follows (in thousands):

	As of December 31,	
	2014	2013
Accrued lease abandonment costs, beginning of period	$ 413	$ —
Costs incurred and charged to expense	3,812	842
Principal reductions	(2,546)	(429)
Accrued lease abandonment costs, end of period	$ 1,679	$ 413
Accrued lease abandonment costs liability:		
Short-term	$ 496	$ 355
Long-term	1,183	58
Total	$ 1,679	$ 413

15. INCOME TAXES

The following table summarizes the significant components of the Company's deferred tax assets and liabilities as of December 31, 2014 and 2013 (in thousands):

	As of December 31,	
	2014	2013
Deferred tax assets:		
Inventory	$ 535	$ 731
Amortization and depreciation	—	1,450
Net operating loss carryforwards	27,637	13,461
Deferred revenue	12,447	3,153
Accrued liabilities	12,890	10,388
Stock-based compensation	5,760	5,009
Bad debt reserve	501	374
Foreign currency translation	—	341
Foreign and other tax credits	1,283	1,221
Gross deferred tax assets	61,053	36,128
Valuation allowance	(53,809)	(33,866)
Net deferred tax assets	7,244	2,262
Deferred tax liabilities:		
Goodwill and indefinite lived intangibles	(3,465)	(9,687)
Deferred sales commissions	(5,714)	(1,327)
Prepaid expenses	(555)	(853)
Amortization and depreciation	(1,337)	—
Foreign currency translation	(391)	—
Other	(5)	(5)
Gross deferred tax liabilities	(11,467)	(11,872)
Net deferred tax liabilities	$ (4,223)	$ (9,610)

In 2013, the Company acquired all of the outstanding shares of Livemocha and Lexia, respectively and in January 2014 the Company acquired all of the outstanding shares of Vivity and Tell Me More, respectively. For tax purposes, the acquisitions will be treated as a non-taxable stock purchase and all of the acquired assets and assumed liabilities will retain their historical carryover tax bases. Therefore, the Company recognized deferred taxes related to all book/tax basis differences in the acquired assets and liabilities.

In connection with the Livemocha purchase accounting, the Company recognized net deferred tax liabilities of $1.2 million associated with the book/tax differences on acquired intangible assets and deferred revenue, offset by deferred tax assets associated with acquired net operating loss ("NOL") carryforwards. The effect of this on the tax provision for the Company resulted in a release of its valuation allowance equal to the amount of the net deferred tax liability recognized at the time of the Livemocha Merger. Thus, a tax benefit of $1.2 million was recorded during the three months ended June 30, 2013. During the fourth quarter of 2013, the Company elected to treat the acquisition as an asset acquisition for tax purposes. Accordingly, the Company wrote off net deferred tax liabilities of $0.9 million against the original net deferred tax liabilities recognized during the three months ended June 30, 2013.

In connection with the Lexia purchase accounting, the Company recognized net deferred tax liabilities of $4.2 million associated with the book/tax differences on acquired intangible assets and deferred revenue, offset by deferred tax assets associated with acquired net operating loss carryforwards. The effect of this on the tax provision for the Company resulted in a release of its valuation allowance equal to the amount of the net deferred tax liability recognized at the time of the Lexia Merger. Thus, a tax benefit of $4.2 million was recorded during the three months ended September 30, 2013.

15. INCOME TAXES (Continued)

In connection with the Vivity purchase accounting, the Company recognized net deferred tax liabilities of $0.9 million associated with the book/tax differences on acquired intangible assets and deferred revenue, offset by deferred tax assets associated with acquired net operating loss carryforwards.

In connection with the Tell Me More purchase accounting, the Company recognized net deferred tax liabilities of $1.4 million associated with the book/tax differences on acquired intangible assets and deferred revenue, offset by deferred tax assets associated with acquired net operating loss carryforwards.

For the year ended December 31, 2014, the Company recorded an income tax benefit of $6.5 million primarily resulting from the tax benefits related to the goodwill impairment taken during the first quarter of 2014 related to the ROW Consumer reporting unit, the goodwill impairment taken during the fourth quarter of 2014 related to the North America Consumer Language reporting unit, and current year losses in Canada and France. The goodwill that was impaired related to acquisitions from prior years, a portion of which resulted in a tax benefit as a result of writing off a deferred tax liability previously recorded (i.e., goodwill had tax basis and was amortized for tax). In the current year, these tax benefit amounts were partially offset by income tax expense related to current year profits from certain foreign operations and foreign withholding taxes. The tax benefit was also partially offset by the tax expense related to the tax impact of the amortization of indefinite lived intangibles, and the inability to recognize tax benefits associated with current year losses of operations in all other foreign jurisdictions and in the U.S. due to the valuation allowance recorded against the deferred tax asset balances of these entities.

During the second quarter of 2012, the Company established a full valuation allowance to reduce the deferred tax assets of the Korea subsidiary resulting in a non-cash charge of $0.4 million. During the third quarter of 2012, the Company established a full valuation allowance to reduce the deferred tax assets of its operations in Brazil, Japan, and the U.S., resulting in a non-cash charge of $0.4 million, $2.1 million, and $23.1 million, respectively. Additionally, no tax benefits were provided on 2012 losses incurred in foreign jurisdictions where the Company has determined a valuation allowance is required. As of December 31, 2012, a full valuation allowance was provided for domestic and certain foreign deferred tax assets in those jurisdictions where the Company has determined the deferred tax assets will more likely than not be realized.

If future events change the outcome of the Company's projected return to profitability, a valuation allowance may not be required to reduce the deferred tax assets. The Company will continue to assess the need for a valuation allowance.

As of December 31, 2014, the Company had federal, state and foreign tax NOL carryforward amounts and expiration periods as follows (in thousands):

Year of Expiration	U.S. Federal	State	Brazil	France	Japan	Korea	Other Foreign	Total
2015-2019	$ —	$ 481	$ —	$ —	$ —	$ —	$ —	$ 481
2020-2024	—	803	—	—	10,932	5,978	740	18,453
2025-2029	—	3,623	—	—	—	4,042	92	7,757
2030-2034	21,700	16,066	—	—	—	—	865	38,631
2035-2039	17,892	14,582	—	—	—	—	39	32,513
Indefinite	—	—	6,244	9,943	—	—	—	16,187
Totals	$ 39,592	$ 35,555	$ 6,244	$ 9,943	$ 10,932	$ 10,020	$ 1,736	$ 114,022

As of December 31, 2014, our federal tax credit carryforward amounts and expiration periods were as follows (in thousands):

ROSETTA STONE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. INCOME TAXES (Continued)

Year of Tax Credit Expiration	Federal
2015-2019	$ —
2020-2024	651
2025-2029	457
2030-2034	570
2035-2039	—
Indefinite	—
Totals	$ 1,678

The components of income (loss) before income taxes and the provision for taxes on income consists of the following (in thousands):

	Year Ended December 31,		
	2014	2013	2012
United States	$ (60,434)	$ (14,360)	$ (933)
Foreign	(19,761)	(3,658)	(4,143)
Loss before income taxes	$ (80,195)	$ (18,018)	$ (5,076)
Current:			
Federal	$ 29	$ 155	$ 288
State	23	123	333
Foreign	1,258	1,709	2,150
Total current	$ 1,310	$ 1,987	$ 2,771
Deferred:			
Federal	$ (5,425)	$ (3,972)	$ 20,075
State	(797)	(112)	3,278
Foreign	(1,577)	213	2,785
Total deferred	(7,799)	(3,871)	26,138
Provision (benefit) for income taxes	$ (6,489)	$ (1,884)	$ 28,909

Reconciliation of income tax provision (benefit) computed at the U.S. federal statutory rate to income tax expense (benefit) is as follows (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Income tax benefit at statutory federal rate	$ (28,068)	$ (6,306)	$ (2,024)
State income tax expense, net of federal income tax effect	(782)	7	216
Domestic production activities deduction	—	—	(81)
Acquired intangibles	—	(859)	—
Other nondeductible expenses	482	1,105	504
Tax rate differential on foreign operations	276	(264)	(346)
Increase in valuation allowance	21,772	4,263	28,679
Tax audit settlements	—	—	281
Change in prior year estimates	(69)	(17)	1,608
Other tax credits	(102)	—	—
Other	2	187	72
Income tax expense (benefit)	$ (6,489)	$ (1,884)	$ 28,909

ROSETTA STONE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. INCOME TAXES (Continued)

The Company accounts for uncertainty in income taxes under ASC topic 740-10-25, *Income Taxes: Overall: Recognition,* ("ASC 740-10-25"). ASC 740-10-25 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740-10-25 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense (benefit). As of December 31, 2014 and 2013, the Company had $26,000 and $16,000 accrued for interest and penalties, respectively, in "Other Long Term Liabilities". During the year ended December 31, 2014, the Company accrued $10,000 of interest expense. During the year ended December 31, 2013, the Company accrued $7,000 of interest expense.

A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding interest and penalties, is as follows (in thousands):

	Year Ended December 31,	
	2014	2013
Balance at January 1,	$ 143	$ 143
Increases for tax positions taken during prior years	322	—
Reductions for tax positions taken during prior years	(2)	—
Lapse of statute of limitations	(17)	—
Balance at December 31,	$ 446	$ 143

During the years ended December 31, 2014, the Company recorded a net increase of $0.3 million of additional unrecognized tax benefits related to tax credits claimed in a prior period. The impact to tax expense was immaterial because the credits were primarily offset by a full valuation allowance. In 2013, the Company did not recognize additional unrecognized tax benefits. These liabilities for unrecognized tax benefits are netted against "Income Tax Receivable." As of December 31, 2014 and 2013, the Company had $0.4 million and $0.1 million of unrecognized tax benefits, respectively, which if recognized, $51,000 would affect income tax expense. The Company does not expect that the amounts of unrecognized tax benefits will change significantly within the next twelve months. It is reasonably possible during the next twelve months that the Company's uncertain tax position may be settled, which could result in a decrease in the gross amount of unrecognized tax benefits.

The Company is subject to taxation in the U.S. and various states and foreign jurisdictions. The Company's tax years 2009 and forward are subject to examination by the tax authorities. As of December 31, 2014, the Company is under audit in the U.S. for the income tax years 2009 to 2012. Currently, the Company expects the IRS audit to be completed in 2015 and will provide additional information at that time. While the ultimate results cannot be predicted with certainty, the Company believes that the resulting adjustments, if any, will not have a material adverse effect on its consolidated financial condition or results of operations.

The Company had an accumulated consolidated deficit related to its foreign subsidiaries of $29.4 million at December 31, 2014 and aggregate 2014 losses before income tax related to its foreign subsidiaries of approximately $19.8 million. The Company has certain foreign subsidiaries with aggregate undistributed earnings of $12.4 million at December 31, 2014. The foreign subsidiaries with aggregate undistributed earnings are considered indefinitely reinvested as of December 31, 2014. As a result of the multitude of scenarios in which the earnings could be repatriated, if desired, and the complexity of associated calculations, it is not practicable to estimate the amount of additional tax that might be payable on the undistributed foreign earnings.

The Company made income tax payments of $1.7 million, $3.3 million, and $4.0 million in 2014, 2013 and 2012, respectively.

16. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases copiers, parking spaces, buildings, a warehouse and office space under operating lease and site license arrangements, some of which contain renewal options. Building, warehouse and office space leases range from 12 months to 74 months. Certain leases also include lease renewal options.

16. COMMITMENTS AND CONTINGENCIES (Continued)

The following table summarizes future minimum operating lease payments as of December 31, 2014 and the years thereafter (in thousands):

	As of December 31, 2014
Periods Ending December 31,	
2015	$ 4,836
2016	3,977
2017	3,412
2018	2,817
2019	214
Thereafter	35
	$ 15,291

Total expenses under operating leases were $5.6 million, $7.1 million and $9.5 million during the years ended December 31, 2014, 2013 and 2012 respectively.

The Company accounts for its leases under the provisions of ASC topic 840, *Accounting for Leases* ("ASC 840"), and subsequent amendments, which require that leases be evaluated and classified as operating leases or capital leases for financial reporting purposes. Certain operating leases contain rent escalation clauses, which are recorded on a straight-line basis over the initial term of the lease with the difference between the rent paid and the straight-line rent recorded as either a deferred rent asset or liability depending on the calculation. Lease incentives received from landlords are recorded as deferred rent liabilities and are amortized on a straight-line basis over the lease term as a reduction to rent expense.

Royalty Agreements

The Company has entered into agreements to license software from vendors for incorporation in the Company's products. Pursuant to some of these agreements, the Company is required to pay minimum royalties or license fees over the term of the agreement regardless of actual license sales. In addition, such agreements typically specify that, in the event the software is incorporated into specified Company products, royalties will be due at a contractual rate based on actual sales volumes. These agreements are subject to various royalty rates typically calculated based on the level of sales for those products. The Company expenses these amounts to cost of sales or research and development expense, as appropriate. Royalty expense was $31,000, $0, and $0 for the years ended December 31 2014, 2013 and 2012, respectively.

Employment Agreements

The Company has agreements with certain of its executives and key employees which provide guaranteed severance payments upon termination of their employment without cause.

Litigation

In June 2011, Rosetta Stone GmbH, a subsidiary of the Company, was served with a writ filed by Langenscheidt KG (“Langenscheidt”) in the District Court of Cologne, Germany alleging trademark infringement due to Rosetta Stone GmbH’s use of the color yellow on its packaging of its language-learning software and the advertising thereof in Germany. Langenscheidt sought relief in the form of monetary damages and injunctive relief; however there has not been a demand for a specific amount of monetary damages and there has been no specific damage amount awarded to Langenscheidt. In January 2012, the District Court of Cologne ordered an injunction against specific uses of the color yellow made by Rosetta Stone GmbH in packaging, on its website and in television commercials and declared Rosetta Stone GmbH liable for damages, attorneys’ fees and costs to Langenscheidt. In its decision, the District Court of Cologne also ordered the destruction of Rosetta Stone GmbH’s product and packaging which utilized the color yellow and which was deemed to have infringed Langenscheidt’s trademark. The Court of Appeals in Cologne and the German Federal Supreme Court have affirmed the District Court's decision. The Company has filed special complaints with the German Federal Supreme Court and the German Constitutional Court directed to constitutional issues in the German Federal Supreme Court’s decision.

In August 2011, Rosetta Stone GmbH commenced a separate proceeding for the cancellation of Langenscheidt’s German trademark registration of yellow as an abstract color mark. In June 2012, the German Patent and Trademark Office rendered a decision in the cancellation proceeding denying our request to cancel Langenscheidt’s German trademark registration. The

ROSETTA STONE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. COMMITMENTS AND CONTINGENCIES (Continued)

German Federal Supreme Court has denied Rosetta Stone GmbH's further appeal but has not yet issued its written decision denying further appeal.

Rosetta Stone GmbH expects that damages will be awarded to Langenscheidt based on the finding of trademark infringement. However, at this point, the Company cannot predict the amount of damages which Langenscheidt will be awarded nor when any damages will be required to be paid. The Company has concluded that Rosetta Stone GmbH will be required to pay court costs and opposing counsel fees and Langenscheidt has filed a Motion for Attorneys' Fees to which Rosetta Stone GmbH has objected. The Company has recorded a liability of $0.3 million as of December 31, 2014 related to the court costs and opposing counsel fees. The Company will continue to incur legal fees and other costs in connection with the resolution of this case.

From time to time, the Company has been subject to various claims and legal actions in the ordinary course of its business. The Company is not currently involved in any legal proceeding the ultimate outcome of which, in its judgment based on information currently available, would have a material impact on its business, financial condition or results of operations.

17. SEGMENT INFORMATION

The Company is managed in three operating segments—North America Consumer, ROW Consumer and Global Enterprise & Education. These segments also represent the Company's reportable segments. Segment contribution includes segment revenue and expenses incurred directly by the segment, including material costs, service costs, customer care and coaching costs, sales and marketing expenses. The Company does not allocate expenses beneficial to all segments, which include certain general and administrative expenses, facilities and communication expenses, purchasing expenses and manufacturing support and logistic expenses. These expenses are included in the unallocated expenses section of the table presented below. Revenue from transactions between the Company's operating segments is not material.

With the exception of goodwill, the Company does not identify or allocate its assets by operating segment. Consequently, the Company does not present assets or liabilities by operating segment.

In connection with the reorganization and realignment of the Company's business focus (as discussed in Note 21), management is evaluating the way in which it will manage the business on a prospective basis. Accordingly, the Company's operating segments, reportable segments and reporting units may change in the future.

ROSETTA STONE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. SEGMENT INFORMATION (Continued)

Operating results by segment for the years ended December 31, 2014, 2013, and 2012 were as follows (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Revenue:			
North America consumer	$ 153,003	$ 174,016	$ 172,826
Rest of world consumer	24,150	30,420	40,248
Global Enterprise & Education	84,700	60,209	60,167
Total revenue	$ 261,853	$ 264,645	$ 273,241
Segment contribution:			
North America consumer	$ 33,770	$ 72,511	$ 70,767
Rest of world consumer	1,104	(1,627)	(3,536)
Global Enterprise & Education	16,104	20,965	26,621
Total segment contribution	50,978	91,849	93,852
Unallocated expenses, net:			
Unallocated cost of sales	8,947	4,586	6,104
Unallocated sales and marketing	8,984	16,447	16,633
Unallocated research and development	33,176	33,993	23,455
Unallocated general and administrative	54,576	54,423	52,926
Unallocated non-operating expense/(income)	1,345	(424)	(190)
Unallocated impairment	20,333	—	—
Unallocated lease abandonment	3,812	842	—
Total unallocated expenses, net	131,173	109,867	98,928
Income (loss) before income taxes	**$ (80,195)**	**$ (18,018)**	**$ (5,076)**

Geographic Information

Revenue by major geographic region is based primarily upon the geographic location of the customers who purchase the Company's products. The geographic locations of distributors and resellers who purchase and resell the Company's products may be different from the geographic locations of end customers.

The information below summarizes revenue from customers by geographic area as of December 31, 2014, 2013 and 2012, respectively (in thousands):

	Years Ended December 31,		
	2014	2013	2012
United States	$ 212,070	$ 223,404	$ 223,747
International	49,783	41,241	49,494
Total Revenue	$ 261,853	$ 264,645	$ 273,241

The information below summarizes long-lived assets by geographic area for the years ended December 31, 2014, 2013 and 2012, respectively (in thousands):

	As of December 31,		
	2014	2013	2012
United States	$ 20,451	$ 17,205	$ 15,986
International	4,826	561	1,227
Total	$ 25,277	$ 17,766	$ 17,213

17. SEGMENT INFORMATION (Continued)

Revenue by Product and Service

The Company earns revenue from the sale of language-learning, literacy and brain fitness products and services. The information below summarizes revenue by type for the years ended December 31, 2014, 2013 and 2012, respectively (in thousands):

	As of December 31,		
	2014	2013	2012
Language learning	$ 249,340	$ 263,426	$ 273,241
Literacy	9,912	1,219	—
Brain Fitness	2,601	—	—
Total	$ 261,853	$ 264,645	$ 273,241

18. RELATED PARTIES

As of December 31, 2014 and 2013, the Company had outstanding receivables from stockholders of $0, and outstanding receivables from employees in the amount of $67,000 and $55,000, respectively.

19. VALUATION AND QUALIFYING ACCOUNTS

The following table includes the Company's valuation and qualifying accounts for the respective periods (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Allowance for doubtful accounts:			
Beginning balance	$ 1,000	$ 1,297	$ 1,951
Charged to costs and expenses	2,405	1,420	1,820
Deductions—accounts written off	(1,971)	(1,717)	(2,474)
Ending balance	$ 1,434	$ 1,000	$ 1,297
Inventory obsolescence and excess reserves:			
Beginning balance	$ 1,477	$ 1,884	$ 1,248
Charged to cost of goods sold	798	564	1,131
Deductions - reserves utilized	(856)	(971)	(495)
Ending balance	$ 1,419	$ 1,477	$ 1,884
Promotional rebate and coop advertising reserves:			
Beginning balance	$ 13,025	$ 9,127	$ 8,751
Charged to costs and expenses	39,249	22,881	17,048
Deductions - reserves utilized	(28,837)	(18,983)	(16,672)
Ending balance	$ 23,437	$ 13,025	$ 9,127
Sales return reserve:			
Beginning balance	$ 4,834	$ 5,883	$ 9,931
Charged against revenue	12,011	14,258	11,148
Deductions—reserves utilized	(13,275)	(15,307)	(15,196)
Ending balance	$ 3,570	$ 4,834	5,883
Deferred income tax asset valuation allowance:			
Beginning balance	$ 33,866	29,671	—
Charged to costs and expenses	19,943	9,566	29,671
Deductions	—	(5,371)	—
Ending balance	$ 53,809	$ 33,866	$ 29,671

ROSETTA STONE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. SUPPLEMENTAL QUARTERLY FINANCIAL INFORMATION (Unaudited)

Summarized quarterly supplemental consolidated financial information for 2014 and 2013 are as follows (in thousands, except per share amounts):

	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
2014				
Revenue	$ 60,765	$ 57,315	$ 64,515	$ 79,258
Gross profit	$ 48,594	$ 45,355	$ 51,528	$ 63,322
Net loss	$ (20,241)	$ (15,750)	$ (16,178)	$ (21,537)
Basic loss per share	$ (0.96)	$ (0.74)	$ (0.76)	$ (1.01)
Shares used in basic per share computation	21,125	21,252	21,305	21,327
Diluted loss per share	$ (0.96)	$ (0.74)	$ (0.76)	$ (1.01)
Shares used in diluted per share computation	21,125	21,252	21,305	21,327
2013				
Revenue	$ 63,924	$ 62,139	$ 60,872	$ 77,710
Gross profit	$ 53,660	$ 51,915	$ 50,128	$ 63,228
Net income (loss)	$ (4,904)	$ (3,213)	$ (4,169)	$ (3,848)
Basic loss per share	$ (0.23)	$ (0.15)	$ (0.19)	$ 0.18
Shares used in basic per share computation	21,360	21,569	21,827	21,353
Diluted loss per share	$ (0.23)	$ (0.15)	$ (0.19)	$ (0.18)
Shares used in diluted per share computation	21,360	21,569	21,827	21,353

21. SUBSEQUENT EVENTS

On March 11, 2015, the Company announced that it will be implementing a reorganization and realignment to pursue the most attractive opportunities for shareholder value. To accomplish this, the Company is accelerating its plan to prioritize the Global Enterprise & Education segment. Specifically, the Company will focus on addressing the needs of educators and corporations, where the most profitable growth potential is anticipated. Simultaneously, the Company is implementing a program to reduce costs as part of an alignment of resources around its Global Enterprise & Education segment, including reducing global non-Enterprise & Education headcount by approximately 15%. This program is expected to result in annual expense reductions of approximately $50 million with optimization targeted in Consumer sales and marketing, Consumer product investment, and general and administrative costs. These cost savings will be reinvested into growing the Global Enterprise & Education segment and are expected to largely offset declines in the Consumer segment. These actions are expected to result in an estimated $7 million charge in the first quarter of 2015, largely reflecting cash separation payments.

EXHIBIT INDEX

	Index to exhibits
3.1 (1)	Second Amended and Restated Certificate of Incorporation.
3.2 (1)	Second Amended and Restated Bylaws.
4.1 (1)	Specimen certificate evidencing shares of common stock.
4.2 (1)	Registration Rights Agreement dated as of January 4, 2006 among Rosetta Stone Inc. and the Investor Shareholders and other Shareholders listed on Exhibit A thereto.
10.1 +(1)	2006 Incentive Option Plan.
10.2 +(2)	2009 Omnibus Incentive Plan, as amended and restated effective February 13, 2014.
10.3 +(1)	Director Form of Option Award Agreement under the 2006 Plan.
10.4 +(1)	Executive Form of Option Award Agreement under the 2006 Plan.
10.5 +	Executive Form of Option Award Agreement under the 2009 Plan.
10.6 +	Director Form of Option Award Agreement under the 2009 Plan.
10.7 (1)	Form of Indemnification Agreement entered into with each director and executive officer.
10.8 (1)	Lease Agreement dated as of February 20, 2006, by and between Premier Flex Condos, LLC and Fairfield Language Technologies, Inc., as amended.
10.9 (1)	Sublease Agreement dated as of October 6, 2008, by and between The Corporate Executive Board Company and Rosetta Stone Ltd.
10.10 (1)	Software License Agreement by and between The Regents of the University of Colorado and Fairfield & Sons Ltd. dated as of December 22, 2006.***
10.11 +(1)	Form of Restricted Stock Award Agreement under the 2009 Plan.
10.12 +	Director Form of Restricted Stock Unit Award Agreement under the 2009 Plan.
10.13 +(3)	Executive Employment Agreement between Rosetta Stone Ltd. and Stephen Swad effective as of November 9, 2010.
10.14 +(4)	Executive Employment Agreement between Rosetta Stone Ltd. and Judy Verses effective as of October 5, 2011.
10.15 +(4)	Amendment to Executive Employment Agreement between Rosetta Stone Ltd. and Stephen Swad effective as of December 22, 2011.
10.16 +(4)	Second Amendment to Executive Employment Agreement between Rosetta Stone Ltd. and Stephen Swad effective as of February 22, 2012.
10.17 +(4)	Amended Executive Form of Option Award Agreement under 2009 Plan effective for awards after October 1, 2011.
10.18 +(4)	Amended Executive Form of Restricted Stock Award Agreement under 2009 Plan effective for awards after October 1, 2011.
10.19 +(5)	Executive Employment Agreement between Rosetta Stone Ltd. and Thomas Pierno effective as of May 2, 2012.
10.20 (6)	First Amendment to Sublease Agreement with The Corporate Executive Board, dated as of November 1, 2012.
10.21 (7)	Agreement and Plan of Merger among Rosetta Stone Ltd., Liberty Merger Sub Inc., LiveMocha, Inc., and Shareholder Representative Services LLC., dated April 1, 2013.
10.22 (8)	Loan and Security Agreement between Rosetta Stone Ltd. and Silicon Valley Bank, executed on October 28, 2014.
10.23 +	2014 Executive Bonus Plan.
10.24 +	2013 Rosetta Stone Inc. Long Term Incentive Program (pursuant to the Rosetta Stone Inc. 2009 Omnibus Incentive Plan).
10.25 +	Form of Award Agreement under the 2013 Long Term Incentive Program.
10.26 +	Policy on Recoupment of Performance Based Compensation (Clawback Policy).
10.27	Sub-Sublease Agreement dated as of April 3, 2014, by and between Rosetta Stone Ltd. and The Corporate Executive Board Company.

	Index to exhibits
10.28 +	Executive Employment Agreement between Rosetta Stone Ltd. and Christian Na effective as of June 2, 2014.
10.29 +	Agreement and General Release between Rosetta Stone Ltd. and Christian Na effective as of December 2, 2014.
10.30 +	Executive Employment Agreement between Rosetta Stone Ltd. and Eric Ludwig effective as of January 1, 2015.
10.31 +	Director Agreement between Rosetta Stone Inc. and Arthur John Hass effective as of November 18, 2014.
10.32 (9)	Nomination and Support Agreement between John H. Lewis, Osmium Partners, LLC, Osmium Capital, LP, Osmium Capital II, LP, Osmium Spartan, LP, Osmium Diamond, LP, Osmium Special Opportunity Fund, LP, and Rosetta Stone Inc. effective as of November 18, 2014.
21.1	Rosetta Stone Inc. Subsidiaries.
23.1	Consent of Deloitte & Touche LLP, independent registered public accounting firm.
24.1	Power of Attorney.
31.1	Certifications of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certifications of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certifications of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive Data Files.

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*** Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

+ Identifies management contracts and compensatory plans or arrangements.

(1) Incorporated by reference to exhibit filed with Rosetta Stone's registration statement on Form S-1, as amended (File No. 333-153632), as amended.

(2) Incorporated by reference to Exhibit 99.1 filed with Rosetta Stone's registration statement on Form S-8 filed on December 17, 2014 (File No. 333-201025).

(3) Incorporated by reference to Exhibit 10.1 filed with Rosetta Stone's Current Report on Form 8-K filed on October 13, 2010.

(4) Incorporated by reference to exhibit filed with Rosetta Stone's Form 10-K for the fiscal year ended December 31, 2011.

(5) Incorporated by reference to Exhibit 10.1 filed with Rosetta Stone's Current Report on Form 8-K filed on May 1, 2012.

(6) Incorporated by reference to Exhibit 10.23 filed with Rosetta Stone's Form 10-K for the fiscal year ended December 31, 2012.

(7) Incorporated by reference to Exhibit 2.1 filed with Rosetta Stone's Current Report on Form 8-K filed on April 2, 2013.

(8) Incorporated by reference to Exhibit 99.3 filed with Rosetta Stone's Current Report on Form 8-K filed on October 29, 2014.

(9) Incorporated by reference to Exhibit 10.1 filed with Rosetta Stone's Current Report on Form 8-K filed on November 19, 2014.

Exhibit 10.5

Option No.:

ROSETTA STONE INC.
2009 OMNIBUS INCENTIVE PLAN
NONQUALIFIED STOCK OPTION AWARD AGREEMENT

Rosetta Stone Inc., a Delaware corporation (the "Company"), hereby grants an option to purchase shares of its Class B Common Stock, $.00005 par value, (the "Stock") to the optionee named below. The terms and conditions of the Option are set forth in the Nonqualified Stock Option Award Agreement and in the Rosetta Stone Inc. 2009 Omnibus Incentive Plan (the "*Plan*").

Grant Date:

Name of Optionee:

Optionee's Employee Identification Number:

Number of Shares Covered by Option:

Option Price per Share:

Vesting Start Date:

Recipient understands and agrees that this Non-Qualified Stock Option Award is granted subject to and in accordance with the terms of the Rosetta Stone, Inc. ___________ (the "Plan"). Recipient further agrees to be bound by the terms of the Plan and the terms of the Non-Qualified Stock Option Award as set forth in the Non-Qualified Stock Option Agreement and any Addenda to such Non-Qualified Stock Option Agreement. A copy of the Plan is available upon request made to the Human Resources Department.

Nothing in this Notice or in the Non-Qualified Stock Option Agreement or in the Plan shall confer upon Recipient any right to continue in service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Corporation (or any Parent or Subsidiary employing or retaining Recipient) or of Recipient, which rights are hereby expressly reserved by each, to terminate Recipient's Service at any time for any reason, with or without cause.

Definitions. All capitalized terms in this Notice shall have the meaning assigned to them in this Notice or in the Non-Qualified Stock Option Agreement.

ROSETTA STONE INC.

____

President and CEO

ROSETTA STONE INC.
2009 OMNIBUS INCENTIVE PLAN

NONQUALIFIED STOCK OPTION AWARD AGREEMENT

This **NONQUALIFIED STOCK OPTION AWARD AGREEMENT** (this "*Agreement*") and the Cover Sheet to which this Agreement is attached (the "*Cover Sheet*") are entered into between Rosetta Stone Inc., a Delaware corporation (the "*Company*"), and Optionee (as that term is defined in the Covered Sheet). The Board of Directors of the Company has adopted, and the stockholders of the Company have approved, the Rosetta Stone Inc. 2009 Omnibus Incentive Plan (the "*Plan*"), the terms of which are incorporated by reference herein in their entirety. Any term used in this Agreement that is not specifically defined herein shall have the meaning specified in the Plan.

IT IS AGREED:

1. ***Grant of Option***. Subject to the terms of the Plan, this Agreement and the Cover Sheet, on the Grant Date set forth on the Cover Sheet (the "*Grant Date*"), the Company granted to Optionee an option (the "*Option*") to purchase that number of shares of the Company's common stock, $.00005 par value (the "*Stock*"), at the Option Price per Share of Stock set forth on the Cover Sheet (the "*Option Price*"), subject to adjustment as provided in the Plan.

2. ***Type of Option***. The Option is a nonqualified stock option which is not intended to be governed by section 422 of the Code and will be interpreted accordingly.

3. ***Optionee's Agreement***. In accepting the Option, Optionee accepts and agrees to be bound by all the terms and conditions of the Plan which pertain to nonqualified stock options granted under the Plan.

4. ***Vesting of Option***. Subject to the provisions of the Plan and the provision of this Agreement (including the requirement in Section 6 that Optionee continue to be employed by the Company or a Subsidiary Corporation on the dates set forth below), the Option will vest and become exercisable in accordance with the following terms:

(a) on the first anniversary of the Vesting Start Date (as set forth on the Cover Sheet), and on each succeeding anniversary date of the Vesting Start Date, the Option will vest with respect to, and may be exercised for up to, one-fourth (1/4th) of the total number of shares of the Stock subject to the Option as set forth on the Cover Sheet (the "*Option Shares*"), rounded to the nearest whole number of shares, except that on the fourth anniversary of the Vesting Start Date the Option shall vest with respect to the remaining number of Option Shares for which the Option has not previously vested;

(b) upon the occurrence of a Change in Control, any portion of the Option Shares that have not previously vested will vest and the Option shall be exercisable in full upon the occurrence of such Change in Control; and

(c) to the extent not exercised, installments of vested Option Shares shall be cumulative and may be exercised in whole or in part.

5. ***Manner of Exercise***.

(a) To the extent that the Option is vested and exercisable in accordance with Section 4 of this Agreement, the Option may be exercised by Optionee at any time, or from time to time, in whole or in part, on or prior to the termination of the Option (as set forth in Section 6 of this Agreement) upon payment

of the Option Price for the Option Shares to be acquired in accordance with the terms and conditions of this Agreement and the Plan.

(b) If Optionee is entitled to exercise the vested and exercisable portion of the Option, and wishes to do so, in whole or part, Optionee shall (i) deliver to the Company a fully completed and executed notice of exercise, in such form as may be designated by the Company in its sole discretion, specifying the exercise date and the number of Option Shares to be purchased pursuant to such exercise and (ii) remit to the Company in a form satisfactory to the Company, in its sole discretion, the Option Price for the Option Shares to be acquired on exercise of the Option, plus an amount sufficient to satisfy any withholding tax obligations of the Company that arise in connection with such exercise (as determined by the Company) in accordance with the provisions of the Plan.

(c) The Company's obligation to deliver shares of the Stock to Optionee under this Agreement is subject to and conditioned upon Optionee satisfying all tax obligations associated with Optionee's receipt, holding and exercise of the Option. Unless otherwise approved by the Committee, all such tax obligations shall be payable in accordance with the provisions of the Plan.

(d) The Company and its Affiliates and subsidiaries, as applicable, shall be entitled to deduct from any compensation otherwise due to Optionee the amount necessary to satisfy all such taxes.

(e) Upon full payment of the Option Price and satisfaction of all applicable tax obligations, and subject to the applicable terms and conditions of the Plan and the terms and conditions of this Agreement, the Company shall cause certificates for the shares purchased hereunder to be delivered to Optionee or cause an uncertificated book-entry representing such shares to be made.

6. ***Termination of Option***. Unless the Option terminates earlier as provided in this Section 6 the Option shall terminate and become null and void at the close of business at the Company's principal business office on the day before the date of the tenth anniversary of the Grant Date (the "*Option General Expiration Date*"). If Optionee ceases to be an employee of the Company or any Subsidiary Corporation for any reason the Option shall not continue to vest after such cessation of service as an employee of the Company or Subsidiary Corporation.

(a) If Optionee ceases to be an employee of the Company or any Subsidiary Corporation due to death or Disability, (i) the portion of the Option that was exercisable on the date of such cessation shall remain exercisable for, and shall otherwise terminate and become null and void at the close of business at the Company's principal business office on the day that is six (6) months after the date of such death or Disability, but in no event after the Option General Expiration Date; and (ii) the portion of the Option that was not exercisable on the date of such cessation shall be forfeited and become null and void immediately upon such cessation.

(b) If Optionee ceases to be an employee of the Company or a Subsidiary Corporation due to Cause, all of the Option shall be forfeited and become null and void immediately upon such cessation, whether or not then exercisable. For purposes of this Section 6(b) the term "*Cause*" means the occurrence of one of the following events: (i) commission of a felony or a crime involving moral turpitude or the commission of any other act or omission involving dishonesty in the performance of his duties to the Company, an Affiliate or Subsidiary Corporation or fraud; (ii) substantial and repeated failure to perform duties of the office held by Optionee as reasonably directed by the Company; (iii) gross negligence or willful misconduct with respect to the Company or any Subsidiary Corporations; (iv) material breach of any employment agreement between Optionee and the Company that is not cured within ten (10) days after receipt of written

notice thereof from the Company; (v) failure, within ten (10) days after receipt by Optionee of written notice thereof from the Company, to correct, cease or otherwise alter any failure to comply with instructions or other action or omission which the Board reasonably believes does or may materially or adversely affect its business or operations; (vi) misconduct which is of such a serious or substantial nature that a reasonable likelihood exists that such misconduct will materially injure the reputation of the Company or its Subsidiary Corporations if Optionee was to remain employed by the Company; (vii) harassing or discriminating against the Company's employees, customers or vendors in violation of the Company's policies with respect to such matters; and/or (viii) misappropriation of funds or assets of the Company for personal use or willful violation of Company policies or standards of business conduct as determined in good faith by the Board.

(c) If Optionee ceases to be an employee of the Company or a Subsidiary Corporation for any reason other than death, Disability, or Cause, (i) the portion of the Option that was exercisable on the date of such cessation shall remain exercisable for, and shall otherwise terminate and become null and void at the close of business at the Company's principal business office on the day that is 30-days after the date of such cessation, but in no event after the Option General Expiration Date, and (ii) the portion of the Option that was not exercisable on the date of such cessation shall be forfeited and become null and void immediately upon such cessation.

(d) Upon the death of Optionee prior to the expiration of the Option, Optionee's executors, administrators or any person or persons to whom the Option may be transferred by will or by the laws of descent and distribution, shall have the right, at any time prior to the termination of the Option to exercise the Option with respect to the number of shares that Optionee would have been entitled to exercise if he were still alive.

7. ***Tax Withholding.*** To the extent that the receipt of the Option, this Agreement or the Cover Sheet, the vesting of the Option or the exercise of the Option results in income to Optionee for federal, state, local or foreign income, employment or other tax purposes with respect to which the Company or its subsidiaries or any Affiliate has a withholding obligation, Optionee shall deliver to the Company at the time of such receipt, vesting or exercise, as the case may be, such amount of money as the Company or its subsidiaries or any Affiliate may require to meet its obligation under applicable tax laws or regulations, and, if Optionee fails to do so, the Company or its subsidiaries or any Affiliate is authorized to withhold from the shares subject to the Option (based on the Fair Market Value of such shares as of the date the amount of tax to be withheld is determined) or from any cash or stock remuneration then or thereafter payable to Optionee any tax required to be withheld by reason of such taxable income, sufficient to satisfy the withholding obligation.

8. ***Capital Adjustments and Reorganizations***. The existence of the Option shall not affect in any way the right or power of the Company or any company the stock of which is awarded pursuant to this Agreement to make or authorize any adjustment, recapitalization, reorganization or other change in its capital structure or its business, engage in any merger or consolidation, issue any debt or equity securities, dissolve or liquidate, or sell, lease, exchange or otherwise dispose of all or any part of its assets or business, or engage in any other corporate act or proceeding.

9. ***Employment Relationship***. For purposes of this Agreement, Optionee shall be considered to be in the employment of the Company, any Subsidiary Corporation or any Affiliates as long as Optionee has an employment relationship with the Company, any Subsidiary Corporation or any Affiliates. The Committee shall determine any questions as to whether and when there has been a termination of such employment relationship, and the cause of such termination, under the Plan and the Committee's determination shall be final and binding on all persons.

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10. ***Not an Employment Agreement***. This Agreement is not an employment or service agreement, and no provision of this Agreement shall be construed or interpreted to create an employment or other service relationship between Optionee and the Company, its subsidiaries or any of its Affiliates or guarantee the right to remain employed by the Company, its subsidiaries or any of its Affiliates, for any specified term or require the Company, its subsidiaries or any Affiliate to employ Employee for any period of time.

11. ***No Rights As Stockholder***. Optionee shall not have any rights as a stockholder with respect to any Option Shares until the date of the issuance of such shares following Optionee's exercise of the Option pursuant to its terms and conditions and payment of all amounts for and with respect to the shares. No adjustment shall be made for dividends or other rights for which the record date is prior to the date a certificate or certificates are issued for such shares or an uncertificated book-entry representing such shares is made.

12. ***Legend***. Optionee consents to the placing on the certificate for any Option Shares of an appropriate legend restricting resale or other transfer of such shares except in accordance with the Securities Act of 1933 and all applicable rules thereunder.

13. ***Notices***. Any notice, instruction, authorization, request, demand or other communications required hereunder shall be in writing, and shall be delivered either by personal delivery, by telegram, telex, telecopy or similar facsimile means, by certified or registered mail, return receipt requested, or by courier or delivery service, addressed to the Company at the Company's principal business office address to the attention of the Company's General Counsel and to Optionee at Optionee's residential address as it appears on the books and records of the Company, or at such other address and number as a party shall have previously designated by written notice given to the other party in the manner hereinabove set forth. Notices shall be deemed given when received, if sent by facsimile means (confirmation of such receipt by confirmed facsimile transmission being deemed receipt of communications sent by facsimile means); and when delivered (or upon the date of attempted delivery where delivery is refused), if hand-delivered, sent by express courier or delivery service, or sent by certified or registered mail, return receipt requested.

14. ***Amendment and Waiver***. Except as otherwise provided herein or in the Plan or as necessary to implement the provisions of the Plan, this Agreement may be amended, modified or superseded only by written instrument executed by the Company and Optionee. Only a written instrument executed and delivered by the party waiving compliance hereof shall waive any of the terms or conditions of this Agreement. Any waiver granted by the Company shall be effective only if executed and delivered by a duly authorized director or officer of the Company other than Optionee. The failure of any party at any time or times to require performance of any provisions hereof shall in no manner effect the right to enforce the same. No waiver by any party of any term or condition, or the breach of any term or condition contained in this Agreement, in one or more instances, shall be construed as a continuing waiver of any such condition or breach, a waiver of any other condition, or the breach of any other term or condition.

15. ***Dispute Resolution***. In the event of any difference of opinion concerning the meaning or effect of the Plan or this Agreement, such difference shall be resolved by the Committee.

16. ***Governing Law and Severability***. The validity, construction and performance of this Agreement shall be governed by the laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction. The invalidity of any provision of this Agreement shall not affect any other provision of this Agreement, which shall remain in full force and effect.

17. ***Transfer Restrictions***. The Option Shares may not be sold or otherwise disposed of in any manner that would constitute a violation of any applicable federal or state securities laws. Optionee also agrees (a) that the Company may refuse to cause the transfer of Option Shares to be registered on the applicable stock transfer records if such proposed transfer would in the opinion of counsel satisfactory to the Company constitute a violation of any applicable securities law and (b) that the Company may give related instructions to the transfer agent, if any, to stop registration of the transfer of the Option Shares.

18. ***Successors and Assigns***. This Agreement shall, except as herein stated to the contrary, inure to the benefit of and bind the legal representatives, successors and assigns of the parties hereto.

19. ***Counterparts***. This Agreement may be executed in one or more counterparts, each of which shall be an original for all purposes but all of which taken together shall constitute but one and the same instrument.

20. ***Option Transfer Prohibitions***. The Option granted to Optionee under this Agreement shall not be transferable or assignable by Optionee other than by will or the laws of descent and distribution, and shall be exercisable during Optionee's lifetime only by him.

21. ***Definitions***. The words and phrases defined in this Section 21 shall have the respective meanings set forth below throughout this Agreement, unless the context in which any such word or phrase appears reasonably requires a broader, narrower or different meaning.

(a) "*Change in Control*" means (i) the liquidation, dissolution or winding-up of the Company, (ii) the sale, license or lease of all or substantially all of the assets of the Company, or (iii) a share exchange, reorganization, recapitalization, or merger or consolidation of the Company with or into any other corporation or corporations (or other form of business entity) or of any other corporation or corporations (or other form of business entity) with or into the Company, but excluding any merger effected exclusively for the purpose of changing the domicile of the Company; provided, however, that a Change in Control shall not include any of the aforementioned transactions listed in clauses (i), (ii) and (iii) involving the Company or a Subsidiary Corporation in which the holders of shares of the Company voting stock outstanding immediately prior to such transaction or any Affiliate of such holders continue to hold at least a majority, by voting power, of the capital stock or, by a majority, based on fair market value as determined in good faith by the Board, of the assets, in each case in substantially the same proportion, of (x) the surviving or resulting corporation (or other form of business entity), (y) if the surviving or resulting corporation (or other form of business entity) is a wholly owned subsidiary of another corporation (or other form of business entity) immediately following such transaction, the parent corporation (or other form of business entity) of such surviving or resulting corporation (or other form of business entity) or (z) a successor entity holding a majority of the assets of the Company. In addition, a Change in Control shall not include a bona fide, firm commitment underwritten public offering of the Stock pursuant to a registration statement declared effective under the Securities Act of 1933, as amended.

Exhibit 10.6

Option No.:

ROSETTA STONE INC.
2009 OMNIBUS INCENTIVE PLAN
NONQUALIFIED STOCK OPTION AWARD AGREEMENT

Rosetta Stone Inc., a Delaware corporation (the "Company"), hereby grants an option to purchase shares of its Class B Common Stock, $.00005 par value, (the "Stock") to the optionee named below. The terms and conditions of the Option are set forth in the Nonqualified Stock Option Award Agreement and in the Rosetta Stone Inc. 2009 Omnibus Incentive Plan (the "*Plan*").

Grant Date:

Name of Optionee:

Optionee's Employee Identification Number:

Number of Shares Covered by Option:

Option Price per Share:

Vesting Start Date:

Recipient understands and agrees that this Non-Qualified Stock Option Award is granted subject to and in accordance with the terms of the Rosetta Stone, Inc. ____________ (the "Plan"). Recipient further agrees to be bound by the terms of the Plan and the terms of the Non-Qualified Stock Option Award as set forth in the Non-Qualified Stock Option Agreement and any Addenda to such Non-Qualified Stock Option Agreement. A copy of the Plan is available upon request made to the Human Resources Department.

Definitions. All capitalized terms in this Notice shall have the meaning assigned to them in this Notice or in the Non-Qualified Stock Option Agreement.

ROSETTA STONE INC.

____
President and CEO

ROSETTA STONE INC.
2009 OMNIBUS INCENTIVE PLAN

NONQUALIFIED STOCK OPTION AWARD AGREEMENT

This **NONQUALIFIED STOCK OPTION AWARD AGREEMENT** (this "*Agreement*") and the Cover Sheet to which this Agreement is attached (the "*Cover Sheet*") are entered into between Rosetta Stone Inc., a Delaware corporation (the "*Company*"), and Optionee (as that term is defined in the Covered Sheet).

The Board of Directors of the Company has adopted, and the stockholders of the Company have approved, the Rosetta Stone Inc. 2009 Omnibus Incentive Plan (the "*Plan*"), the terms of which are incorporated by reference herein in their entirety. Any term used in this Agreement that is not specifically defined herein shall have the meaning specified in the Plan.

IT IS AGREED:

1. ***Grant of Option***. Subject to the terms of the Plan, this Agreement and the Cover Sheet, on the Grant Date set forth on the Cover Sheet (the "*Grant Date*"), the Company granted to Optionee an option (the "*Option*") to purchase that number of shares of the Company's common stock, $.00005 par value (the "*Stock*"), at the Option Price per Share of Stock set forth on the Cover Sheet (the "*Option Price*"), subject to adjustment as provided in the Plan.

2. ***Type of Option***. The Option is a nonqualified stock option which is not intended to be governed by section 422 of the Code and will be interpreted accordingly.

3. ***Optionee's Agreement***. In accepting the Option, Optionee accepts and agrees to be bound by all the terms and conditions of the Plan which pertain to nonqualified stock options granted under the Plan.

4. ***Vesting of Option***. Subject to the provisions of the Plan and the provision of this Agreement (including the requirement in Section 6 that Optionee continue to serve as a member of the Board on the dates set forth below), the Option will be exercisable in accordance with the following schedule:

(a) on the last day of the three-month period beginning on the Vesting Start Date (as set forth on the Cover Sheet), and on the last day of each succeeding three-month period, the Option will vest with respect to, and may be exercised for up to, one-fourth (1/4th) of the total number of shares of Stock subject to the Option as set forth on the Cover Sheet (the "*Option Shares*"), rounded to the nearest whole number of shares, except that on the day before the first anniversary of the Vesting Start Date the Option shall vest with respect to the remaining number of Option Shares for which the Option has not previously vested;

(b) if Optionee has served as a member of the Board for two (2) or more years at the time of the occurrence of a Change in Control, then upon the occurrence of a Change in Control, any portion of the Option Shares that have not previously vested will vest and the Option shall be exercisable in full upon the occurrence of such Change in Control; and

(c) to the extent not exercised, installments shall be cumulative and may be exercised in whole or in part.

5. ***Manner of Exercise***.

(a) To the extent that the Option is vested and exercisable in accordance with Section 4 of this Agreement, the Option may be exercised by Optionee at any time, or from time to time, in whole or in part, on or prior to the termination of the Option (as set forth in Section 6 of this Agreement) upon payment of the Option Price for the Option Shares to be acquired in accordance with the terms and conditions of this Agreement and the Plan.

(b) If Optionee is entitled to exercise the vested and exercisable portion of the Option, and wishes to do so, in whole or part, Optionee shall (i) deliver to the Company a fully completed and executed notice of exercise, in such form as may be designated by the Company in its sole discretion, specifying the exercise date and the number of Option Shares to be purchased pursuant to such exercise and (ii) remit to the Company in a form satisfactory to the Company, in its sole discretion, the Option Price for the Option Shares to be acquired on exercise of the Option.

(c) Upon full payment of the Option Price and subject to the applicable terms and conditions of the Plan and the terms and conditions of this Agreement, the Company shall cause certificates for the shares purchased hereunder to be delivered to Optionee or cause an uncertificated book-entry representing such shares to be made.

6. ***Termination of Option***. Unless the Option terminates earlier as provided in this Section 6 the Option shall terminate and become null and void at the close of business at the Company's principal business office on the day before the date of the tenth anniversary of the Grant Date (the "*Option General Expiration Date*"). If Optionee ceases to serve as a member of the Board for any reason the Option shall not continue to vest after such cessation of service as a member of the Board.

(a) If Optionee ceases to serve as a member of the Board due to death or Disability, (i) the portion of the Option that was exercisable on the date of such cessation shall remain exercisable for, and shall otherwise terminate and become null and void at the close of business at the Company's principal business office on the day that is six (6) months after the date of such death or Disability, but in no event after the Option General Expiration Date; and (ii) the portion of the Option that was not exercisable on the date of such cessation shall be forfeited and become null and void immediately upon such cessation.

(b) If Optionee ceases to serve as a member of the Board due to Cause, all of the Option shall be forfeited and become null and void immediately upon such cessation, whether or not then exercisable. For purposes of this Section 6(b) the term "*Cause*" means the occurrence of one of the following events: (i) commission of a felony or a crime involving moral turpitude or the commission of any other act or omission involving dishonesty in the performance of his duties to the Company, an Affiliate or Subsidiary Corporation or fraud; (ii) substantial and repeated failure to perform duties of a member of the Board or a committee of the Board on which Optionee serves as reasonably directed by the Board; (iii) gross negligence or willful misconduct with respect to the Company; (iv) material breach of any agreement between Optionee and the Company that is not cured within ten (10) days after receipt of written notice thereof from the Company; (v) failure, within ten (10) days after receipt by Optionee of written notice thereof from the Company, to correct, cease or otherwise alter any failure to comply with instructions or other action or omission which the Board reasonably believes does or may materially or adversely affect its business or operations; (vi) misconduct which is of such a serious or substantial nature that a reasonable likelihood exists that such misconduct will materially injure the reputation of the Company or its Subsidiary Corporations if Optionee was to remain a member of the Board; (vii) harassing or discriminating against the Company's employees, customers or vendors in violation of the Company's policies with respect to such matters; and/or (viii) misappropriation of funds or assets of the Company for personal use or willful violation of Company policies or standards of business conduct as determined in good faith by the Board.

(c) If Optionee ceases to serve as a member of the Board for any reason other than death, Disability, or Cause, (i) the portion of the Option that was exercisable on the date of such cessation shall remain exercisable for, and shall otherwise terminate and become null and void at the close of business at the Company's principal business office on the day that is 30-days after the date of such cessation, but in no

event after the Option General Expiration Date, and (ii) the portion of the Option that was not exercisable on the date of such cessation shall be forfeited and become null and void immediately upon such cessation.

(d) Upon the death of Optionee prior to the expiration of the Option, Optionee's executors, administrators or any person or persons to whom the Option may be transferred by will or by the laws of descent and distribution, shall have the right, at any time prior to the termination of the Option to exercise the Option with respect to the number of shares that Optionee would have been entitled to exercise if he were still alive.

7. ***Capital Adjustments and Reorganizations***. The existence of the Option shall not affect in any way the right or power of the Company or any company the stock of which is awarded pursuant to this Agreement to make or authorize any adjustment, recapitalization, reorganization or other change in its capital structure or its business, engage in any merger or consolidation, issue any debt or equity securities, dissolve or liquidate, or sell, lease, exchange or otherwise dispose of all or any part of its assets or business, or engage in any other corporate act or proceeding.

8. ***Not a Service Agreement***. This Agreement is not a service agreement, and no provision of this Agreement shall be construed or interpreted to create a service relationship between Optionee and the Board, the Company, its subsidiaries or any of its Affiliates or guarantee the right to remain a member of the Board for any specified term.

9. ***No Rights As Stockholder***. Optionee shall not have any rights as a stockholder with respect to any Option Shares until the date of the issuance of such shares following Optionee's exercise of the Option pursuant to its terms and conditions and payment of all amounts for and with respect to the shares. No adjustment shall be made for dividends or other rights for which the record date is prior to the date a certificate or certificates are issued for such shares or an uncertificated book-entry representing such shares is made.

10. ***Legend***. Optionee consents to the placing on the certificate for any Option Shares of an appropriate legend restricting resale or other transfer of such shares except in accordance with the Securities Act of 1933 and all applicable rules thereunder.

11. ***Notices***. Any notice, instruction, authorization, request, demand or other communications required hereunder shall be in writing, and shall be delivered either by personal delivery, by telegram, telex, telecopy or similar facsimile means, by certified or registered mail, return receipt requested, or by courier or delivery service, addressed to the Company at the Company's principal business office address to the attention of the Company's General Counsel and to Optionee at Optionee's residential address as it appears on the books and records of the Company, or at such other address and number as a party shall have previously designated by written notice given to the other party in the manner hereinabove set forth. Notices shall be deemed given when received, if sent by facsimile means (confirmation of such receipt by confirmed facsimile transmission being deemed receipt of communications sent by facsimile means); and when delivered (or upon the date of attempted delivery where delivery is refused), if hand-delivered, sent by express courier or delivery service, or sent by certified or registered mail, return receipt requested.

12. ***Amendment and Waiver***. Except as otherwise provided herein or in the Plan or as necessary to implement the provisions of the Plan, this Agreement may be amended, modified or superseded only by written instrument executed by the Company and Optionee. Only a written instrument executed and delivered by the party waiving compliance hereof shall waive any of the terms or conditions of this Agreement. Any waiver granted by the Company shall be effective only if executed and delivered by a duly authorized director or officer of the Company other than Optionee. The failure of any party at any time or times to require

performance of any provisions hereof shall in no manner effect the right to enforce the same. No waiver by any party of any term or condition, or the breach of any term or condition contained in this Agreement, in one or more instances, shall be construed as a continuing waiver of any such condition or breach, a waiver of any other condition, or the breach of any other term or condition.

13. ***Dispute Resolution***. In the event of any difference of opinion concerning the meaning or effect of the Plan or this Agreement, such difference shall be resolved by the Committee.

14. ***Governing Law and Severability***. The validity, construction and performance of this Agreement shall be governed by the laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction. The invalidity of any provision of this Agreement shall not affect any other provision of this Agreement, which shall remain in full force and effect.

15. ***Transfer Restrictions***. The Option Shares may not be sold or otherwise disposed of in any manner that would constitute a violation of any applicable federal or state securities laws. Optionee also agrees (a) that the Company may refuse to cause the transfer of Option Shares to be registered on the applicable stock transfer records if such proposed transfer would in the opinion of counsel satisfactory to the Company constitute a violation of any applicable securities law and (b) that the Company may give related instructions to the transfer agent, if any, to stop registration of the transfer of the Option Shares.

16. ***Successors and Assigns***. This Agreement shall, except as herein stated to the contrary, inure to the benefit of and bind the legal representatives, successors and assigns of the parties hereto.

17. ***Counterparts***. This Agreement may be executed in one or more counterparts, each of which shall be an original for all purposes but all of which taken together shall constitute but one and the same instrument.

18. ***Option Transfer Prohibitions***. The Option granted to Optionee under this Agreement shall not be transferable or assignable by Optionee other than by will or the laws of descent and distribution, and shall be exercisable during Optionee's lifetime only by him except that the Optionee may transfer the Option to and allow the Option to by exercised by ___________________________. No further transfer of the Option shall be allowed without the written consent of the Company.

19. ***Definitions***. The words and phrases defined in this Section 21 shall have the respective meanings set forth below throughout this Agreement, unless the context in which any such word or phrase appears reasonably requires a broader, narrower or different meaning.

(a) "*Change in Control*" means (i) the liquidation, dissolution or winding-up of the Company, (ii) the sale, license or lease of all or substantially all of the assets of the Company, or (iii) a share exchange, reorganization, recapitalization, or merger or consolidation of the Company with or into any other corporation or corporations (or other form of business entity) or of any other corporation or corporations (or other form of business entity) with or into the Company, but excluding any merger effected exclusively for the purpose of changing the domicile of the Company; provided, however, that a Change in Control shall not include any of the aforementioned transactions listed in clauses (i), (ii) and (iii) involving the Company or a Subsidiary Corporation in which the holders of shares of the Company voting stock outstanding immediately prior to such transaction or any Affiliate of such holders continue to hold at least a majority, by voting power, of the capital stock or, by a majority, based on fair market value as determined in good faith by the Board, of the assets, in each case in substantially the same proportion, of (x) the surviving or resulting

corporation (or other form of business entity), (y) if the surviving or resulting corporation (or other form of business entity) is a wholly owned subsidiary of another corporation (or other form of business entity) immediately following such transaction, the parent corporation (or other form of business entity) of such surviving or resulting corporation (or other form of business entity) or (z) a successor entity holding a majority of the assets of the Company. In addition, a Change in Control shall not include a bona fide, firm commitment underwritten public offering of the Stock pursuant to a registration statement declared effective under the Securities Act of 1933, as amended.

Exhibit 10.12

ROSETTA STONE INC.
2009 OMNIBUS INCENTIVE PLAN

RESTRICTED STOCK UNIT AWARD AGREEMENT

Rosetta Stone Inc., a Delaware corporation (the "Company"), hereby grants an option to purchase shares of its Class B Common Stock, $.00005 par value, (the "Stock") to the recipient named below. The terms and conditions of the award are set forth in the Restricted Stock Unit Award Agreement and in the Rosetta Stone Inc. 2009 Omnibus Incentive Plan (the "*Plan*").

Grant Date:

Name of Recipient:

Recipient's Identification Number:

Number of Units of Restricted Stock Granted:

Recipient understands and agrees that this Restricted Stock Unit Award is granted subject to and in accordance with the terms of the Rosetta Stone, Inc. _______________ (the "Plan"). Recipient further agrees to be bound by the terms of the Plan and the terms of the Restricted Stock Unit Award as set forth in this agreement and any Addenda to such Agreement. A copy of the Plan is available upon request made to the Human Resources Department.

Definitions. All capitalized terms in this Notice shall have the meaning assigned to them in this Agreement.

ROSETTA STONE INC.

____
President and CEO

ROSETTA STONE INC.
2009 OMNIBUS INCENTIVE PLAN

RESTRICTED STOCK UNIT AWARD AGREEMENT

This **Restricted Stock Unit Award Agreement** (this "*Agreement*") and the Cover Sheet to which this Agreement is attached (the "*Cover Sheet*") are entered into between Rosetta Stone Inc., a Delaware corporation (the "*Company*"), and Director (as that term is defined in the Covered Sheet), effective as of the Grant Date set forth on the Cover Sheet (the "*Grant Date*"), pursuant to the Rosetta Stone Inc. 2009 Omnibus Incentive Plan (the "*Plan*"), a copy of which previously has been made available to Director and the terms and provisions of which are incorporated by reference herein.

Whereas, the Company desires to grant to Director the Restricted Stock Units, subject to the terms and conditions of this Agreement; and

Whereas, Director desires to have the opportunity to hold the Restricted Stock Units subject to the terms and conditions of this Agreement;

Now, Therefore, in consideration of the premises, mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

1. ***Definitions.*** For purposes of this Agreement, the following terms shall have the meanings indicated:

(a) "*Common Stock*" shall mean the common stock of the Company, $.00005 par value per share (or such other par value as may be designated by act of the Company's shareholders).

(b) "*Restricted Stock Unit*" shall mean a Restricted Stock Unit issued under the Plan that is subject to the Forfeiture Restrictions and the Transfer Restrictions set forth in Section 5.

(c) "*Separation from Service*" has the meaning set forth in the Plan.

(d) "*Forfeiture Restrictions*" shall mean the prohibitions and restrictions set forth herein with respect to the sale or other disposition of the Restricted Stock Units issued to Director hereunder and the obligation to forfeit and surrender such Restricted Stock Units to the Company under the Plan.

Capitalized terms not otherwise defined in this Agreement shall have the meanings given to such terms in the Plan.

2. ***Grant of Restricted Stock Units.*** Effective as of the Grant Date, the Company hereby grants to Director the number of Restricted Stock Units set forth on the Cover Sheet. In accepting the award of Restricted Stock Units granted under this Agreement Director accepts and agrees to be bound by all the terms and conditions of the Plan and this Agreement. On the date of Director's Separation from Service with the Company, the Company shall issue to Director one share of the Common Stock in exchange for each Restricted Stock Unit granted under this Agreement (including any additional Restricted Stock Units described in Section 4) that has not been forfeited under the Plan and thereafter Director shall have no further rights with respect to such Restricted Stock Unit. The Company shall cause to be delivered to Director in electronic book entry form any shares of the Common Stock that are to be issued under the terms of this Agreement in exchange for Restricted Stock Units awarded hereby, and such shares of the Common Stock shall be transferable by Director as provided herein (except to the extent that any proposed transfer would, in the opinion of counsel satisfactory to the Company, constitute a violation of applicable securities law).

3. ***Restricted Stock Units Do Not Award Any Rights Of A Shareholder*** . Director shall not have the voting rights or any of the other rights, powers or privileges of a holder of the Common Stock with respect to the Restricted Stock Units that are awarded hereby. Only after a share of the Common Stock is issued in exchange for a Restricted Stock Unit will Director have all of the rights of a shareholder with respect to such share of Common Stock issued in exchange for a Restricted Stock Unit.

4. ***Dividend Equivalent Payments.***

(a) *Cash Dividends*. If during the period Director holds any Restricted Stock Units granted under this Agreement the Company pays a dividend in cash with respect to the outstanding shares of the Common Stock, then the Company will increase the Restricted Stock Units awarded hereby that have not then been

forfeited to the Company or exchanged by the Company for shares of the Common Stock by an amount equal to

(a) multiplied by (b) divided by (c)

where (a) is the Restricted Stock Units awarded hereby that have not been forfeited to the Company or exchanged by the Company for shares of the Common Stock, (b) the amount of the dividend paid by the Company in cash with respect an outstanding share of the Common Stock and (c) is the Fair Market Value of the Common Stock on the date such dividend is paid to holders of the Common Stock (a "*Cash Dividend Restricted Stock Unit*"). Each Cash Dividend Restricted Stock Unit will be subject to the same restrictions, limitations and conditions applicable to the Restricted Stock Units for which such Cash Dividend Restricted Stock Unit was awarded and will be exchanged for shares of the Common Stock at the same time and on the same basis as such Restricted Stock Units.

(b) *Stock Dividends.* If during the period Director holds any Restricted Stock Units granted under this Agreement the Company pays a dividend in shares of the Common Stock with respect to the outstanding shares of the Common Stock, then the Company will increase the Restricted Stock Units awarded hereby that have not then been forfeited to or exchanged by the Company for shares of the Common Stock by an amount equal to the product of (a) the Restricted Stock Units awarded hereby that have not been forfeited to the Company or exchanged by the Company for shares of the Common Stock and (b) the number of shares of the Common Stock paid by the Company per share of the Common Stock (collectively, the "*Stock Dividend Restricted Stock Units*"). Each Stock Dividend Restricted Stock Unit will be subject to same Forfeiture Restrictions and other restrictions, limitations and conditions applicable to the Restricted Stock Units for which such Stock Dividend Restricted Stock Unit was awarded and will be exchanged for shares of the Common Stock at the same time and on the same basis as such Restricted Stock Units.

5. ***Transfer Restrictions.*** The Restricted Stock Units granted hereby may not be sold, assigned, pledged, exchanged, hypothecated or otherwise transferred, encumbered or disposed of (other than by will or the applicable laws of descent and distribution) except that the Director may transfer the Restricted Stock Units to ______________________. No further transfer of the Restricted Stock Units shall be allowed without the written consent of the Company. Any such attempted sale, assignment, pledge, exchange, hypothecation, transfer, encumbrance or disposition in violation of this Agreement shall be void and the Company shall not be bound thereby. Further, any shares of the Common Stock issued to Director in exchange for Restricted Stock Units awarded hereby may not be sold or otherwise disposed of in any manner that would constitute a violation of any applicable securities laws. Director also agrees that the Company may (a) refuse to cause the transfer of any such shares of the Common Stock to be registered on the applicable stock transfer records of the Company if such proposed transfer would, in the opinion of counsel satisfactory to the Company, constitute a violation of any applicable securities law and (b) give related instructions to the transfer agent, if any, to stop registration of the transfer of such shares of the Common Stock. The shares of Common Stock that may be issued under the Plan are registered with the Securities and Exchange Commission under a Registration Statement on Form S-8. A Prospectus describing the Plan and the shares of Common Stock is available from the Company.

6. ***Vesting.*** The Restricted Stock Units that are granted hereby shall be fully vested on the Grant Date and shall not be subject to any Forfeiture Restrictions.

7. ***Capital Adjustments and Reorganizations.*** The existence of the Restricted Stock Units shall not affect in any way the right or power of the Company or any company the stock of which is awarded pursuant to this Agreement to make or authorize any adjustment, recapitalization, reorganization or other change in its capital structure or its business, engage in any merger or consolidation, issue any debt or equity

securities, dissolve or liquidate, or sell, lease, exchange or otherwise dispose of all or any part of its assets or business, or engage in any other corporate act or proceeding.

8. ***Nontransferability.*** The Agreement is not transferable by Director otherwise than by will or by the laws of descent and distribution.

9. ***Not a Service Agreement***. This Agreement is not a service agreement, and no provision of this Agreement shall be construed or interpreted to create a service relationship between Director and the Board, the Company, its subsidiaries or any of its Affiliates or guarantee the right to remain a member of the Board for any specified term.

10. ***Legend***. Director consents to the placing of a notation containing an appropriate legend restricting resale or other transfer of any electronic book entry form of shares of Common Stock issued under the Agreement except in accordance with applicable law and all applicable rules thereunder.

11. ***Notices.*** Any notice, instruction, authorization, request, demand or other communications required hereunder shall be in writing, and shall be delivered either by personal delivery, by telegram, telex, telecopy or similar facsimile means, by certified or registered mail, return receipt requested, or by courier or delivery service, addressed to the Company at the Company's principal business office address to the attention of the Company's General Counsel and to Director at Director's residential address as it appears on the books and records of the Company, or at such other address and number as a party shall have previously designated by written notice given to the other party in the manner hereinabove set forth. Notices shall be deemed given when received, if sent by facsimile means (confirmation of such receipt by confirmed facsimile transmission being deemed receipt of communications sent by facsimile means); and when delivered (or upon the date of attempted delivery where delivery is refused), if hand-delivered, sent by express courier or delivery service, or sent by certified or registered mail, return receipt requested.

12. ***Amendment and Waiver*****.** Except as otherwise provided herein or in the Plan or as necessary to implement the provisions of the Plan, this Agreement may be amended, modified or superseded only by written instrument executed by the Company and Director. Only a written instrument executed and delivered by the party waiving compliance hereof shall waive any of the terms or conditions of this Agreement. Any waiver granted by the Company shall be effective only if executed and delivered by a duly authorized officer of the Company. The failure of any party at any time or times to require performance of any provisions hereof shall in no manner effect the right to enforce the same. No waiver by any party of any term or condition, or the breach of any term or condition contained in this Agreement, in one or more instances, shall be construed as a continuing waiver of any such condition or breach, a waiver of any other condition, or the breach of any other term or condition.

13. ***Dispute Resolution***. In the event of any difference of opinion concerning the meaning or effect of the Plan or this Agreement, such difference shall be resolved by the Committee.

14. ***Governing Law and Severability.*** The validity, construction and performance of this Agreement shall be governed by the laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction. The invalidity of any provision of this Agreement shall not affect any other provision of this Agreement, which shall remain in full force and effect.

15. ***Successors and Assigns*****.** Subject to the limitations which this Agreement imposes upon the transferability of the Restricted Stock Units granted hereby and any shares of the Common Stock issued

hereunder, this Agreement shall bind, be enforceable by and inure to the benefit of the Company and its successors and assigns, and to Director, Director's permitted assigns, executors, administrators, agents, legal and personal representatives.

16. ***Counterparts.*** This Agreement may be executed in two or more counterparts, each of which shall be an original for all purposes but all of which taken together shall constitute but one and the same instrument.

Exhibit 10.23

The 2014 Rosetta Stone Executive Bonus Plan

I. Plan Goals

The purpose of the 2014 Rosetta Stone Executive Bonus Plan (the “Plan”) is to motivate senior management to achieve key financial and strategic business objectives of Rosetta Stone Inc. and its subsidiaries (“Rosetta Stone” or the “Company”).

II. Plan Participants, Administration and Effective Date

The following executives (each, an "Executive" and collectively, the "Executives”) are eligible to participate in the Plan: Chief Executive Officer (“CEO”); Chief Financial Officer (“CFO”); Chief Information Officer (“CIO”); Chief Product Officer (“CPO”); Chief Legal Officer and Secretary; Senior Vice President, Human Resources; Senior Vice President, Consumer; President, Global Enterprise & Education and other executives as approved by the Compensation Committee of the Board of Directors (the “Compensation Committee”).

An Executive is eligible to participate in the Plan only if ***all*** of the following criteria are met:

- Designated as eligible to participate by the Compensation Committee;
- Hired, rehired or moved into an eligible position on or before November 1st of the plan year, and
- Renders overall satisfactory work performance.

The Compensation Committee is responsible for overseeing the administration of the Plan, including establishing performance targets and determining whether a bonus will be paid pursuant to the Plan. The Compensation Committee may, at its sole discretion, and without prior notice, modify, change, alter or terminate the Plan or determine whether or not a bonus will be paid. No bonus payment will be made unless the Compensation Committee determines: (a) that all material terms of the Plan have been satisfied; and (b) that payment to the participant in the stated amount is appropriate under the Plan.

In the event of a claim or dispute brought forth by a participant, the decision of the Compensation Committee as to the facts in the case and the meaning and intent of any provision of the Plan, or its application, shall be final, binding and conclusive.

The Plan is subject to the Rosetta Stone Clawback Policy in effect as of January 1, 2014.

The Plan shall be effective from January 1st, 2014 to December 31st, 2014 (the “Bonus Period”).

III. Components of the Plan and Individual Bonus Targets

Individual bonus targets for participants will be a percentage of a participant’s eligible base salary in effect as of the last day of the Bonus Period. Eligible base salary is defined as base salary before both deductions for taxes or employee benefits and deferrals of compensation pursuant to any Rosetta Stone sponsored benefit plans. Bonus targets are as specified by the Compensation Committee, however, individual payouts may be greater than or less than the bonus target based on actual achievements against Plan objectives and targets.

As a participant in the Plan, each Executive will be eligible for a bonus award based on the attainment of key financial targets and strategic business objectives.

All objectives under both the Non Line of Business and Line of Business Plans are mutually exclusive and structured such that executives may be paid a portion of their annual incentives for achievement relative to one or more objectives, even if threshold performance is not attained for another objective.

Umbrella Goal

There is an Umbrella Goal for the 2014 Executive Bonus Plan, in order to protect the company's tax deductibility in compliance with Section 162(m) of the Internal Revenue Code for Section 16 officers only. The Umbrella Goal is not a trigger to fund the bonus plan.

- The Umbrella Goal = 2014 revenue of at least $270M

Executive Bonus Structure - Non Line of Business Executives

- 70% - Corporate Financial Bonus
- 30% - Corporate Non-Financial Strategic Goals Bonus

Seventy Percent (70%) of a non-line of business executive's bonus award will be based upon the achievement of the financial targets as outlined in the Plan (the "Financial Goals Bonus"). Thirty Percent (30%) of a non-line of business executive's bonus award will be based upon the execution and results of corporate strategic non-financial business objectives (the "Corporate Strategic Goals Bonus"). These combined factors will determine the total target potential bonus award on an individual basis. The bonus award for a non line of business executive cannot exceed 150% of the employee's bonus target.

Corporate Financial Goals Bonus

For all non-line of business executives, the award of the Corporate Financial Goals Bonus (70% of the total target potential bonus award) will be determined as follows.

- **40% Bookings[1] (millions)**
  - Threshold: $300 = 80% Funding
  - Target: $333 = 100% Funding
  - Max Funding: $350 or more = 150% Funding
- **40% Adjusted EBITDA[2] (millions)**
  - Threshold: $17 = 80% Funding
  - Target: $20 = 100% Funding
  - Max Funding: $23 or more = 150% Funding
- **20% Percentage Global DTC Web Sales[3] (Q4 2014 exit rate)**
  - Threshold: 50% = 80% Funding
  - Target: 60% = 100% Funding
  - Max Funding:70% or more = 150% Funding

(1) *"Bookings" means executed sales contracts by the Company that are either recorded immediately as revenue or as deferred revenue.*

(2) *"Adjusted EBITDA" is GAAP net income/(loss) plus interest income and expense, income tax benefit and expense, depreciation, amortization and stock-based compensation expense plus the change in deferred revenue less the change in deferred commissions. In addition, Adjusted EBITDA excludes any items related to the litigation with Google Inc., restructuring costs and transaction and other costs associated with mergers and acquisitions as well as all adjustments related to recording the non-cash tax valuation allowance for deferred tax assets.*

(3) *"Percentage Global Digital Sales" means the percentage of all new unit sales of Global Consumer that are downloaded (e.g., TOTALe), online (e.g., OSUB, TOSUB, ReFLEX), renewals and paid Apps.*

Corporate Non-Financial Strategic Goals Bonus

For all non-line of business executives, the award of the Corporate Non-Financial Strategic Goals Bonus (30% of the total target potential bonus award) will be determined as follows.

- **33.3% - E&E Cross Selling of approximately $28M (Non TOTALe Sales)**
  - Advanced English
  - Tell Me More
  - Lexia
  - Custom Content
- **33.3% - Consumer Cross Selling of approximately $12M**
  - Brain fitness (Fit Brains)
  - Tell Me More

- Lexia
- Consumer Kids
- Project X

- **33.3% - Launch of Consumer Kids literacy product(s) with bookings of approximately $3M**

Non-Line of Business Executive Bonus Targets

Job Title	Target Bonus
CEO	110%
CFO	75%
SVP, Human Resources	50%
CIO	50%
Chief Legal Officer and Secretary	60%
Other Executives, as approved by the Compensation Committee	TBD by the Compensation Committee

Executive Bonus Structure - Line of Business Lead

- 60% - Line of Business Financial Goals Bonus
- 20% - Corporate Financial Goals Bonus
- 20% - Corporate Non-Financial Strategic Goals Bonus

Sixty Percent (60%) of a line of business executive's bonus award will be based upon the achievement of line of business financial targets as outlined in the Plan (the "Line of Business Financial Goals Bonus"). Twenty Percent (20%) of a line of business executive's bonus award will be based upon the achievement of corporate financial targets as outlined in the Plan (the "Corporate Financial Goals Bonus") and Twenty Percent (20%) of a line of business executive bonus award will be based on achievement of corporate strategic goals as outlined in the Plan (the "Corporate Strategic Goals Bonus"). These combined factors will determine the total target potential bonus award on an individual basis.

Line of Business Executive Bonus Targets

Job Title	Target Bonus
President, Global Enterprise & Education	75%
SVP, Consumer	75%
CPO	60%

Line of Business Financial Goals Bonus

For the following Line of Business Executives, the Line of Business Financial Goals Bonus award (60% of the total target potential bonus award) will be determined as follows with a maximum award of 250%.

SVP, Consumer

- **30% - Bookings (millions)**
  - Threshold: $186 = 80% Funding
  - Target: $212.9 = 100% Funding
  - Max Funding: $532.25 or more = 250% Funding

- **30% - Adjusted EBITDA (millions)**
    - Threshold: $65.84 = 80% Funding
    - Target: $82.3 = 100% Funding
    - Max Funding: $205.75 or more = 250% Funding
- **20% - Percentage Global DTC Web Sales (Q4 2014 Exit rate)**
    - Threshold: 50% = 80% Funding
    - Target: 60% = 100% Funding
    - Max Funding: 70% or more = 250% Funding
- **20% Cross Selling (Kids, Project X, Tell Me More, FitBrains and Lexia)**
    - Threshold: $9.6 = 80% Funding
    - Target: $12 = 100% Funding
    - Max Funding: $30 or more = 250% Funding

President, Global Enterprise & Education

- **40% - Bookings (millions)**
    - Threshold: $86 = 80% Funding
    - Target: $99.4 = 100% Funding
    - Max Funding: $248.5 or more = 250% Funding
- **40% - Adjusted EBITDA (millions)**
    - Threshold: $34.96 = 80% Funding
    - Target: $43.7 = 100% Funding
    - Max Funding: $109.25 or more = 250% Funding
- **20% - E&E Cross Selling (Tell Me More, Lexia, etc)**
    - Threshold: $22.4 = 80% Funding
    - Target: $28 = 100% Funding
    - Max Funding: $70 or more = 250% Funding

Line of Business Financial Goals Bonus - Product

For the following Line of Business Executives, the Line of Business Financial Goals Bonus award (60% of the total target potential bonus award) will be determined as follows with a maximum award of 150%. Discretionary funding from 0 to 150%; Based on approval by the CEO and the Compensation Committee

- **70% Delivery of the Product Roadmap - Key Milestones**
    - Tell Me More Refresh
    - LiveMocha
    - Kids by September 1st, 2014
- **30% Deliver Product Roadmap within Budget**
    - Budget = $30.8M

Line of Business Strategic Goals Bonus

For all Line of Business Executives, the award of the Corporate Strategic Goals Bonus (20% of the total target potential bonus award) will be determined as follows.

- **33.3% - E&E Cross Selling of approximately $28M (non-TOTALe sales)**
    - Advanced English
    - Tell Me More
    - Lexia
    - Custom Content

- **33.3% - Consumer Cross Selling of approximately $12M**
    - Brain fitness (Fit Brains)
    - Tell Me More
    - Lexia
    - Consumer Kids
    - Project X
- **33.3% - Launch of Consumer Kids literacy product(s) with bookings of approximately $3M**

IV. Achievement of Plan Targets

Financial Bonus Goals Funding

If any financial metric component is below the "Threshold" level, then no funding will be achieved for that portion of the bonus. The financial metric components are mutually exclusive. Therefore, if one financial metric is above its "Threshold" level, and the others are not, the bonus will be funded for the financial metric component that was achieved.

Actual award funding between Threshold, Target and Maximum goals will be interpolated based on actual results as set forth in the chart below.

The maximum amount payable under the Financial Bonus for Non-Sales Executive is 150% of the overall total target potential Financial Bonus.

The maximum amount payable under the Line of Business Financial Bonus award for Sales Executives is 250% of the overall total target potential Line of Business Financial Bonus. The maximum amount payable under the Corporate Financial Bonus for Sales Executives is 150% of the overall total target potential Corporate Financial Bonus.

	$299.99 and below	No Payout	$16.99 and below	No Payout	49.99% and below	No Payout
Threshold	$300	80%	$17	80%	50%	80%
Target	$333	100%	$20	100%	60%	100%
Maximum	$350 and above	150%	$23 and above	150%	70% and above	150%

Strategic Goals Bonus Funding

Plan funding for the Strategic Goals Bonus target for Non-Line of Business Executives and the Line of Business Strategic Goals Bonus target for Executives will be based on the attainment percentage of the specified goals as outlined in Section III above. Final achievement percentages against the strategic goals targets, overall approval of attainment of goals, and subsequent bonus payouts, will be determined by the Compensation Committee.

V. Mid-Year Events and Proration

Prorated Bonus Awards

A bonus payout will be based on the amount of time the eligible participant is actively and continuously employed in a bonus eligible position during the Bonus Period. In some cases, bonus awards will be calculated, as detailed below.

- *New Hires and Rehires* - Newly hired or rehired employees will participate in the Plan on a daily prorated basis. In the case of rehires, there is no credit for prior service and the rehire date must occur on or prior to November 1st of the Bonus Period in order for the participant to be eligible under the Plan for the Bonus Period.

- *Leaves of Absence* - Bonus awards are not prorated for approved leaves of absence.
- *Promotions and Demotions* - If the action results in a movement from one bonus-eligible position to another bonus-eligible position (with either a higher or lower bonus target) the bonus target as of December 31st will be the target used to determine the bonus award. If an action results in a movement from a Non-Line of Business Executive to Line of Business Executive bonus eligibility or vice versa, a daily pro-rated bonus will be calculated. If an Executive moves to a non-executive bonus plan, a daily pro-rated bonus award will be calculated based on tenure in the eligible position.
- *Termination*
    - If a participant voluntarily terminates prior to the date the bonus awards are actually paid, the participant will not be entitled to any bonus payment for the Bonus Period during which the termination occurs, except as otherwise provided by contractual or statutory obligation or directed by the Compensation Committee. Bonuses are not considered earned until they are approved by the Compensation Committee and are actually paid by Rosetta Stone.
    - If during the Bonus Period the Executive's employment is terminated by the Company without Cause or by the Executive with Good Reason, then the Company shall pay to Executive, at the times specified in their contract, the pro rata portion, if any, of the Executive's Annual Bonus earned up until such Termination Date in accordance with the terms of the then-current Company bonus policy. **"Good Reason"** shall mean Executive's resignation from employment with the Company after the occurrence of any of the following events without Executive's consent: (i) a material diminution in Executive's Annual Base Salary, duties, authority or responsibilities from the Annual Base Salary, duties, authority or responsibilities as in effect at the commencement of the Service Term, (ii) a material breach of the Agreement by the Company, or (iii) a relocation of Executive's primary place of employment to a geographic area more than fifty (50) miles from the Executive's then current office; provided, that the foregoing events shall not be deemed to constitute Good Reason unless Executive has notified the Company in writing of the occurrence of such event(s) within sixty (60) days of such occurrence and the Company has failed to have cure such event(s) within thirty (30) business days of its receipt of such written notice and termination occurs within one hundred (100) days of the event.

VI. Plan Change Provision

This Plan is subject to modification or termination at any time for any reason deemed appropriate by the Compensation Committee. No modification may increase the amount of actual compensation payable upon attainment of a goal that has been established under the Plan. However, discretion to reduce an award is permitted.

VII. Payment

Bonuses will be paid to Executives after review and approval by the Compensation Committee, on or before March 15th of the year immediately following the end of the Bonus Period, provided the Executive is employed with the Company on the actual payment date or by contractual obligation. The bonus will be in a single lump sum cash payment, subject to all required federal, state and local tax of withholdings. Executives have no right to the bonus under the Plan until actual payment.

VIII. Transferability

An Executive shall not have any right to transfer, sell, alienate, assign, pledge, mortgage, hypothecate, collateralize or otherwise encumber any of the payments provided by this Plan.

IX. No Employment Rights

This Plan is not intended to be a contract of employment. Both the Executives and the Company have the right to end their employment or service relationship with or without cause or notice. The payment of a bonus award shall not obligate the Company to pay any Executive any particular amount of remuneration, to continue the employment or services of the Executive after the payment, or to make further payments to the Executive at any time thereafter.

I. Compliance with IRC Section 409A

It is the intent of the Company that any payment made under the Plan be exempt from Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), to the maximum extent permitted under Section 409A of the Code. However, if any such amounts are considered to be "nonqualified deferred compensation" subject to Section 409A of the Code, such amounts shall be paid and provided in a manner, and at such time and form, as complies with the applicable requirements of Section 409A of the Code to avoid the unfavorable tax consequences provided therein for non-compliance. No action will be taken to accelerate or delay the payment of any amounts in any manner which would not be in compliance with Section 409A of the Code.

In the event an Executive qualifies as a "specified employee" for purposes of Section 409A(a)(2)(B)(i) of the Code at the time of the Executive's separation from service, payments to be made in connection with such Executive's "separation from service" (as determined for purposes of Section 409A of the Code) that constitute nonqualified deferred compensation subject to Section 409A of the Code shall not be made until the earlier of (i) the Executive's death or (ii) six (6) months after the Executive's separation from service to the extent required by Section 409A of the Code. The Company shall, to the extent required, consult with the Executive in good faith regarding the implementation of the provisions of this section; provided that neither the Company nor any of its employees or representatives shall have any liability to the participant with respect to any tax consequences related to the Plan.

II. Disclaimer

In the event of a situation not covered or clarified by the Plan guidelines, the Compensation Committee and the CEO will make the final and binding determination regarding eligibility and bonus calculations. The Compensation Committee must approve all bonus payments.

An Executive shall not have any rights to transfer, sell, alienate, assign, pledge, mortgage, hypothecate, collateralize or otherwise encumber any of the payments provided by the Plan except as may be required by State or Federal law.

Benefits under the Plan shall be paid from the general funds of the Company, and Executives shall have no special or priority right to any assets of the Company. Nothing in the Plan shall require the Company to segregate or set aside any funds or other property for the purpose of paying any portion of an award. No Participant, beneficiary or other person shall have any right, title or interest in any amount awarded under the Plan prior to the payment of such award to him or her. It is not intended that a participant's interest in the Plan will constitute a security or equity interest within the meaning of any state or federal securities laws.

The Compensation Committee determines, at its sole discretion, whether bonuses will be paid. Rosetta Stone, with the approval of the Compensation Committee, reserves the right to amend and/or terminate this or any other bonus, reward, and recognition plan at any time without notice. This

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Plan is not a promise, guarantee, announcement, contract or agreement that a bonus will be paid, nor is it a contract of employment.

Exhibit 10.24

Rosetta Stone Inc. 2009 Omnibus Incentive Plan
2013 Rosetta Stone Inc. Long Term Incentive Program (LTIP)
Effective January 1, 2013 - Amended as of March 29, 2013

I. LTIP Goals

The purpose of the 2013 Rosetta Stone Inc. Long Term Incentive Program (the "LTIP") is to:

- Motivate senior management to achieve key financial and strategic business objectives of Rosetta Stone Inc., and its Subsidiary Corporations (individually and/or collectively, as applicable, "Rosetta Stone" or the "Company");
- Offer eligible employees of the Company a competitive total compensation package;
- Reward employees in the success of the Company;
- Provide ownership in the Company; and
- Retain key talent.

Pursuant to Section 15.2 of the Rosetta Stone Inc. 2009 Omnibus Incentive Plan (the "Plan"), the Compensation Committee of the Company's Board of Directors ("the Committee") has adopted this LTIP to set forth the terms and conditions for Performance Stock Awards and cash payments to be granted and/or paid to eligible Employees under the Plan. Except as provided herein, all terms and definitions of the Plan are incorporated herein by reference.

The LTIP will be administered by the Committee in accordance with the Plan. The Committee shall have the power to interpret all provisions in the LTIP. If the LTIP conflicts with any provisions of the Plan, the provisions of the Plan shall govern in all cases. The Committee reserves the right to amend or terminate the LTIP as set forth in the Plan.

Awards granted under the LTIP are intended to qualify as "qualified performance-based compensation" as defined in Code Section 162(m) (including any amendment to Code Section 162(m)) and any Treasury Regulations or rulings issued thereunder that are requirements for qualifications. The LTIP shall be deemed amended to the extent necessary to conform to such requirements and the Committee may take such actions as it may deem necessary to ensure that such Awards will so qualify.

II. Approval by Stockholders of the Company

Before any payment of cash or the granting of Performance Stock Awards pursuant to an Award granted under the LTIP can be made, the material terms of the Performance Goals(s) must be disclosed to, and subsequently approved by, the Company's stockholders in accordance with Treasury Regulation Section 1.162-27(e)(4). If the Company's stockholders have not approved (or do not approve, if applicable) the Performance Goal(s) and the terms of this LTIP prior to the end of the 2013 fiscal year, then any Award under the LTIP shall be null and void, and any Employee who has received an Award under the LTIP shall have no rights to any payment of cash or Performance Stock Awards pursuant to such Award.

III. LTIP Participants, Administration and Effective Date

The Employees who are currently employed in the following positions are eligible to receive Awards under this LTIP: Chief Executive Officer ("CEO"); Chief Financial Officer; Chief Information Officer; Chief Innovation Officer; Chief Product Officer; General Counsel; Senior Vice President, Human Resources; President, Global Consumer; President, Global Institutions and other executives (each, an "Executive" and collectively, the "Executives") as approved by the Committee from time-to-time.

An Executive is eligible to participate in the LTIP only if ***all*** of the following criteria are met:

- Designated as eligible to participate by the Committee;
- Renders overall satisfactory work performance; and
- Continued active employment with the Company through the date any Award is granted under this LTIP.

The Committee determines, at its sole discretion, whether Awards of cash and/or Performance Stock Awards will be granted.

The LTIP shall be effective from January 1, 2013 ("Effective Date") until December 31, 2014 (the "Program Period").

IV. LTIP Details

Executives designated by the Committee may receive Performance Stock Awards and cash upon the Company's achievement of the following specified performance goals during the Program Period: (i) Bookings; (ii) Operating EBITDA; and (iii) Percentage Digital Sales (each, a "Performance Goal").

"Bookings" means executed sales contracts by the Company that are either recorded immediately as revenue or as deferred revenue.

"Operating EBITDA" means GAAP net income or loss plus interest expense, income tax expense, depreciation, amortization, and stock-based compensation expenses, plus the change in deferred revenues.

"Percentage Digital Sales" means the percentage of all new unit sales of Global Consumer which are downloaded (e.g., TOTALe), online (e.g., OSUB, TOSUB, ReFLEX), renewals and paid Apps.

Unless specified otherwise by the Committee in an Award Agreement at the time an Award is granted, the Committee shall appropriately adjust any evaluation of performance under a Performance Goal to exclude the items listed in Section 9.2 of the Plan.

An Executive's individual amount of Performance Stock Awards and cash he or she may be able to receive will be provided in the Award Agreement. The Executive's incentive target is determined as a multiple of the Executive's base salary in effect as of December 31, 2012. The CEO's incentive target is 3x base salary, while all other Executives are at 1x base salary. The incentive target value in each Executive's Award shall consist of 70% in Performance Stock Awards and 30% in cash. Each Executive's target Performance Stock Award is based on valuation as of January 1, 2013. Stock valuation is based on the monthly average of the closing price of a share of Stock from December 1, 2012 to January 1, 2013. If at any time a new Executive is added to this Plan, upon approval by the Committee, the Executive's incentive target for his or her Award will be determined and valued upon the effective date of participation.

In order for the granting of any Performance Stock Award or any cash payment to be made under this LTIP, the Company must meet the minimum threshold requirements for each of the three Performance Goals for the 2014 fiscal year, regardless of the 2013 fiscal year results and/or the total results for each Performance Goal for the Program Period. In addition, each Performance Goal is mutually exclusive of the other two Performance Goals.

2013-2014 LTIP
Performance Thresholds / $Millions

Metric	FY2013			FY2014			Cumulative FY2013-2014		
	Min	Target	Max	Min	Target	Max	Min	Target	Max
Bookings	$284	**$310**	$360	$310	**$350**	$405	$594	**$660**	$765
Operating EBITDA	$25	**$30**	$40	$31	**$45**	$54	$56	**$75**	$94
Percent Digital	21%	**27%**	35%	30%	**38%**	48%	30%	**38%**	48%
Memo:									
Acquisitions in above Target / Incremental $ Values									
Bookings		***$9.00***			***$16***			***$25***	
Operating EBITDA		***1.3***			***1.7***			***3***	

Vesting and payout levels upon achievement of each Performance Goal:

- Minimum = If the minimum threshold of each Performance Goal for the Program Period is achieved, then 50% of the targeted amount under the Executive's Award for both Performance Stock Awards and cash shall vest and become payable.
- Target = If the target threshold of each Performance Goal for the Program Period is achieved, then 100% of the targeted amount under the Executive's Award for both Performance Stock Awards and cash shall vest and become payable.
- Maximum = If the maximum threshold for each Performance Goal for the Program Period is achieved, then 200% of the targeted amount under the Executive's Award for both Performance Stock Awards and cash shall vest and become payable.

Subject to the other requirements under this LTIP: (a) if only the Minimum threshold for one out of the three Performance Goals has been achieved during the Program Period, then one third (1/3) of the 50% of the targeted amount under the Executive's Award for both Performance Stock Awards and cash shall vest and become payable; and (b) if only the Minimum threshold for two out of the three Performance Goals has been achieved during the Program Period, then two thirds (2/3) of the 50% of the targeted amount under the Executive's Award for both Performance Stock Awards and cash shall vest and become payable.

Achievement levels in between the performance thresholds of each Performance Goal will be interpolated to determine vesting and payout amounts of Awards. The minimum vesting and payout amount of any Award can be zero. The maximum payout for any Award granted under this LTIP is 200% of target Performance Awards and target cash.

After the completion of the Program Period but prior to any payment of any Award granted under this LTIP, the Committee shall certify in writing the level of achievement, if any, of each Performance Goal. The Committee shall not increase any amount of payment, whether in cash and/or Performance Stock Awards, payable under a Award granted under this LTIP.

All determinations under this LTIP, including, without limitation, as to the achievement of any Performance Goal, the number of Performance Stock Awards to be granted, if any, and the amount of any cash to be paid, shall be determined by the Committee in its sole discretion. All decisions by the Committee shall be final and binding.

Notwithstanding any other provisions in the LTIP to the contrary, the following provisions shall apply to all Awards granted under the LTIP. Generally, in the event of any change in the outstanding shares of Stock (including, without limitation, the value thereof) after the Effective Date by reason of any share dividend or split, reorganization, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or other corporate exchange, or any distribution to stockholders of shares other than regular cash dividends, or any transaction similar to the foregoing, the Committee in its sole discretion and without liability to any person shall make such substitution or adjustment, if any, as it deems to be equitable as to: (i) the number or kind of shares or other securities issued or reserved for issuance pursuant to the LTIP or pursuant to outstanding Awards; (ii) the maximum number of shares for which Awards (including limits established for Performance Stock Awards or other stock-based Awards) may be granted during a calendar year to any participant; and/or (iii) any other affected terms of such Awards; provided, such substitution or adjustment shall be in compliance with the requirements of Code Section 162(m).

Any payment of cash or granting of Performance Stock Awards under this LTIP will be distributed or granted to Executives within 45 days of the end of the Program Period, upon approval from the Committee of the Company's achievement of the Performance Goals in accordance with the terms of this LTIP. If Performance Stock Awards are granted, the shares of such Award will be 100% vested as of the date of grant.

V. Recipient Notification and LTIP Acceptance

Executives will receive notification from the Company or the Company's designated equity broker notifying him or her of the cash award and grant of Performance Stock Awards, as well as any additional instructions to accept or take ownership of the shares of Performance Stock Awards.

VI. Changes in Employment

a. New Hires and Rehires - Executives hired or rehired after the Effective Date will be eligible for a prorated Award as determined in the sole discretion of the Committee, unless eligible for the entire period per contractual obligation and the Executive is not a "covered employee" under Code Section 162(m). There will be no retroactive Awards of Performance Stock Awards.

b. Leaves of Absence - Awards are not prorated for approved leaves of absence.

c. Job Changes - In the event that an Executive's job changes during the course of the Program Period, individual LTIP eligibility will be reviewed on a case-by-case basis by the Company's CEO and the Committee. The Committee is responsible for approving eligibility in the LTIP in its sole discretion.

d. Voluntary Termination or Termination for Cause - If an Executive voluntarily terminates for any reason other than for retirement (as provided for below) or is terminated for Cause (as defined in an Executive's employment agreement with the Company in effect as of the Effective Date or, if there is no employment agreement in effect, then as defined in Section 4.7 of the Plan), prior to the end of the Program Period, the Executive will forfeit eligibility and not be entitled to any payout under this LTIP, except as otherwise provided by contractual obligation or directed by the Committee in its sole discretion and the Executive is not a "covered employee" under Code Section 162(m).

e. Approved Disability, Retirement, or Involuntary Termination By the Company Without Cause - If an Executive retires (where retirement is determined by the Committee in its sole discretion based on the age of the Executive and other factors the Committee deems relevant, including compliance with Code Section 162(m)), is involuntarily terminated by the Company without Cause, or has his or her employment terminated due to approved disability, cash awards and shares of Performance Stock Awards, prorated based on the number of full calendar months Executive was

employed during the Program Period, will be distributed and granted at the same time as other payments (if any) made under this LTIP after the completion of the Performance Period, unless otherwise directed by contractual obligation and the Executive is not a “covered employee” under Code Section 162(m).

VII. No Employment Rights

The LTIP is not intended to be a contract of employment. Both the Executives and the Company have the right to end their employment or service relationship with or without Cause or notice (subject to the terms of any separate written employment agreement). The payment of an Award shall not obligate the Company to pay any Executive any particular amount of remuneration, to continue the employment or services of the Executive after the payment, or to make further payments to the Executive at any time thereafter.

VIII. Other Provisions

A. No Fiduciary Relationship. The Committee shall have no duty to manage or operate this LTIP in order to maximize the benefits granted to the participants, but rather shall have full discretionary power to make all management and operational decisions. This LTIP shall not be construed to create a fiduciary relationship between the Committee and the participants.

B. General Creditor Status. The participants shall, in no event, be regarded as standing in any position, if at all, other than as a general creditor of the Company with respect to any rights derived from the existence of the LTIP and shall receive only the Company’s unfunded and unsecured promise to pay benefits under the LTIP.

C. Non-alienation of Benefits. No participant or his beneficiaries shall have the power or right to transfer, anticipate, or otherwise encumber the participant’s interest under the LTIP. The provisions of the LTIP shall inure to the benefit of each participant and his or her beneficiaries, heirs, executors, administrators or successors in interest.

D. Severability. If any provision of this LTIP is held invalid or unenforceable, the invalidity or unenforceability shall not affect the remaining parts of the LTIP, and the LTIP shall be enforced and construed as if such provision had not been included.

E. Tax Treatment. The Company shall have the authority and the right to deduct or withhold, report or require a participant to remit to the Company, an amount sufficient to satisfy federal, state, local and foreign taxes (including any social insurance, payroll tax, or payment on account) required by law to be withheld with respect to any taxable event concerning a participant arising in connection with an Award.

F. Amendment. This LTIP may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Committee.

The Company has caused this LTIP to be executed by its duly authorized corporate officer effective as of January 1, 2013.

ROSETTA STONE INC.

By:

Name:

Title:

Date:

Exhibit 10.25

ROSETTA STONE INC. 2009 OMNIBUS INCENTIVE PLAN
2013 ROSETTA STONE INC. LONG-TERM INCENTIVE PROGRAM

AWARD AGREEMENT

Rosetta Stone Inc. (the "Company") hereby grants you the eligibility to receive cash and shares of the Company's Stock, subject to certain restrictions and the achievement of certain performance goals as described herein ("Performance Stock Awards"), through the Rosetta Stone Inc. 2009 Omnibus Incentive Plan (the "Plan") and the 2013 Rosetta Stone Inc. Long-Term Incentive Program (the "LTIP"). Except as provided herein, all terms and definitions of the Plan and LTIP are incorporated herein by reference.

Executive ("you"): [Participant's Name]

The Company will award you the following Performance Stock Awards and cash payment upon the achievement of the Performance Goals in accordance with the terms and conditions of the LTIP and as specified as below:

[Participant's Detailed Chart Added Here - Includes Target, Minimum and Maximum Potential Payouts]

Cash Payment Date: Any cash payment under this Award will be made to you within 45 days after the end of the Program Period, subject to the achievement of the Performance Goals as determined by the Committee and the terms and conditions of the LTIP.

Granting of Performance Stock Awards: The Company shall grant to you Performance Stock Awards as described in the table above within 45 days after the end of the Program Period, subject to the achievement of the Performance Goals as determined by the Committee and the terms and conditions of the LTIP. If granted, the shares of Performance Stock Awards will be 100% vested as of the date of grant.

Condition of Stockholder Approval. Before any payment of cash or the granting of Performance Stock Awards pursuant to this Award can be made, the material terms of the Performance Goals(s) must be disclosed to, and subsequently approved by, the Company's stockholders in accordance with Treasury Regulation Section 1.162-27(e)(4). If the Company's stockholders have not (or do not, if applicable) approved the Performance Goal(s) and the terms of this LTIP prior to the end of the 2013 fiscal year, then this Award shall be null and void, and you will have no rights to any payment of cash or Performance Stock Awards pursuant to this Award.

This Award is designated as a bonus that is in addition to your regular cash wages. Participation in the Plan and LTIP is discretionary and voluntary, and the Plan and LTIP can be terminated at any time. This Award does not create a right or entitlement to future Awards, whether pursuant to the Plan or otherwise. This Award is subject to the approval of the Company's stockholders as described above, and if such stockholder approval is not obtained, then this Award shall be null and void.

AGREED AND CONSENTED TO:

ROSETTA STONE INC.

By:______________________________
Name: Steve Swad
Title: Chief Executive Officer
Date: March 1, 2013

EXECUTIVE
By: ______________________________
Name: [Participant's Name]

Date: ______________________________

Exhibit 10.26

Rosetta Stone Inc.
Policy on Recoupment of Performance Based Compensation
Effective January 1, 2014

I. **Purpose**

In the event of a material restatement or adjustment of the Company's financial results (other than a restatement or adjustment caused by a change to the applicable accounting rules or interpretations), the Company's Compensation Committee ("Committee") believes it would be appropriate to review the circumstances that caused the restatement or adjustment and consider issues of accountability. The purpose of this Policy on Recoupment of Performance Based Compensation ("Policy") is to provide that the Company may seek recoupment of performance-based compensation paid to Executives if the restatement or adjustment is caused by the misconduct of one or more employees or former employees of the Company.

For purposes of this Policy, "performance-based compensation" means each award or payment (whether in cash, Company stock, a combination of cash and Company stock, or otherwise) of incentive compensation based on the performance of the Company (including any business unit), any product, any service, any individual or any other performance metric; provided, however, earned and approved grants under the Company's 2013 Long Term Incentive Plan, and any time based equity awards which are not performance based are not subject to this Policy.

II. **Review and Remedies**

In determining what remedies to pursue (if any) in the event of a restatement or adjustment, the Committee will take into account all relevant facts and circumstances, including one or more of the following factors:

- The nature of the events that led to the restatement (i.e., negligence, fraud, or intentional misconduct);
- The conduct (by action or omission) of the Executives in connection with the events that led to the restatement or adjustment;
- Whether the performance based compensation would have been lower if it had been based on the restated or adjusted results;
- Financial and reputational harm to the Company;
- Actions necessary to prevent a recurrence of the misconduct;
- The costs and benefits to the Company of seeking recoupment;
- Fairness to the Company and the Executive(s);
- Any penalties imposed by law enforcement agencies, regulators or other authorities; and or
- Such other factors as the Committee may deem relevant in its sole discretion.

The Committee does not believe that it is possible to anticipate all possible cases in which recoupment may be appropriate. Thus, the Committee reserves the discretion to evaluate each situation based on its individual facts and circumstances.

III. **Remedies**

The Committee will, to the extent permitted by law, seek, by written demand, recoupment from one or more Executives of all or any portion of their respective performance-based compensation awarded and/or paid to the Executive during the twelve (12) month period before the restatement or adjustment, and cause the cancellation of any outstanding stock options and restricted or deferred stock awards, as it deems appropriate after review of the relevant facts and

circumstances related to a restatement or adjustment, regardless of whether the Executive directly contributed to the misconduct which resulted in the restatement or adjustment.

If the Executive does not, within sixty (60) days from the date of the Committee's written demand for recoupment, make full repayment of the requested recoupment amount to the Company, the Committee may take legal action against the Executive for such repayment.

IV. **Administration**
The Committee is responsible for maintaining and administering the Policy as in effect from time to time. Without limitation, the Committee shall have the authority to interpret the Policy in its sole and absolution discretion. The Committee may delegate one or more duties or powers under the Policy from time to time.

V. **Executives Subject to Policy**
For purposes of the Policy, "Executive" means the Company's current and former Chief Executive Officer and any other current or former "Executive Officer", as that term is defined in the Committee's Charter.

VI. **Preservation of Other Rights and Remedies**
Nothing in this Policy restricts or limits the Company from enforcing any other rights or remedies available to it, including, without limitation, the Company's ability to seek recoupment of any amounts from any other employee or former employee, as appropriate and pursuant to applicable law, regardless of whether the employee or former employee is an Executive. This Policy should be interpreted and applied consistent with the maximum scope of rights and remedies available to the Company under applicable laws.

VII. **Amendment**
The Board of Directors and Committee reserve the right to amend the Policy as it deems appropriate in its sole and absolute discretion, and may terminate the Policy at any time, with or without prior notice, including as and when the Company may determine that it is legally required by U.S. Securities and Exchange Commission rule or New York Stock Exchange rule. This Policy will remain in force as it may be amended from time to time or until it is terminated.

Adopted by the Compensation Committee on August 25, 2014 to be effective as of January 1, 2014.

Exhibit 10.27

SUB-SUBLEASE AGREEMENT

This Sub-Sublease Agreement (this **"Sub-Sublease"**) is made and entered into as of the 3rd day of April, 2014, by and between (i) **ROSETTA STONE LTD.,** a Virginia corporation (**"Sub-Sublandlord"**) and (ii) **THE CORPORATE EXECUTIVE BOARD COMPANY,** a Delaware corporation, d/b/a CEB (**"Sub-Subtenant"**)

Recitals:

A. Paramount Group, Inc. (as successor in interest to Waterview, L.P.) (**"Landlord"**) and the Corporate Executive Board Company (**"Tenant"**) are parties to that certain Deed of Lease dated as of August 16, 2004 **("Prime Lease"),** pursuant to which Tenant leases floors 4 - 24 (the "**Prime Lease Premises**") in the building located at 1919 North Lynn Street, Arlington, Virginia, (the **"Building"**), at the rent and subject to the terms and conditions set forth in the Prime Lease; and

B. Tenant (as **"Sublandlord"**) and Rosetta Stone Ltd. (as **"Subtenant"**) are parties to that certain Sublease Agreement dated as of October 6, 2008 (the **"Original Sublease"**), as amended by First Amendment to Sublease Agreement dated November 1, 2012 (the **"First Amendment to Sublease,"** and, together with the Original Sublease, the **"Sublease"**), pursuant to which Subtenant subleases a portion of the Prime Lease Premises consisting of the entire rentable area of the 6th and 7th floors of the Building (the "**Subleased Premises**") from Sublandlord; and

C. Subtenant (as "Sub-Sublandlord") desires to sub-sublease to Sub-Subtenant, and Sub-Subtenant desires to sub-sublease from Sub-Sublandlord a portion of the Subleased Premises consisting of the entire rentable area of the sixth (6th) floor of the Building (the "**Sub-Subleased Premises**"), containing approximately 31,281 rentable square feet as more particularly described in Exhibit A of the First Amendment to Sublease, upon the terms and conditions set forth herein.

NOW THEREFORE, in consideration of the mutual covenants set forth herein, the parties hereto agree as follows:

1. **Recitals: Incorporation of Terms.** The foregoing recitals, and, subject to Section 6 hereof, the terms and provisions of the Sublease, are incorporated herein by reference and are made a substantive part of this Sub-Sublease. Capitalized terms not defined herein shall have the meanings ascribed to such terms in the Sublease (and if not defined therein, then in the Prime Lease). This Sub-Sublease is subject and subordinate to the Sublease and the Prime Lease in all respects. For all purposes under this Sub-Sublease, the rentable area of the Sub-Subleased Premises is hereby stipulated and agreed to be 31,281 rentable square feet, the rentable area of the Sublease Premises is stipulated and agreed to be 62,562 rentable square feet and the rentable area of the Building is hereby stipulated and agreed to be 625,062 rentable square feet, which rentable areas shall not be subject to further calculation, except in the event of a change in the physical size of any such space.

2. **Sub-Subleased Premises**.

(a) **Sub-Sublease; Condition of Sub-Subleased Premises**. As of the Sub-Sublease Commencement Date (defined in Section 3 below), Sub-Sublandlord shall sub-sublease to Sub-Subtenant and Sub-Subtenant shall sub-sublease from Sub-Sublandlord, the Sub-Subleased Premises upon the terms and conditions set forth herein. Sub-Sublandlord shall tender possession of the Sub-Subleased Premises to Sub-Subtenant on the Sub-Sublease Commencement Date, vacant of occupants on the Sub-Sublease Commencement Date, with the removal, reconfiguration, and other work described in subsections (b), (c) and (e) below completed, and otherwise in broom-clean condition. Sub-Subtenant has fully inspected the Sub-Subleased Premises and, subject to Sub-Sublandlord's removal and reconfiguration obligations set forth in subsections (b) and (c) below, Sub-Subtenant shall accept the Sub-Subleased Premises in its ***"as is," "where-is"*** condition as of the date hereof, including without limitation all mechanical, electrical and plumbing systems servicing the Sub-Subleased Premises. Sub-Subtenant acknowledges that, except as specifically set forth in this Sub-Sublease, no representations, statements or warranties, express or implied, have been made by or on behalf of Sub-Sublandlord with respect to the condition of the Sub-Subleased Premises or the Building, and that Sub-Sublandlord has made no representation, statement or warranty as to the leasing of any personal property, fixtures, or equipment in the Sub-Subleased Premises other than the Walls/Partitions, Systems Furniture, and Personal Property (as each such term is defined below).

(b) **Systems Furniture and Modular Walls/Partitions.** The configuration of the Sub-Subleased Premises shall include modular walls and partitions, approximately as shown on **Exhibit B-l,** attached hereto, **("Walls/Partitions")** and office systems furniture also shown on **Exhibit B-l,** attached hereto **("Systems Furniture").** Sub-Subtenant shall have the right to use the Walls/Partitions and Systems Furniture as part of the Sub-Subleased Premises at no additional charge, subject to the conditions hereof. As of the date hereof, Walls/Partitions and Systems Furniture in excess of those set forth in **Exhibit B-1** are being stored within the Sub-Subleased Premises and certain Systems Furniture needs to be reconfigured in accordance with the Exhibit. Prior to the Sub-Sublease Commencement Date, Sub-Sublandlord shall (i) modify the configuration of the Walls/Partitions and Systems Furniture in the Sub-Subleased Premises, as necessary, to conform to the configuration set forth on **Exhibit B-1**, at Sub-Sublandlord's sole cost and expense, (ii) remove Systems Furniture in excess of those items of Systems Furniture in excess of those set forth on **Exhibit B-1**, at Sub-Sublandlord's sole cost, and (iii) coordinate and cooperate with Sub-Subtenant to identify which of the Walls/Partitions that are in excess of those set forth on **Exhibit B-1** need to be removed and stored by Sub-Sublandlord at its expense. The remaining excess Walls/Partitions shall be removed, reconfigured or stored by Sub-Subtenant at its expense. Notwithstanding the foregoing, Sub-Subtenant shall have the right to undertake the restoration and removal requirements set forth herein in lieu of Sub-Sublandlord, which right shall be exercised by delivering written notice thereof to Sub-Sublandlord on or before April 30, 2014. In such event, Sub-Sublandlord shall pay Sub-Subtenant an amount equal to $20,000.00, which cost shall be in lieu of, and accepted by Sub-Subtenant shall be in full satisfaction of, the Sub-Sublandlord's obligation to restore the Walls/Partitions as set forth hereinabove. Sub-Sublandlord shall pay Sub-Subtenant the agreed amount within ten (10) business days after the aforesaid notice by Sub-Subtenant. If not insured by the Sublandlord, Sub-Subtenant shall insure the Walls/Partitions and Systems Furniture under the special cause of loss business property insurance required by Section 17.A.(1) of the Prime Lease, naming Tenant as loss payee under such policy for the Walls/Partitions and Systems Furniture. Notwithstanding the foregoing, Sub-Subtenant shall have the right, from and after the Sub-Sublease Commencement Date, to remove, modify, or alter the Walls/Partitions and/or Systems Furniture at its discretion; provided, however, if (A) Sub-Subtenant has in fact modified the Walls/Partitions and/or Systems Furniture from that set forth on **Exhibit B-1**, (B) Sub-Subtenant terminates this Sub-Sublease effective on or before July 1, 2018, (C) Sub-Sublandlord notifies Sub-Subtenant in writing that it will utilize the Sub-Subleased Premises after the effective termination date of the Sub-Sublease either for its own employees or

because it has entered into another sub-sublease or occupancy agreement with a third party, and (D) the configuration of Walls/Partitions or Systems Furniture at the time of Sub-Sublease termination is unworkable for the users intended to occupy the Sub-Subleased Premises after the Sub-Sublease termination date, then Sub-Sublandlord and Sub-Subtenant shall work cooperatively to design a reconfiguration of the portion of the Walls/Partitions and/or Systems Furniture that had been modified by Sub-Subtenant, which reconfiguration both satisfies the requirements of the subsequent user and offers the least, reasonable amount of reconfiguration work to be performed to the Walls/Partitions and/or Systems Furniture. Sub-Subtenant shall thereupon perform such reconfiguration of Walls/Partitions and/or Systems Furniture at Sub-Subtenant's sole cost and expense upon the later to occur of either the termination date of the Sub-Sublease or ten (10) business days after the parties have agreed upon the revised configuration as aforesaid. In no event shall Sub-Subtenant be required to perform more reconfiguration work than would be required to return the configuration of the Walls/Partitions and/or Systems Furniture to the condition set forth on **Exhibit B-1**, however.

(c) **Office Furniture.** In consideration for the rents and other promises contained in this Sub-Sublease, Sub-Sublandlord shall sub-sublease to Sub-Subtenant (and Sub-Subtenant shall sub-sublease from Sub-Sublandlord) the furniture and equipment listed on **Exhibit B-2** attached hereto (the **"Personal Property")** at no extra cost or expense to Sub-Subtenant. Sub-Sublandlord shall remove any furniture and equipment located in the Sub-Subleased Premises in excess of that set forth on Exhibit B-2 prior to the Sub-Sublease Commencement Date. Sub-Subtenant shall have the right to remove all or any Personal Property from the Sub-Subleased Premises and is not required to restore same at the end of the Sub-Sublease Term. Unless insured by Sublandlord, Sub-Subtenant shall be responsible to insure the Personal Property under the special cause of loss business property insurance required by Section 17.A.(1) of the Prime Lease, naming Tenant as loss payee under such policy for the Personal Property

(d) **Supplemental HVAC**. As of the date hereof, the Sub-Subleased Premises contains and/or is served by supplemental HVAC equipment as set forth on **Exhibit B-3** (**"Supplemental HVAC"**). Sub-Subtenant shall have the right to use the Supplemental HVAC under the terms and conditions hereinafter set forth. Sub-Sublandlord makes no representation or warranty as to the capacity or output of the Supplemental HVAC or to its sufficiency to service Sub-Subtenant's particular requirements in the Sub-Subleased Premises, and Sub-Subtenant acknowledges that the Supplemental HVAC equipment is in its ***"as is, where is"*** condition, subject only to Section 2(e), below. Sub-Subtenant shall reimburse Sub-Sublandlord from time to time, within thirty (30) days after invoice therefor, all costs for use of the Supplemental HVAC actually incurred by Sub-Sublandlord pursuant to invoice from Sublandlord, including, without limitation, costs for electricity and chilled water or condenser water (including any costs for depreciation charged by Landlord as set forth below) serving the Supplemental HVAC. Sub-Sublandlord shall not be required, under any circumstance, to replace the Supplemental HVAC servicing the Sub-Subleased Premises or to perform repairs or maintenance thereto.

(e) **Operational Condition**. Notwithstanding the foregoing provisions respecting the ***"as is"*** condition of the Systems Furniture, Walls/Partitions, Personal Property, and Supplemental HVAC, Sub-Sublandlord will agree to repair any Systems Furniture, Walls/Partitions, Personal Property or Supplemental HVAC that are not operational or improperly functioning in a material manner on and as of the Sub-Sublease Commencement Date, subject to and in accordance with the provisions hereof, as part of Sub-Sublandlord's initial delivery requirement. On or about the Sub-Sublease Commencement Date, but in any event prior to Sub-Subtenant's occupancy or move-in to the Sub-Subleased Premises, a representative of each of Sub-Sublandlord and Sub-Subtenant shall jointly inspect the Sub-Subleased Premises to identify material, malfunctioning Systems Furniture, Walls/Partitions, Personal Property or Supplmental HVAC units or any of the foregoing that were not removed or reconfigured as required herein, and shall, each acting in

good faith, jointly prepare a list of such items (the "**Punch List**"). In no event shall items be added to the Punch List after Sub-Subtenant's move-in or beneficial occupancy of the Sub-Subleased Premises. It is expressly understood and agreed that with respect to non-functioning items, the Punch List shall be limited to only those matters that result in the item in general being unusable for its intended purpose, as opposed to aesthetic imperfections or non-material items of repair (e.g., sticky drawers). Sub-Sublandlord shall repair or cause to be repaired Punch List items at Sub-Sublandlord's sole cost and expense, except to the extent set forth to the contrary in Section 3(b), below. Except as may be expressly set forth to the contrary in Subsections 2(a) through (e), and except for the Punch List items, each of the Sub-Subleased Premises, Systems Furniture, Walls/Partitions, Personal Property and Supplemental HVAC shall be delivered by Sub-Sublandlord and accepted by Sub-Subtenant in its ***"as is, where is"*** condition.

3. **Term.**

(a) **Sub-Sublease Term.** The term of this Sub-Sublease (the **"Sub-Sublease Term"***)* shall begin on the date the Sub-Sublandlord tenders possession of the Sub-Subleased Premises to Sub-Subtenant in the condition required by Section 2(a) hereof, which date shall be not later than June 1, 2014 (the **"Sub-Sublease Commencement Date"**). Sub-Subtenant's obligation to pay Annual Base Sub-Subrent shall commence on the date (the "**Sub-Sublease Rent Commencement Date**") that is the later to occur of (i) five (5) months after the Sub-Sublease Commencement Date or (ii) November 1, 2014. The Sub-Sublease Term shall terminate at midnight on December 31, 2018 (the **"Sub-Sublease Expiration Date"**), subject to earlier termination pursuant to the terms hereof, including subsection (c), below. Notwithstanding anything contained in this Sub-Sublease to the contrary, if Sub-Sublandlord has not tendered possession of the Sub-Subleased Premises to Sub-Subtenant on or before July 15, 2014, then the five (5) month period set forth in clause (i) hereinabove shall be extended by the number of days that the delivery of the Sub-Subleased Premises is delayed beyond July 15, 2014. If Sub-Sublandlord has not tendered possession of the Sub-Subleased Premises to Sub-Subtenant on or before September 1, 2014, then Sub-Subtenant, at its sole discretion, shall have the right to terminate this Sub-Sublease by delivering written notice of such termination to Sub-Sublandlord. Notwithstanding anything contained herein to the contrary, each of the July 15, 2014 and September 1, 2014 dates set forth above shall be extended one day for each day that Sub-Sublandlord is delayed in delivering the Sub-Subleased Premises to Sub-Subtenant due to actions of Sublandlord or Sub-Subtenant or due to casualty or Unavoidable Delay.

(b) **Early Entry.** Provided no Default then exists, from and after the date that is thirty (30) days immediately prior to the Sub-Sublease Commencement Date (such period, the **"Early Access Period"**)*,* Sub-Subtenant shall be permitted to access the Sub-Subleased Premises (subject to the provisions of this subsection (b)) for purposes of inspecting same, surveying requirements, moving, and installing furniture, fixtures, equipment, voice and data systems, telecommunications cabling and wiring in the Sub-Subleased Premises (subject to the provisions of this Sub-Sublease, including, without limitation, Section 7 of this Sub-Sublease). Such access to the Sub-Subleased Premises shall be subject to commercially reasonable prior notice to and prompt approval by Sub-Sublandlord (each of which notice and approval may be telephonic or by email correspondence), and shall be at no charge to Sub-Subtenant, but in no event shall Sub-Subtenant be permitted to commence business operations in the Sub-Subleased Premises prior to the Sub-Sublease Commencement Date without the approval of Sub-Sublandlord. Notwithstanding the foregoing, neither Sub-Subtenant nor any agent, contractor, representative, employee or invitee of Sub-Subtenant (collectively, **"Invitee"**) shall enter the Sub-Subleased Premises during the Early Access Period during those times that Sub-Sublandlord determines, in its reasonable discretion, that such entry will interfere with activities of Sub-Sublandlord or Sub-Sublandlord's agents or employees in the Sub-Subleased Premises. Prior to each such event, Sub-Sublandlord shall notify Sub-Subtenant of specific times during which Sub-Subtenant may make such entry. During the Early Access Period, neither Sub-Subtenant nor any of its Invitees shall delay or

otherwise inhibit the work being performed in the Sub-Subleased Premises by Sub-Sublandlord or Sub-Sublandlord's agents or employees. Sub-Sublandlord shall have no responsibility with respect to any items placed in the Sub-Subleased Premises by Sub-Subtenant or any Invitee prior to the Sub-Sublease Commencement Date. Sub-Subtenant shall reimburse Sub-Sublandlord, within thirty (30) days after invoice, all costs actually incurred by Sub-Sublandlord associated with Sub-Subtenant's access during the Early Access Period, including (i) costs which are billed to Sub-Sublandlord by Sublandlord, including, without limitation, engineering charges or overtime/extra hours service charges associated with non-business hour access to the Building, if any, and (ii) costs incurred by Sub-Sublandlord in repairing or replacing any damage to the Sub-Subleased Premises required to be repaird by Sublandlord under the Sublease or (iii) costs incurred by Sub-Sublandlord in repairing or replacing damage to any property or equipment located therein and required to be repaired by Sublandlord under the Sublease, which damage, in the case of (ii) and (iii) above, was caused by Sub-Subtenant or its Invitees. Notwithstanding anything in this Sub-Sublease to the contrary, all of the provisions of this Sub-Sublease (including, without limitation, all insurance, indemnity and utility provisions) shall apply during the Early Access Period, except that during such period Sub-Subtenant shall not be obligated to pay Rent.

(c) **Termination Option.** Sub-Subtenant shall have the right to terminate this Sub-Sublease (the **"Termination Option"**) in accordance with the provisions set forth in this subsection (c). Sub-Subtenant may exercise the Termination Option by delivering written notice of termination (the **"Termination Option Notice"**) to Sub-Sublandlord not later than six (6) months prior to the Termination Date (hereinafter defined), which Termination Date shall be set forth in the Termination Option Notice. In the event that Sub-Subtenant delivers the Termination Option Notice to Sub-Sublandlord, this Sub-Sublease shall terminate as of the Termination Date, and, thereafter, the parties shall have no further rights or obligations pursuant to this Sub-Sublease except those obligations that expressly survive termination hereunder. As used herein, the term "**Termination Date**" shall mean the date set forth in the Termination Option Notice, which date shall be not earlier than December 31, 2017. There shall be no fee or payment of any kind due from Sub-Subtenant in connection with the Termination Option. On the Termination Date, Sub-Subtenant shall vacate and surrender the Sub-Subleased Premises to Sub-Sublandlord in the condition required by this Sub-Sublease upon expiration.

4. **Rent**.

(a) **Base Sub-Subrent.** Beginning on the Sub-Sublease Rent Commencement Date, and throughout the Sub-Sublease Term, Sub-Subtenant shall pay to Sub-Sublandlord, as base sub-subrent hereunder, an annual rental (**"Annual Base Sub-Subrent"**) for each Sub-Sublease Year in an amount set forth below, which Annual Base Sub-Subrent shall increase as set forth below. For all purposes of this Sub-Sublease, the term **"Sub-Sublease Year"** shall mean, with respect to the first Sub-Sublease Year, the period commencing on the Sub-Sublease Rent Commencement Date and ending at midnight on the last day of the twelfth (12th) full calendar month after the Sub-Sublease Rent Commencement Date, and, with respect to future Sub-Sublease Years, the one year periods ending on the anniversary of such date thereafter. Annual Base Sub-Subrent through the Sub-Sublease Term shall be as follows:

Sub-Sublease Year	Annual Base Sub-Subrent per Rentable Square Foot	Annual Base Sub-Subrent	Monthly Installment of Annual Base Sub-Subrent
1 (Anticipated to be November 1, 2014 - October 31, 2015)	$41.00	$1,282,521.00	$106,876.75
2 (Anticipated to be November 1, 2015 - October 31, 2016	$42.64	$1,333,821.80	$111,151.81
3 (Anticipated to be November 1, 2016 - October 31, 2017)	$44.35	$1,387,312.30	$115,609.35
4 (Anticipated to be November 1, 2017 - October 31, 2018	$46.12	$1,442,679.70**	$120,223.30
5 (Anticipated to be November 1, 2018 - December 31, 2018)	$47.96	$1,500,236.70*,**	$125,019.72
* annualized **subject to Sub-Subtenant's Termination Option			

(b) **Subrent Payments.** The Annual Base Sub-Subrent for each Sub-Sublease Year shall be payable by Sub-Subtenant to Sub-Sublandlord in equal monthly installments in advance; provided, however, in lieu of payment to Sub-Sublandlord, such payments shall be made directly to Sublandlord by Sub-Subtenant if and to the extent required pursuant to the Consent (defined in Section 23 hereof). All payments of Annual Base Sub-Subrent shall be due and payable on the first day of each and every calendar month during the Sub-Sublease Term. Sub-Subtenant's obligation to pay Annual Base Sub-Subrent hereunder which accrued during the Sub-Sublease Term shall survive the expiration or earlier termination of this Sub-Sublease. In the event that the Sub-Sublease Term commences on a date other than the first day of a calendar month or expires on a day other than the last day of a calendar month, Annual Base Sub-Subrent owed for less than a full month shall be prorated on the basis of a 30-day month.

(c) **Additional Sub-Subrent.** For purposes hereof **"Additional Sub-Subrent"** means all other amounts (other than Annual Base Sub-Subrent) payable by Sub-Subtenant to Sub-Sublandlord pursuant to this Sub-Sublease, including, without limitation, costs arising from Sub-Subtenant's use of the Supplemental HVAC or electrical usage or costs incurred by Sub-Sublandlord under the Sublease arising or resulting from Sub-Subtenant's use of the Sub-Subleased Premises, including Sub-Subtenant's payment obligations pursuant to Section 10 below. Annual Base Sub-Subrent hereunder shall be gross rent, such that Sub-Subtenant shall not be responsible to pay any pass-through expense rental in connection with this Sub-Sublease. Sub-Sublandlord shall continue to be responsible at its sole cost and expense to pay all such Pass-Through Expense Rental required under the Sublease, including Pass-Through Expense Rental for the Sub-Subleased Premises. "**Rent**" as used herein shall mean Annual Base Sub-Subrent and Additional Sub-Subrent.

5. **Permitted Use; Access.** The Sub-Subleased Premises shall be used by Sub-Subtenant only for general office use and uses ancillary thereto in accordance with all applicable Laws and for no other

purpose, except as may be permitted by Sublandlord and the Prime Lease to the contrary. Subject to the provisions of the Prime Lease and this Sublease, Sub-Sublandlord shall not interfere with Sub-Subtenant's accessing the Sub-Subleased Premises in accordance with Section 12.A.(7) of the Prime Lease.

6. **Compliance with Sublease.**

(a) **Obligations under the Sublease**. Sub-Subtenant hereby acknowledges that it has read the Sublease and, except as set forth below, such Sublease is incorporated herein by reference as fully as if the terms and provisions thereof were set forth herein. Sub-Subtenant agrees to assume the same responsibilities and duties that the Sub-Sublandlord has as "Subtenant" to the Sublandlord with respect to the Sub-Subleased Premises, excepting matters relating to the identification of the Sub-Subleased Premises, and the amount and due dates of the rentals payable therefor, and other excluded or modified terms set forth herein provided, however, in no event shall Sub-Sublandlord be deemed to have assumed the responsibilities of the Sublandlord under the Sublease. Sub-Subtenant shall have the right, at Sub-Subtenant's sole cost and expense, to obtain consents, approvals and waivers directly from Sublandlord, and shall have the right to contact Sublandlord directly for enforcement of obligations of Sublandlord with respect to the Sublease so long as the obligations of Sub-Sublandlord as Subtenant under the Sublease are not increased by any of the foregoing and Sub-Sublandlord does not incur any additional costs or expenses under the Sublease resulting therefrom.

(b) **Incorporation of Sublease Provisions.** In furtherance of the provisions of Section 6(a), except as otherwise specifically provided for herein and to the extent they are not inconsistent with the terms and conditions of this Sub-Sublease, the sub-subletting effected hereby shall be upon all of the terms and conditions of the letting effected by the Sublease, except the provisions of the Sublease relating to "Sublandlord" shall be deemed to refer to Sub-Sublandlord, the provisions thereof relating to "Subtenant" shall be deemed to refer to Sub-Subtenant, the provisions of the Sublease relating to the Sublet Premises (as defined in the Sublease) shall be deemed to refer to the Sub-Subleased Premises, the provisions of the Sublease referring to the Sublease shall be deemed to refer to this Sub-Sublease, and the provisions of the Sublease relating to "Rent" shall be deemed to refer to Annual Base Sub-Subrent and Additional Sub-Subrent (unless, in any of the foregoing cases, the context otherwise requires). The foregoing notwithstanding, the following provisions of the Sublease shall not be applicable to this Sub-Sublease: Section 4, 5, 7, 8, 10, 11, 12, 13, 15, and 28 (except the defined terms in each). With respect to the relationship between the Sub-Sublandlord and the Sub-Subtenant, the express terms and conditions of the Sub-Sublease shall govern (and where the Sub-Sublease is silent, the Sublease shall govern); provided, however, if there is a conflict between the rights and obligations of Sub-Subtenant under this Sub-Sublease and the obligations of Sub-Sublandlord as Subtenant under the Sublease that could reasonably cause Sub-Sublandlord to be in default under the Sublease, then the terms of the Sublease (without regard to the preceding sentence) shall govern unless Sublandlord agrees in writing to waive such claim of default against Sub-Sublandlord.

(c) **Avoidance of Sublease Termination.** Sub-Sublandlord and Sub-Subtenant each shall take no action or permit anything to be done which would cause a termination of the Sublease (provided that Sub-Sublandlord shall be entitled to terminate the Sublease pursuant to Section 9 of the Sublease in connection with the exercise of its rights following any condemnation or casualty affecting the Sub-Subleased Premises). Each of Sub-Sublandlord and Sub-Subtenant shall indemnify, defend and hold the other harmless from and against any loss, cost, damage or expense (including, without limitation, court costs and reasonable attorneys' fees) incurred as a result of a breach by Sub-Sublandlord or Sub-Subtenant, as the case may be, of the foregoing covenant.

(d) **Actions Requiring Sublandlord Consent.** Whenever Sub-Subtenant desires to take any action that would require the consent of Sublandlord under the Sublease, Sub-Subtenant shall only take such action if the consent of each of Sublandlord and Sub-Sublandlord is obtained, which consent, in the case of Sub-Sublandlord, shall automatically be deemed obtained if consented to by Sublandlord so long as the obligations of Sub-Sublandlord as Subtenant under the Sublease are not increased by any of the foregoing and Sub-Sublandlord does not incur any additional costs or expenses under the Sublease resulting therefrom.

7. **Alterations, Electrical Usage.**

(a) **Alterations.**

(i) Sub-Subtenant shall not make or permit to be made any alterations, additions, improvements, or modifications to the Sub-Subleased Premises (an **"alteration"**) without (i) the prior written consent of Sub-Sublandlord and Sublandlord and (ii), to the extent required by the Prime Lease, the prior written consent of Landlord. If the alteration is a Cosmetic Alteration, then Sub-Sublandlord's consent shall not be required (but Sub-Subtenant shall notify Sub-Sublandlord of such alteration). A "**Cosmetic Alteration**" is an alteration that is (i) cosmetic in nature (e.g., painting, wallcoverings, carpeting, hanging of artwork, and the like), and (ii) does not require a building permit to perform. If the alteration is other than a Cosmetic Alteration, then Sub-Sublandlord's consent shall be required, which consent shall not be unreasonably withheld, conditioned or delayed (and which consent shall be deemed obtained if no response is made by Sub-Sublandlord to Sub-Subtenant's request for consent within ten (10) days after Sub-Subtenant's delivery of such written request to Sub-Sublandlord). Any alterations shall be made at Sub-Subtenant's expense, in a good and workmanlike manner by contractors and subcontractors approved by Sublandlord, and, if required by the Prime Lease, by Landlord, provided, however, with respect to alterations affecting the Walls/Partitions or Systems Furniture, Sub-Subtenant shall use contractors, subcontractors and vendors designated by Sublandlord. All alterations shall be made only after Sub-Subtenant: (i) has obtained all necessary permits from governmental authorities having jurisdiction and has furnished copies thereof to Sublandlord, and (ii) has complied with all other requirements reasonably imposed by Sublandlord, including without limitation any requirements due to the underwriting guidelines of Sublandlord's insurance carriers. At Sub-Subtenant's expense, Sub-Sublandlord shall join in submitting Sub-Subtenant's plans for any necessary governmental approval, if required by applicable law. Sub-Sublandlord's consent (or deemed consent) to any alterations and approval (or deemed approval) of any plans and specifications constitutes approval of no more than the concept of these alterations and not a representation or warranty with respect to the quality or functioning of such alterations, plans and specifications. Sub-Subtenant shall reimburse Sub-Sublandlord any charge actually incurred by Sub-Sublandlord by invoice from Sublandlord in connection with any alteration performed by or on behalf of Sub-Subtenant hereunder. Sub-Subtenant hereby agrees to indemnify and hold Sub-Sublandlord harmless against and from any and all claims, damages, costs, and fines arising out of or connected with alterations performed by or on behalf of Sub-Subtenant hereunder.

(ii) All alterations performed by or on behalf of Sub-Subtenant shall remain in place at the end of the Sub-Sublease Term unless Sublandlord requires removal of same in writing, in which event, Sub-Subtenant shall be responsible to restore those portions of the Sub-Subleased Premises altered by Sub-Subtenant that are required to be restored by Sublandlord, at Sub-Subtenant's sole cost and expense on or prior to the end of the Sub-Sublease Term (including any early termination thereof).

(iii) **Electrical Usage**. Except to the extent caused by the negligence or willful misconduct of Sub-Sublandlord, Sub-Subtenant hereby agrees to indemnify and hold Sub-Sublandlord harmless against and from any and all claims, damages, costs, and fines arising out of or connected with

Sub-Subtenant's use of electricity in the Sub-Subleased Premises in excess of the Sub-Subleased Premises Standard Electrical Capacity.

8. **Liability for Damage or Injury and Indemnification.**

(a) **Limitation of Liability; Indemnification.** Sub-Sublandlord shall not be liable for any damage to the Sub-Subleased Premises or any injury to persons sustained by Sub-Subtenant or its employees, agents, invitees, guests, or other persons caused by conditions or activities on the Sub-Subleased Premises or the Building (including, without limitation, the Cafeteria, Fitness Center, Bike Room or Shower Facilities), or activities of Sub-Subtenant in or upon the Building (including, without limitation, use of the Cafeteria, Fitness Center, Bike Room or Shower Facilities), except to the extent any loss, cost, damage or expense is attributable to the gross negligence or intentional misconduct of Sub-Sublandlord or its agents or employees, and subject to the waiver of subrogation provisions hereof and in the Sublease. Subject to the waiver of subrogation provisions set forth in subsection (b), below, except to the extent caused by the negligence or willful misconduct of Sub-Sublandlord or its agents or employees, (each of the foregoing, an ***"Indemnified Party"),*** Sub-Subtenant hereby indemnifies and saves harmless the non-negligent Indemnified Parties from any liability, loss, cost or expense (including, without limitation, reasonable attorneys' fees) arising out of (i) Sub-Subtenant's use or occupancy of the Sub-Subleased Premises, the Cafeteria, Fitness Center, Bike Room or Shower Facilities and (ii) Sub-Subtenant's failure to keep, observe or perform any of the terms, provisions, covenants, conditions and obligations on Sub-Subtenant's part to be kept, observed or performed under this Sub-Sublease. Subject to the waiver of subrogation provisions set forth in subsection (b), below, except to the extent caused by the negligence or willful misconduct of Sub-Subtenant or Sublandlord, Sub-Sublandlord hereby indemnifies and saves harmless Sub-Subtenant from any liability, loss, cost or expense (including, without limitation, reasonable attorneys' fees) arising out of Sub-Sublandlord's failure to keep, observe or perform any of the terms, provisions, covenants, conditions and obligations on Sub-Sublandlord's part to be kept, observed or performed under this Sub-Sublease. Sub-Subtenant's and Sub-Sublandlord's obligation hereunder shall survive the termination of this Sub-Sublease. Unless carried by Sublandlord, Sub-Subtenant shall carry all insurance, in form and substance as required of Sub-Sublandlord under the Sub-Sublease.

(b) **Waiver of Subrogation.** Notwithstanding anything to the contrary in this Sub-Sublease, whether the loss or damage is due to the negligence of Sub-Sublandlord or its agents or employees, Sub-Subtenant hereby releases Sub-Sublandlord and its agents and employees from responsibility for and waives its entire claim of recovery for (i) any and all loss or damage to the personal property of Sub-Subtenant located in the Sub-Subleased Premises arising out of any of the perils which are covered by Sub-Subtenant's property insurance policy or which would be covered by an all-risk property insurance policy if such policy was obtained by Sub-Subtenant, or (ii) loss resulting from business interruption at the Sub-Subleased Premises, arising out of any of the perils which may be covered by the business interruption insurance policy carried by Sub-Subtenant or which would be covered by a business interruption insurance policy with twenty-four (24) months coverage if such policy was obtained by Sub-Subtenant. Similarly, notwithstanding anything to the contrary in this Sub-Sublease, whether the loss or damage is due to the negligence of Sub-Subtenant or its agents or employees, Sub-Sublandlord hereby releases Sub-Subtenant and its agents and employees from responsibility for and waives its entire claim of recovery for any and all loss or damage to personal property of Sub-Sublandlord located in the Sub-Subleased Premises, arising out of any of the perils which are covered by any such property insurance or business interruption insurance which Sub-Sublandlord obtains or would be covered if any such policy was obtained by Sub-Sublandlord. Sub-Sublandlord and Sub-Subtenant shall each cause its respective insurance carrier(s) to consent to such waiver of all rights of subrogation against the other, and to issue an endorsement to all policies of insurance obtained by such party confirming that the foregoing release and waiver will not invalidate such policies. Sub-Subtenant shall only

be required to obtain such insurance waiver if and to the extent Sublandlord has not done so for the benefit of Subtenant under the Sublease.

9. **Assignments and Subleases.**

(a) Sub-Subtenant shall have the right to assign, mortgage, pledge or otherwise encumber this Sub-Sublease or any interest herein (including any assignment by operation of law), or sub-sublet all or any part of the Sub-Subleased Premises (any of the foregoing, a **"transfer"**) without the prior written consent of either Sub-Sublandlord or Sublandlord, including, without limitation, transfers to Permitted Transferees (hereinafter defined). No assignment or sub-subletting shall relieve Sub-Subtenant from primary liability for all obligations of Sub-Subtenant under this Sub-Sublease, whether accruing before or after the date of such assignment or sub-subletting. For purposes of this Sub-Sublease, the term "sublet" or "sub-sublet" shall be deemed to include the granting of any rights of occupancy of any portion of the Sub-Subleased Premises. Any attempted transfer in violation of the requirements of this Section 9 shall be null and void and of no force or effect.

(b) Except for transfers to Permitted Transferees, if Sub-Subtenant wishes to enter into a transfer, Sub-Subtenant must provide not less than ten (10) days' prior written notice thereof to Sub-Sublandlord, which notice shall include the proposed effective date of such assignment or sublease, and in the case of a proposed sublease, shall specify the space to be sublet.

(c) The consent by Sub-Sublandlord to any transfer shall neither be construed as a waiver or release of Sub-Subtenant from any covenant or obligation of Sub-Subtenant under this Sub-Sublease, nor as relieving Sub-Subtenant from giving Sub-Sublandlord the aforesaid thirty (30) days notice of, or from obtaining the consent of Sub-Sublandlord as and in accordance with subsection (a) above, to, any further transfer. The collection or acceptance of rent from any such transferee shall not constitute a waiver or release of Sub-Subtenant from any covenant or obligation of Sub-Subtenant under this Sub-Sublease, except as expressly agreed by Sub-Sublandlord in writing.

(d) Notwithstanding anything contained herein to the contrary, the Sub-Subleased Premises may be occupied by, or subleased or assigned to, a Sub-Subtenant Affiliate, and such occupancy, assignment or sublease shall be permitted provided Sub-Subtenant delivers notice thereof to Sub-Sublandlord prior to such occupancy, assignment or sublease and such Sub-Subtenant Affiliate agrees in writing to assume all obligations of Sub-Subtenant under this Sub-Sublease. For purposes of this subparagraph, a **"Sub-Subtenant Affiliate"** shall mean an entity that, directly or indirectly Controls, is Controlled by, or is under common Control with Sub-Subtenant. For purposes of this subparagraph, **"Control"** shall mean ownership of sufficient stock or membership or partnership interests of an entity to have voting control of such entity (such as ownership of 50% or more of the outstanding voting stock of a corporation or of the outstanding membership, partnership or other similar interest if such entity is not a corporation). Notwithstanding anything contained herein to the contrary, Sub-Subtenant may assign this Sub-Sublease to an entity with which Sub-Subtenant merges, consolidates or which purchases all or substantially all of Sub-Subtenant's stock or assets (a **"Successor"**) without Sub-Sublandlord's prior written approval. The term **"Permitted Transferee"** shall mean a Sub-Subtenant Affiliate or Successor, and the term **"Permitted Transfer"** shall mean a transfer to Permitted Transferee in accordance with this Section 9(d). In the event of a transfer to a Sub-Subtenant Affiliate, Sub-Subtenant shall not be released from any covenant or obligation of Sub-Subtenant under this Sub-Sublease, but shall remain jointly and severally liable with Sub-Subtenant Affiliate for the performance of all covenants and obligations hereunder. In the event of a transfer to a Successor, such Successor shall expressly assume all obligations of Sub-Subtenant under this Sub-Sublease in writing.

10. **Services**. Anything contained in this Sub-Sublease to the contrary notwithstanding, the only services or rights to which Sub-Subtenant is entitled hereunder are those to which Sub-Sublandlord is entitled under the Sublease from Sublandlord. In the event Sub-Sublandlord is entitled to any rental abatement on account of any interruption of essential services to the Sub-Subleased Premises (and not other portions of the Subleased Premises subleased by Sub-Sublandlord pursuant to the Sublease) pursuant to the terms of the Sublease, Sub-Subtenant shall be entitled to proportionately abate its rental obligations hereunder for the same period of time. Sub-Subtenant shall, within thirty (30) days of demand, pay or reimburse Sub-Sublandlord for all costs and expenses actually incurred by Sub-Sublandlord (i) payable under the Sublease arising solely out of Sub-Subtenant's acts or omissions with respect to this Sub-Sublease or the Sub-Subleased Premises or Sub-Subtenant's requests for services in excess of those provided by Landlord and included in Operating Expenses under the Prime Lease in connection with the Sub-Subleased Premises and (ii) for services to the Sub-Subleased Premises requested in writing by Sub-Subtenant which are provided directly by Sublandlord and billed to Sub-Sublandlord, including (a) supplemental chilled or condenser water, (b) above building standard or overtime HVAC, (c) extra cleaning, (d) overtime or dedicated freight elevator service, and (e) any maintenance, repair or other service for which a separate charge is payable to Landlord under the Prime Lease or which is provided by Sublandlord, and (f) any janitorial service in excess of those described on Exhibit E of the Prime Lease. Sublandlord currently causes the carpeting in the elevator lobby of the Sub-Subleased Premises to be cleaned approximately once per quarter, which frequency exceeds that set forth in the standard janitorial specifications set forth on Exhibit E of the Prime Lease and therefore may result in a separate charge. To the extent Sub-Sublandlord is billed for such costs, Sub-Subtenant shall pay the excess charge to Sub-Sublandlord that is allocable to the Sub-Subleased Premises as Additional Sub-Subrent from time to time. Sublandlord currently maintains the Supplemental HVAC, as well as the water heaters, water filters, VAV boxes, and appurtenances thereto. To the extent Sub-Sublandlord is billed by Sublandlord for such costs attributable to the Sub-Subleased Premises, Sub-Subtenant shall pay its share of such maintenance costs to Sub-Sublandlord as Additional Sub-subrent from time to time.

11. **Default.**

(a) In the event that Sub-Subtenant shall be in default beyond any applicable notice and cure period of any covenant or obligation under this Sub-Sublease, or if any other default set forth in Section 19 of the Prime Lease occurs with respect to Sub-Subtenant and is not cured within the applicable notice and cure periods set forth in such Section 19, then Sub-Sublandlord shall have available to it all of the remedies available to Sublandlord under the Sublease in the event of a like default or failure on the part of the Subtenant thereunder. Sub-Subtenant shall have the same cure periods and notice rights in connection with a default under this Sub-Sublease as Tenant has under the Prime Lease; provided, however, if Sub-Sublandlord receives a notice of default from Sublandlord relating to a default by Sub-Subtenant, then the period of time to cure such Sub-Subtenant default set forth in such default notice shall govern. Sub-Sublandlord shall use commercially reasonable efforts to mitigate its damages resulting from a default under this Sub-Sublease by Sub-Subtenant beyond any applicable notice and cure period. Notwithstanding anything contained herein to the contrary, except with respect to payments that are required to be made by Sub-Subtenant directly to Sub-Sublandlord hereunder which fail to be paid within the timeframes required hereby, Sub-Sublandlord shall not declare a default against Sub-Subtenant unless Sublandlord has delivered a notice of such default to Subtenant under the Sublease with respect to the actions or omissions of Sub-Subtenant (including failure of Sub-Subtenant to pay Sub-Subrent directly to Sublandlord).

(b) Revocation of Offset Payments. Notwithstanding the foregoing, in the event that (and during any period that) Sublandlord revokes the Offset Payments (as defined in the Consent), then (i) in lieu of the cure period for monetary defaults set forth in Section 19 of the Prime Lease as provided hereinabove, Sub-Subtenant shall be in default under this Sub-Sublease for failure to pay Rent if Sub-

Subtenant fails to pay Rent when due, and such failure continues for five (5) days after written notice thereof from Sub-Sublandlord and (ii) in addition to the rights and remedies afforded Sub-Sublandlord in the event of a default for failure to pay Rent when due, if Sub-Sublandlord fails to pay Rent when due, and such failure continues for five (5) days after written notice of such failure to Sub-Subtenant, then Sub-Sublandlord shall be entitled to collect a late fee from Sub-Subtenant in the amount of three percent (3%) of the overdue amount.

12. **No Waiver.** The failure of either party to insist at any time upon the strict performance of any covenant or agreement herein, or to exercise any option, right, power or remedy contained in this Sub-Sublease shall not be construed as a waiver or a relinquishment thereof for the future. No act or thing done by Sub-Sublandlord or its agents during the term hereof shall be deemed an acceptance or surrender of the Sub-Subleased Premises, and no agreement to accept a surrender of the Sub-Subleased Premises shall be valid unless in writing and signed by Sub-Sublandlord.

13. **Surrender of Sub-Subleased Premises; Holdover.** Upon the expiration or other termination of the Sub-Sublease Term, Sub-Subtenant shall quit and surrender to Sub-Sublandlord the Sub-Subleased Premises, broom clean, in good order and condition, ordinary wear and tear excepted, and Sub-Subtenant shall remove all of its property as provided in Section 10.B. of the Prime Lease. Sub-Subtenant shall only be required to remove alterations that are required to be removed by Sublandlord in writing. In the event of holding over by Sub-Subtenant or any person or entity claiming under Sub-Subtenant after expiration or other termination of the Sub-Sublease Term, or in the event Sub-Subtenant continues to occupy the Sub-Subleased Premises after the termination of Sub-Subtenant's right of possession due to a default by Sub-Subtenant, such holding over or possession shall constitute a tenancy at sufferance. In the event of any such holding over, Sub-Sublandlord shall have the right, in accordance with applicable law, to enter upon and take possession of the Sub-Subleased Premises. Sub-Subtenant shall, throughout the entire holdover period, pay Rent at the times and in the manner required by this Sub-Sublease; provided, however, if Sub-Subtenant holds over in the Sub-Subleased Premises after the Termination Date, and if Sub-Sublandlord desires to repossess the Sub-Subleased Premises at any time on or after the Termination Date, then Sub-Sublandlord shall deliver notice requiring Sub-Subtenant to vacate the Sub-Subleased Premises (the "**Vacation Notice**"), which vacation and surrender shall occur not earlier than the later of (x) thirty (30) days after the Vacation Notice or (y) the Termination Date (the "**Vacation Date**"). If Sub-Subtenant has not vacated and surrendered the Sub-Subleased Premises to Sub-Sublandlord on or before the Vacation Date, then, from and after the Vacation Date, and during the holdover period, in addition to Sub-Sublandlord's other rights and remedies, Sub-Subtenant shall pay Monthly Base Sub-Subrent to Sub-Sublandlord in an amount equal to 150% of the Monthly Base Sub-Subrent in effect during the last month of the Sub-Sublease Term, prorated for the number of days of holdover past the Vacation Date. No holding over by Sub-Subtenant after the expiration of the Sub-Sublease Term and no acceptance of Rent by Sub-Sublandlord during a holdover period, whether with or without the consent of Sub-Sublandlord, shall be construed to extend the Sub-Sublease Term or prevent Sub-Sublandlord from recovering immediate possession of the Sub-Subleased Premises by summary proceedings or otherwise. In addition, in the event of any unauthorized holding over by Sub-Subtenant which results in holdover under the Sublease by Sub-Sublandlord, Sub-Subtenant will protect, defend, indemnify and hold Sub-Sublandlord harmless from and against any claims, demands, liability, costs, expenses or damages (including reasonable attorneys' fees) for which Sub-Sublandlord may become liable to Sublandlord under the Sublease due to such holding over.

14. **Security Deposit.** If, during the Sub-Sublease Term, Sublandlord revokes the Offset Payments, then, within three (3) days after notice of such revocation, Sub-Subtenant shall deliver to Sub-Sublandlord a security deposit ("**Security Deposit**") in the amount of the then-current amount of one Monthly Installment of Annual Base Sub-Subrent, which Security Deposit may be in the form of cash or a letter of credit that conforms to the requirements for the form of Letter of Credit set forth in Section 11(b) of the

Sublease, to secure the payment and performance by Sub-Subtenant of all of Sub-Subtenant's obligations, covenants, conditions and agreements under this Sub-Sublease. If in the form of cash, Sub-Sublandord shall not be required to keep the Security Deposit separate from other funds or accounts of Sub-Sublandord and the Security Deposit shall not bear interest. If Sub-Subtenant defaults in the observance or performance of any of such terms and conditions (beyond any applicable notice and cure period of any covenant or obligation under this Sub-Sublease), Sub-Sublandord may use or apply all or any part of the Security Deposit for the payment of any Rent not paid when due or for the payment of any other amounts due Sub-Sublandord by reason of such default, including any costs of Sub-Sublandord's observing or performing such terms or conditions on Sub-Subtenant's behalf and any deficiencies in reletting or damages incurred by Sub-Sublandord. If Sub-Sublandord shall use or apply all or any part of the Security Deposit, Sub-Subtenant shall, immediately upon notice from Sub-Sublandlord (and in any event within three (3) business days' thereafter), shall deliver to Sub-Sublandord additional funds so as to restore the Security Deposit to the amount specified above. If Sub-Subtenant shall faithfully observe and perform all of the terms and conditions of this Sub-Sublease, the Security Deposit, or so much thereof as shall not have been used or applied in accordance with this Section 14, shall be returned to Sub-Subtenant within thirty (30) days after the expiration or sooner termination of this Sub-Sublease and the vacation and surrender of the Sub-Sublet Premises in accordance with this Sub-Sublease. In the event of any assignment of Sub-Sublandord's interest in this Sub-Sublease, Sub-Sublandord shall have the right to transfer the Security Deposit to such assignee, in which event such assignee shall hold, use and apply the Security Deposit in accordance with the covenants, terms and conditions of this Sub-Sublease. Sub-Subtenant shall look solely to the assignee for the return of the Security Deposit and Sub-Sublandord shall thereupon be released from all liability to Sub-Subtenant for the return of the Security Deposit. Sub-Subtenant shall not assign (other than to a permitted assignee of this Sub-Sublease) or encumber its interest in the Security Deposit and no such assignment or encumbrance shall be valid or binding upon Sub-Sublandord. Notwithstanding anything contained herein to the contrary, if, after posting the Security Deposit, Sublandlord reinstates the Offset Payment, then Sub-Sublandlord shall return the Security Deposit to Sub-Sublandlord within five (5) days after notice of such reinstatement, and if, after reinstatement, the Offset Payments are again revoked, then the provisions of this Section 14 shall again apply and Sub-Sublandlord shall deposit the Security Deposit with Sub-Sublandlord. For clarity, the intention is that so long as the Offset Payment provision of the Consent is applicable, then no Security Deposit shall be required under this Sub-Sublease, but if the Offset Payment provision of the Consent is not applicable, then during any period in which the Offset Payment provision is not applicable, Sub-tenant shall be required to deposit and maintain the Security Deposit with Sub-Sublandlord in accordance with the provisions of this Section 14.

15. **Broker.** Each party represents and warrants to the other that, except for CBRE, Inc. (**"Sub-Subtenant's Broker"**) and Jones Lang LaSalle Brokerage, Inc. (**"Sub-Sublandlord's Broker"** and, together with Sub-Subtenant's Broker, "**Brokers**") (i) no broker brought about this transaction or dealt with either party in connection herewith, and (ii) neither party has had any dealings with any real estate broker, finder or other person, with respect to this Sub-Sublease in any manner. Each party agrees to indemnify, defend and hold harmless the other against and from any and all losses, costs, claims, damages and expenses (including, without limitation, reasonable attorneys' fees) which may be claimed by any broker (other than the Brokers) by reason of any dealings, actions or agreements with the indemnifying party. Sub-Sublandlord agrees to compensate the Brokers pursuant to the terms of a separate agreement between Sub-Sublandlord and the Brokers.

16. **Notices.** All notices given or required to be given pursuant to the provisions hereof shall be in writing and shall only be sent by reputable overnight delivery service or certified mail, postage prepaid, return receipt requested, to the following addresses, or to such other address as the party to be notified shall specify in writing by such notice:

Sub-Sublandlord: Rosetta Stone Ltd.
135 West Market Street
Harrisonburg, VA 22801
Attention: General Counsel

Sub-Subtenant: CEB
1919 North Lynn Street
Arlington, Virginia 22209
Attention: Barron Anschutz, Controller

With a copy to:

CEB
1919 North Lynn Street
Arlington, Virginia 22209
Attention: Roman A. Richey, Managing Director/Head of Real Estate

With a copy to:

Holland & Knight LLP
800 17th Street, N.W.
Suite 1100
Washington, D.C. 20006
Attention: Robin F. Gonzales, Esq.

Notices shall be deemed given and effective upon the date of delivery (or refusal to accept delivery) if delivered by hand or overnight delivery service, and upon the date set forth on the return receipt therefor if delivered by certified mail.

17. **Parking.** Sub-Subtenant shall have the ongoing right, but not the obligation, to obtain non-reserved, first-come, first-served parking contracts, by contracting directly with the Garage Operator, for the parking of up to twenty-four (24) automobiles in the Garage upon the same rental, terms and conditions in the parking contracts that the Garage makes available to Sub-Sublandlord, and Sub-Sublandlord hereby relinquishes and shall have no further rights with respect to such spaces under the Sublease. All parking rights granted to Sub-Subtenant shall be at Sub-Subtenant's sole risk. Sub-Subtenant shall obtain parking access keys directly from Sublandlord at Sub-Subtenant's expense.

18. **Subtenant Signage.** Sub-Subtenant shall have the right to install, at its expense, suite entry signage at the entrance to the Sub-Subleased Premises, in a location and with dimensions as approved by Sublandlord. Sub-Subtenant acknowledges and agrees that the Building does not have a lobby directory.

19. **Waiver of Jury Trial.** THE PARTIES HERETO EACH HEREBY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY CLAIM, ACTION, PROCEEDING OR COUNTERCLAIM BY EITHER PARTY AGAINST THE OTHER ON ANY MATTERS ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS SUB-SUBLEASE, THE RELATIONSHIP OF THE PARTIES HERETO OR SUB-SUBTENANT'S USE OR OCCUPANCY OF THE SUB-SUBLEASED PREMISES.

20. **Reciprocal Litigation Costs.** In the event of any litigation between Sub-Sublandlord and Sub-Subtenant, the unsuccessful party as determined by a court of competent jurisdiction shall reimburse

the successful party for all reasonable legal fees, court costs and out-of-pocket expenses incurred by the successful party in prosecuting or defending any such action.

21. **Estoppel Certificates.** Each party shall, from time to time, within ten (10) business days following request by the other party, execute and deliver to such persons as requested by such party, a statement certifying that this Sub-Sublease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as so modified), stating the dates to which Annual Base Sub-Subrent and other charges payable under this Sub-Sublease have been paid, and stating that, to the certifying party's knowledge, the requesting party is not in default hereunder (or if a default is alleged to exist, stating the nature of such alleged default).

22. **Representations.** Sub-Sublandlord represents that, as of the date hereof: (a) it has not received any notice from the Sublandlord asserting that Sub-Sublandlord is in Default under the Sublease and, to its knowledge, it is not aware of any default on its part under the Sublease, (b) the Sublease is unmodified and in full force and effect; (c) Sub-Sublandlord has the power and authority to enter into this Sub-Sublease. Sub-Subtenant represents that it has the power and authority to enter into this Sub-Sublease.

23. **Consent of Sublandlord.** The parties shall enter into the Consent of Sublandlord letter agreement in the form attached hereto as **Exhibit A** on or about the date hereof the (**"Consent"**). If Sublandlord fails to execute the Consent within ten (10) business days after written request therefor, following full execution and delivery by both parties of this Sub-Sublease, then Sub-Sublandlord shall have the right to terminate this Sub-Sublease by written notice thereof to Sub-Subtenant and Sublandlord, which must be delivered within five (5) business days after expiration of such ten-10 business day period (time being of the essence), else such right to terminate is automatically waived and of no further force or effect.

24. **Miscellaneous.**

(a) **Time of the Essence.** Time is of the essence in the performance by both parties with respect to their obligations hereunder.

(b) **Severability.** In the event any part of this Sub-Sublease is held to be unenforceable or invalid for any reason, the balance of this Sub-Sublease shall not be affected and shall remain in full force and effect during the term of this Sub-Sublease.

(c) **Binding Effect.** The covenants, conditions, agreements, terms and provisions of this Sub-Sublease shall be binding upon and shall inure to the benefit of the parties hereof and each of their respective successors and assigns, subject to the restrictions and limitations set forth herein.

(d) **Governing Law.** It is the intention of the parties hereto that this Sub-Sublease (and the terms and provisions hereof) shall be construed and enforced in accordance with the laws of the Commonwealth of Virginia.

(e) **Entirety.** It is understood and agreed by and between the parties hereto that this Sub-Sublease and the Consent contain the final and entire agreement between the parties relative to the subject matter hereof, and that they shall not be bound by any terms, statements, conditions or representations relative to the subject matter hereof, oral or written, express or implied, not herein contained. This Sub-Sublease may not be changed or terminated orally or in any manner other than by an agreement in writing and signed by all parties hereto.

(f) **Submission Not an Offer.** The submission of this Sub-Sublease by either party to the other shall not constitute an offer by such party and neither party shall be bound in any way unless and until this Sub-Sublease is executed and delivered by both parties.

(g) **Counterparts.** This Sub-Sublease may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

(h) **Exhibits.** The exhibits attached hereto are made a substantive part of this Sub-Sublease.

(i) **Appointment of Resident Agent.** For purposes of § 55-218.1 of the Code of Virginia, Sub-Sublandlord appoints as its resident agent:______________________.

(j) **No Recordation.** Neither party shall have the right to record this Sub-Sublease or the Sublease.

(k) **Contracts of Sub-Sublandlord.** Sub-Subtenant shall not do or permit any activity or condition that might cause Sublandlord to be in default under any contract relating to the Building or the operation thereof.

(l) **Quiet Enjoyment**. Sub-Sublandlord covenants and agrees with Sub-Subtenant that so long as no default by Sub-Subtenant exists under this Sub-Sublease after notice and applicable cure periods have passed, Sub-Subtenant shall have quiet and undisturbed and continuous possession of the premises, free from any claims against the Sub-Sublandlord and all persons claiming under it, by or through the Sub-Sublandlord.

(m) **No Merger or Imputed Obligations**. The covenants, representations, warranties, and obligations of Sub-Subtenant under this Sub-Sublease shall apply only to Sub-Subtenant and shall not be conferred or imputed to Sublandlord under the Sublease or to Tenant under the Prime Lease, regardless of any unity of identity among the entities comprising Sub-Subtenant, Sublandlord and Tenant. Each of the Prime Lease, Sublease, and Sub-Sublease shall be and remain separate and distinct documents, and none of the rights and obligations among them shall merge notwithstanding unity of identity among parties thereto.

[Signature Page Follows]

In Witness Whereof, the parties hereto have made and entered into this Sub-Sublease Agreement under seal as of the date and year first set forth above.

WITNESS/ATTEST:	**SUB-SUBTENANT:** **THE CORPORATE EXECUTIVE BOARD COMPANY d/b/a CEB** By: Name: Title:
WITNESS/ATTEST:	**SUB-SUBLANDLORD:** **ROSETTA STONE LTD.** By: Name: Title:

Exhibits to be attached:

Exhibit A: Form of Consent of Sublandlord
Exhibit B-1: Walls/Partitions and Systems Furniture
Exhibit B-2: Personal Property
Exhibit B-3: Supplemental HVAC

Exhibit 10.28

EXECUTIVE EMPLOYMENT AGREEMENT

THIS EXECUTIVE EMPLOYMENT AGREEMENT (this **"Agreement"**) is effective as of June 2, 2014, between Rosetta Stone Ltd., a Virginia corporation (together with its successors and assigns, the **"Company"**), and Christian Na (**"Executive"**).

Recitals

A. The Company and Executive desire to enter into an agreement pursuant to which the Company will employ Executive as its Chief Legal Officer and Secretary subject to the terms and conditions of this Agreement.

Agreement

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and promises contained herein, the parties agree as follows:

1. **Employment**.

The Company hereby engages Executive to serve as the Chief Legal Officer and Secretary of the Company and its Affiliates, and Executive agrees to serve the Company and its Affiliates, during the Service Term (as defined in Section 4 below) in the capacities, and subject to the terms and conditions, set forth in this Agreement.

2. **Duties.**

During the Service Term, Executive, as Chief Legal Officer and Secretary of the Company, shall have all the duties and responsibilities customarily rendered by General Counsels of companies of similar size and nature and such other duties and responsibilities as may be delegated from time to time by the Board or the Chief Executive Officer of the Company (**"Chief Executive Officer"**) in their sole discretion. Executive will report to the Chief Executive Officer.

Executive will devote his best efforts and substantially all of his business time and attention (except for vacation periods and periods of illness or other incapacity) to the business of the Company and its Affiliates. With the prior consent of the Chief Executive Officer, Executive will be permitted to serve on the boards of other companies so long as such service does not unreasonably interfere with his duties to the Company.

3. **Salary, Bonus and Benefits.**

The Board shall make all decisions related to Executive's base salary and the payment of bonuses, if any. Executive's Annual Base Salary and other compensation will be reviewed by the Board at least annually.

(a) **Base Salary.** During the Service Term, the Company will pay Executive a base salary (the **"Annual Base Salary"**) as the Board may designate from time to time. The initial Annual Base Salary shall be at the rate of $325,000 per annum paid in accordance with the Company's customary payroll practices (minus all applicable withholdings and deductions). Executive's Annual Base Salary for any partial year will be prorated based upon the number of days elapsed in such year. The Annual Base Salary may be

increased (but not decreased) from time to time during the Service Term by the Board based upon the Company's and Executive's performance.

(b) **Bonus Plan.** Executive shall be eligible to receive a bonus in accordance with Company bonus policy to be established by the Board from time to time**.** The bonus, if any, will be determined by the Board based upon the Company's achievement of financial performance goals and other objectives, as determined by the Board in good faith for each fiscal year of the Company. The Company will pay Executive the bonus, if any, in accordance with the terms of the then-current Company bonus policy. As of the Executive's hire date, the Executive will be able to participate in the annual bonus plan (the "Annual Bonus") and be eligible to receive an Annual Bonus target of sixty percent (60%) of his Annual Base Salary upon one hundred percent (100%) achievement of annual objectives, prorated for the length of participation in 2014. For subsequent years, the Annual Bonus target as a percentage of then-current Annual Base Salary, may be adjusted, but may not be less than sixty percent (60%) of the Executive's then-current Annual Base Salary.

(c) **Equity.** The Executive will receive an initial new hire equity grant, with a total value of $250,000, consisting of 60% of the value in stock options, vesting over four (4) years; and a restricted stock award grant representing 40% of the value, vesting over four (4) years, on the date of grant subject to the terms of the 2009 Rosetta Stone Inc. Omnibus Incentive Plan, as amended, and the applicable form of award agreement. Executive shall be eligible to receive annual grants of stock options and other equity awards in accordance with equity compensation arrangements established by the Board. The grants shall have such terms as are determined by the Board in accordance with the current stock plan in place at time of grant.

(d) **Benefits.**

(i) Executive and, to the extent eligible, his dependents, shall be entitled to participate in and receive all benefits under any welfare or pension benefit plans and programs made available to the Company's senior level executives or to its employees generally (including, without limitation, medical, disability and life insurance programs, accidental death and dismemberment protection, leave and participation in retirement plans and deferred compensation plans), subject, however, to the generally applicable eligibility, participation, and other provisions of the various plans and programs and laws and regulations in effect from time to time.

(ii) The Company shall reimburse Executive for all reasonable, ordinary and necessary business, travel or entertainment expenses incurred during the Service Term in the performance of his services hereunder in accordance with the policies of the Company as they are from time to time in effect. Executive, as a condition precedent to obtaining such payment or reimbursement, shall provide to the Company any and all statements, bills or receipts evidencing the travel or out-of-pocket expenses for which Executive seeks payment or reimbursement, and any other information or materials, which the Company may from time to time reasonably require. The Company shall reimburse Executive the amount of such an expense in accordance with the Company's expense reimbursement policy as in effect from time to time, subject to Section 15.

(iii) Executive shall be allotted twenty-two (22) paid vacation days per annum which shall be provided pro rata during the applicable year and seven (7) paid sick days and shall be entitled to medical, disability, family and other leave in accordance with Company policies as in effect from time to time for senior executives. Paid vacation and sick days not used by

calendar year end shall be forfeited unless otherwise provided in the Company's vacation and sick leave policy.

(iv) Notwithstanding anything to the contrary contained above, the Company shall be entitled to terminate or reduce any employee benefit enjoyed by Executive pursuant to the provisions of this Section 3(g), but only if such reduction is part of an across-the-board reduction applicable to all executives of the Company who are entitled to such benefit and is permissible under the Code and the Employee Retirement Income Security Act of 1974, as amended.

(e) **Sign On Bonus**. Executive shall receive a one-time cash signing bonus in the amount of $75,000, subject to taxes and applicable withholdings, payable on the first payroll following hire date. If Executive voluntarily terminates employment with Rosetta Stone, without Good Reason, or if the Executive is terminated by the Company for Cause, as defined below, within twelve (12) months of receiving the cash signing bonus, the Executive agrees to reimburse the Company 100% of the cash signing bonus within 30 days of the effective date of termination.

4. **Employment Term.**

Unless Executive's employment under this Agreement is sooner terminated as a result of Executive's resignation or termination in accordance with the provisions of Section 5 below, Executive's term of employment ("**Service Term"**) under this Agreement shall commence on the date hereof and shall continue for a period of one (1) year, and at the end of each day it shall renew and extend automatically for an additional day so that the remaining Service Term is always one year; provided, however, that either party may terminate this Agreement pursuant to Section 5 below for any reason.

5. **Termination.**

Executive's employment with the Company shall cease upon the first of the following events to occur:

(a) Immediately upon Executive's death.

(b) Upon thirty (30) days' prior written notice by Executive to the Company of Executive's voluntary retirement at age 65 or older.

(c) Upon thirty (30) days' prior written notice by the Company to Executive of the Executive's termination due to Disability. "**Disability"** means (i) Executive is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (ii) Executive is, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Company. A determination of Disability may be made by a physician selected or approved by the Chief Executive Officer and, in this respect, Executive shall submit to an examination by such physician upon request by the Chief Executive Officer. Any such termination for disability shall be only as expressly permitted by the Americans with Disabilities Act and any other applicable laws.

(d) Immediately (after taking into consideration any cure period, if applicable) upon delivery to Executive of a written notice from the Chief Executive Officer that Executive has been terminated with or without Cause. **"Cause"** shall mean termination for any of the following:

(i) Executive (a) commits a felony or a crime involving moral turpitude or commits any other act or omission involving fraud, embezzlement or any other act of dishonesty in the course of his employment by the Company which conduct damages the Company or an Affiliate; (b) substantially and repeatedly fails to perform duties of the office held by Executive as reasonably directed by the Board and/or the Chief Executive Officer, (c) commits gross negligence or willful misconduct with respect to the Company or an Affiliate; (d) commits a material breach of this Agreement that is not cured within ten (10) days after receipt of written notice thereof from the Board and/or Chief Executive Officer; (e) fails, within ten (10) days after receipt by Executive of written notice thereof from the Board and/or Chief Executive Officer, to correct, cease or otherwise alter any failure to comply with instructions or other action or omission which the Board and/or Chief Executive Officer reasonably believes does or may materially or adversely affect the Company's or an Affiliate's business or operations, (f) commits misconduct which is of such a serious or substantial nature that a reasonable likelihood exists that such misconduct will materially injure the reputation of the Company or an Affiliate, (g) harasses or discriminates against the Company's or an Affiliate's employees, customers or vendors in violation of the Company's policies with respect to such matters, (h) misappropriates funds or assets of the Company or an Affiliate for personal use or willfully violates the Company policies or standards of business conduct as determined in good faith by the Board and/or Chief Executive Officer, (i) fails, due to some action or inaction on the part of Executive, to have immigration status that permits Executive to maintain full-time employment with the Company in the United States in compliance with all applicable immigration law, or (j) discloses trade secrets of the Company or an Affiliate.

(e) Upon Executive's voluntary resignation by the delivery to the Chief Executive Officer of a written notice from Executive that Executive has resigned with or without Good Reason. **"Good Reason"** shall mean Executive's resignation from employment with the Company after the occurrence of any of the following events without Executive's consent: (i) a material diminution in Executive's Annual Base Salary, duties, authority or responsibilities from the Annual Base Salary, duties, authority or responsibilities as in effect at the commencement of the Service Term, (ii) a material breach of the Agreement by the Company, or (iii) a relocation of Executive's primary place of employment to a geographic area more than fifty (50) miles from the Company's office in Arlington, Virginia; provided, that the foregoing events shall not be deemed to constitute Good Reason unless Executive has notified the Company in writing of the occurrence of such event(s) within sixty (60) days of such occurrence and the Company has failed to have cure such event(s) within thirty (30) business days of its receipt of such written notice and termination occurs within one hundred (100) days of the event.

6. **Rights on Termination.**

(a) If during the Service Term Executive's employment is terminated under Section 5 above (x) by the Company without Cause or (y) by Executive with Good Reason, then:

(i) The Company shall pay to Executive, at the times specified in Section 6(a)(vi) below, the following amounts:

(1) the Accrued Obligation;

(2) a lump sum payment in cash equal to the product of (x) one-twelfth (1/12th) of the amount of the Annual Base Salary in effect immediately prior to the Termination Date and (y) twelve (12); and

(3) a lump sum payment in cash equal to the product of (x) the monthly basic life insurance premium applicable to Executive's basic life insurance coverage immediately prior to the Termination Date and (y) twelve (12). To the extent then available under the life insurance program, Executive may, at his option, convert his basic life insurance coverage to an individual policy after the Termination Date by completing the forms required by the Company for this purpose.

The amounts described in Section 6(a)(i)(2) and (3) above shall be referred to herein as the "**Severance Payments**."

(ii) The Company will pay Executive the pro rata portion, if any, of Executive's Annual Bonus earned up until such Termination Date in accordance with the terms of the then-current Company bonus policy.

(iii) The Company shall provide professional outplacement and counseling services through an outplacement firm chosen by the Company for six (6) months from the Termination Date to assist Executive in his search for other employment.

(iv) Upon Executive's termination, Executive and his spouse and eligible dependents, as applicable, may elect health care coverage for up to eighteen (18) months from his last day of work at the Company pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (**"COBRA"**). Subject to Section 6(a)(v) below, the Company will pay for up to twelve (12) months, on an after-tax basis, the portion of Executive's COBRA premiums for such coverage that exceeds the amount that Executive would have incurred in premiums for such coverage under the Company's health plan if then employed by the Company; provided, however, the Company's obligation shall only apply to the extent COBRA coverage is elected and in effect during such period. Following the twelve (12) months of coverage, Executive will be responsible for the full amount of all future premium payments should he wish to continue COBRA coverage. However, if Executive or his spouse becomes eligible for group health coverage sponsored by another employer (regardless of whether such coverage is actually elected) or for any other reason his COBRA coverage terminates, the Company shall not be obligated to pay any portion of the premiums provided hereunder for periods after he becomes eligible for such other coverage or his COBRA coverage terminates. Executive shall have the obligation to notify the Company if he or his spouse becomes eligible for group health coverage sponsored by another employer.

(v) Payments and benefits provided to Executive under this Section 6 (other than Accrued Obligation) are contingent upon Executive's execution of a release substantially in the form of **Exhibit A** hereto and such release becoming irrevocable within sixty (60) days following his termination of employment.

(vi) The Company shall pay Executive the amounts specified in Sections 6(a)(i)(1), (2) and (3) within sixty (60) days after the Termination Date, except that the Accrued Obligation will be paid earlier if required by law; provided, however, that in no event shall the timing of Executive's execution of the release, directly or indirectly, result in him designating the calendar year of payment, and if a payment that is subject to execution of the release could be made in more than one taxable year, such payment shall be made in the later taxable year. Notwithstanding the forgoing, if the Executive is deemed on the Termination

Date to be a Specified Employee, then with regard to any Severance Payment or other payment or benefit under this Agreement that is "deferred compensation" within the meaning of Section 409A and which is paid as a result of the Executive's Separation from Service, such payment or benefit shall be made or provided at the date which is the earlier of (A) the expiration of the six (6)-month period measured from the date of such Separation from Service of the Executive, and (B) the date of the Executive's death (the **"Delay Period"**). Upon the expiration of the Delay Period, all payments and benefits delayed pursuant to the preceding sentence (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid or reimbursed to the Executive in a lump sum with interest at the six (6)-month U.S. Treasury Rate in effect on the date of Executive's Separation From Service, and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the normal payment dates specified for them herein. To the extent subject to a mandatory six-month delay in payment under Section 409A, the Company shall pay the amounts specified in Section 6(a)(iv) for the first six (6) month period commencing on the date of Executive's Separation From Service on the date that is six (6) months following the date of Executive's Separation Form Service and shall also pay Executive the amount of interest that would be earned on this amount until the date of payment calculated using an interest rate equal to the six (6) month U.S. Treasury Rate in effect on the date of Executive's Separation From Service.

(b) If the Company terminates Executive's employment for Cause, if Executive dies or is Disabled, or if Executive resigns without Good Reason, the Company's obligations to pay any compensation or benefits under this Agreement will cease effective as of the Termination Date and the Company shall pay to Executive the Accrued Obligation within sixty (60) days following the Termination Date or earlier if required by law. Following such payments, the Company shall have no further obligations to Executive, other than as may be required by law or the terms of an employee benefit plan of the Company.

(c) Notwithstanding the foregoing, the Company's obligation to Executive for Severance Payments or other rights under either Section 6(a) or (b) above shall cease if Executive is in violation of the provisions of Section 8 or 9 below.

(d) If the Executive retires at age sixty-five (65) or older, the Company shall pay the Executive: (i) the Accrued Obligation within sixty (60) days after the Termination Date or earlier if required by law, and (ii) the pro rata portion of any Annual Bonus that may have been earned by the Executive through the retirement date in accordance with the terms of the then-current Company bonus policy. No other amounts will be payable by the Company, other than as may be required by law or the terms of an employee benefit plan of the Company.

7. **Representations of Executive.**

Executive hereby represents and warrants to the Company that the statements contained in this Section 7 are true and accurate as of the date of this Agreement.

(a) **Legal Proceedings.** Executive has not been (i) the subject of any criminal proceeding (other than a minor traffic violation or other minor offense) which has resulted in a conviction against Executive, nor is Executive the subject of any pending criminal proceeding (other than a minor traffic violation or other minor offense), (ii) indicted for, or charged in a court of competent jurisdiction with, any felony or crime of moral turpitude, (iii) the defendant in any civil complaint alleging damages in excess of $50,000, or (iv) the defendant in any civil complaint alleging sexual harassment, unfair labor practices or discrimination in the work place.

(b) **Securities Law.** Executive has not been found in a civil action by the Securities and Exchange Commission, Commodity Futures Trading Commission, a state securities authority or any other regulatory agency to have violated any federal, state or other securities or commodities law.

(c) **Work History; Immigration Status.** Executive's resume, previously provided by Executive to the Company, is complete and correct in all material respects, and accurately reflects Executive's prior work history. Executive has the full legal right to be employed on a full-time basis by the Company in the United States under all applicable immigration laws on the basis of the Company's continued willingness to employ him on a full-time basis, and has provided the Company with evidence of legal immigration status and will do so at any time upon request. The Company will, if applicable, continue to cooperate with Executive in maintaining Executive's work visa status and/or any mutually agreeable adjustment of status.

(d) **Employment Restrictions.** Executive is not currently a party to any non- competition, non-solicitation, confidentiality or other work-related agreement that limits or restricts Executive's ability to work in any particular field or in any particular geographic region, whether or not such agreement would be violated by this Agreement.

8. **Confidential Information; Proprietary Information, etc.**

(a) **Obligation to Maintain Confidentiality.** Executive acknowledges that any Proprietary Information disclosed or made available to Executive or obtained, observed or known by Executive as a direct or indirect consequence of his employment with or performance of services for the Company or any of its Affiliates during the course of his performance of services for, or employment with, any of the foregoing Persons (whether or not compensated for such services) and during the period in which Executive is receiving Severance Payments, are the property of the Company and its Affiliates. Therefore, Executive agrees that, other than in the course of performance of his duties as an employee of the Company, he will not at any time (whether during or after Executive's term of employment) disclose or permit to be disclosed to any Person or, directly or indirectly, utilize for his own account or permit to be utilized by any Person any Proprietary Information or records pertaining to the Company, its Affiliates and their respective business for any reason whatsoever without the Chief Executive Officer's consent, unless and to the extent that (except as otherwise provided in the definition of Proprietary Information) the aforementioned matters become generally known to and available for use by the public other than as a direct or indirect result of Executive's acts or omissions to act. Executive agrees to deliver to the Company at the termination of his employment, as a condition to receipt of the Severance Payments, or at any other time the Company may request in writing (whether during or after Executive's term of employment), all records pertaining to the Company, its Affiliates and their respective business which he may then possess or have under his control. Executive further agrees that any property situated on the Company's or its Affiliates' premises and owned by the Company or its Affiliates, including disks and other storage media, filing cabinets or other work areas, is subject to inspection by Company or its Affiliates and their personnel at any time with or without notice. Nothing in this Section 8(a) shall be construed to prevent Executive from using his general knowledge and experience in future employment so long as Executive complies with this Section 8(a) and the other restrictions contained in this Agreement.

(b) **Ownership of Property.** Executive acknowledges that all inventions, innovations, improvements, developments, methods, processes, programs, designs, analyses, drawings, reports and all similar or related information (whether or not patentable) that relate to the Company's or any of its Affiliates' actual or anticipated business, research and development, or existing or future products or services and that are conceived, developed, contributed to, made, or reduced to practice by Executive (either solely or jointly with others) while employed by the Company or any of its Affiliates (including any of the foregoing that

constitutes any Proprietary Information or records) (**"Work Product"**) belong to the Company or such Affiliate and Executive hereby assigns, and agrees to assign, all of the above Work Product to the Company or such Affiliate. Any copyrightable work prepared in whole or in part by Executive in the course of his work for any of the foregoing entities shall be deemed a "work made for hire" under the copyright laws, and the Company or such Affiliate shall own all rights therein. To the extent that any such copyrightable work is not a "work made for hire," Executive hereby assigns and agrees to assign to Company or such Affiliate all right, title and interest, including without limitation, copyright in and to such copyrightable work. Executive shall promptly disclose such Work Product and copyrightable work to the Chief Executive Officer and perform all actions reasonably requested by the Chief Executive Officer (whether during or after Executive's term of employment) to establish and confirm the Company's or its Affiliate's ownership (including, without limitation, execution of assignments, consents, powers of attorney and other instruments). Notwithstanding anything contained in this Section 8(b) to the contrary, the Company's ownership of Work Product does not apply to any invention that Executive develops entirely on his own time without using the equipment, supplies or facilities of the Company or Affiliates or any Proprietary Information (including trade secrets), except that the Company's ownership of Work Product does include those inventions that: (i) relate to the business of the Company or its Affiliates or to the actual or demonstrably anticipated research or development relating to the Company's business; or (ii) result from any work that Executive performs for the Company or its Affiliates.

(c) **Third Party Information.** Executive understands that the Company and its Affiliates will receive from third parties confidential or proprietary information (**"Third Party Information"**) subject to a duty on the Company's and its Affiliates' part to maintain the confidentiality of such information and to use it only for certain limited purposes. During the term of Executive's employment and thereafter, and without in any way limiting the provisions of Sections 8(a) and 8(b) above, Executive shall hold Third Party Information in the strictest confidence and shall not disclose to anyone (other than personnel of the Company or its Affiliates who need to know such information in connection with their work for the Company or its Affiliates) or use, except in connection with his work for the Company or its Affiliates, Third Party Information unless expressly authorized by the Chief Executive Officer in writing.

(d) **Use of Information of Prior Employers, etc.** Executive will abide by any enforceable obligations contained in any agreements that Executive has entered into with his prior employers or other parties to whom Executive has an obligation of confidentiality.

(e) **Compelled Disclosure.** If Executive is required by law or governmental regulation or by subpoena or other valid legal process to disclose any Proprietary Information or Third Party Information to any Person, Executive will immediately provide the Company with written notice of the applicable law, regulation or process so that the Company may seek a protective order or other appropriate remedy. Executive will cooperate fully with the Company and the Company's representatives in any attempt by the Company, at its sole cost and expense, to obtain any such protective order or other remedy. If the Company elects not to seek, or is unsuccessful in obtaining, any such protective order or other remedy in connection with any requirement that Executive disclose Proprietary Information or Third Party Information then Executive may disclose such Proprietary Information or Third Party Information to the extent legally required; provided, however, that Executive will use his reasonable best efforts to ensure that such Proprietary Information is treated confidentially by each Person to whom it is disclosed.

9. **Noncompetition and Nonsolicitation.**

(a) **Noncompetition and Nonsolicitation.**

During Executive's employment, and for a period of twelve (12) months following the termination of Executive's employment, Executive will not, within any geographic area served or supervised by Executive during the twelve (12)-month period immediately preceding the Termination Date:

(1) render or offer any Competing Service or Product to any client or customer for whom Executive provided a Competing Service/Product on behalf of Company;

(2) render or offer any Competing Service or Product to any Prospective Customer of Company; or,

(3) participate in the recruitment or hiring of any Company employee to provide any Competing Service or Product.

"Competing Service or Product" means producing or selling software or services used for learning foreign languages, including English as a foreign language, and any other business carried on by the Company during Executive's employment. A "Prospective Customer" means any Person that the Executive, or other employee working under the Executive, has entertained discussions with to become a client or customer of Company at any time during the twelve (12)-month period immediately preceding the Termination Date and who has not explicitly rejected a business relationship with the Company. For purposes of this Section 9(a), "Company" includes Company and any Affiliate to which Executive provided services during his employment.

(b) **Acknowledgment.** Executive acknowledges that in the course of his employment with the Company and its Affiliates, he has and will become familiar with the trade secrets and other Proprietary Information of the Company and its Affiliates. Executive further acknowledges that as the Chief Legal Officer and Secretary of the Company, Executive has and will have direct or indirect responsibility, oversight or duties with respect to the businesses of the Company and its Affiliates and its and their current and prospective employees, vendors, customers, clients and other business relations, and that, accordingly, the geographical restriction contained in this Section 9 is reasonable in all respects and necessary to protect the goodwill and Proprietary Information of the Company and that without such protection the Company's customer and client relations and competitive advantage would be materially adversely affected. It is specifically recognized by Executive that his services to the Company and its Affiliates are special, unique and of extraordinary value, that the Company has a protectable interest in prohibiting Executive as provided in this Section 9, that Executive is responsible for the growth and development of the Company and the creation and preservation of the Company's goodwill, that money damages are insufficient to protect such interests, that there is adequate consideration being provided to Executive hereunder, that such prohibitions are necessary and appropriate without regard to payments being made to Executive hereunder and that the Company would not enter this Agreement with Executive without the restriction of this Section 9. Executive further acknowledges that the restrictions contained in this Section 9 do not impose an undue hardship on him and, since he has general business skills that may be used in industries other than that in which the Company and its Affiliates conduct their business, do not deprive Executive of his livelihood. Executive further acknowledges that the provisions of this Section 9 are separate and independent of the other sections of this Agreement.

(c) **Enforcement, etc.** If, at the time of enforcement of Section 8 or 9 of this Agreement, a court concludes that the restrictions stated herein are unenforceable or unreasonable under circumstances then existing, the parties hereto agree that the unenforceable or unreasonable restriction should be severed from the Agreement and shall not affect the validity of enforceability of the other restrictions in Section 8 or 9. Because Executive's services are unique, because Executive has access to Proprietary Information and for the other reasons set forth herein, the parties hereto agree that money damages would be an inadequate remedy for any breach of this Agreement. Therefore, without limiting the generality of Section 12(f), in the event of a breach or threatened breach of this Agreement, the Company or its successors or assigns may, in addition

to other rights and remedies existing in their favor, apply to any court of competent jurisdiction for specific performance and/or injunctive or other relief in order to enforce, or prevent any violations of, the provisions hereof (without posting a bond or other security).

(d) **Submission to Jurisdiction.** The parties hereby: (i) submit to the jurisdiction of any state or federal court sitting in the Commonwealth of Virginia in any action or proceeding arising out of or relating to Section 8 and/or 9 of this Agreement; (ii) agree that all claims in respect of such action or proceeding may be heard or determined in any such court; and (iii) agree not to bring any action or proceeding arising out of or relating to Section 8 and/or 9 of this Agreement in any other court. The parties hereby waive any defense of inconvenient forum to the maintenance of any action or proceeding so brought. The parties hereby agree that a final judgment in any action or proceeding so brought shall be conclusive and may be enforced by suit on the judgment or in any other manner provided by law.

GENERAL PROVISIONS

10. **Definitions.**

"**Accrued Obligation**" means the sum of (a) Executive's Annual Base Salary through the Termination Date for periods through but not following his Separation From Service and (b) any accrued vacation pay earned by Executive, in each case, to the extent not theretofore paid.

"Affiliate" means, with respect to any particular Person, any other Person controlling, controlled by or under common control with such particular Person. A Subsidiary of the Company shall be an Affiliate of the Company.

"Board" means the Board of Directors of the Company or any committee of the Board, such as the Compensation Committee, to which the Board has delegated applicable authority.

"**Code**" means the Internal Revenue Code of 1986, as amended and the regulations and guidance issued thereunder.

"Person" means any individual or corporation, association, partnership, limited liability company, joint venture, joint stock or other company, business trust, trust, organization, university, college, governmental authority or other entity of any kind.

"Proprietary Information" means any and all data and information concerning the business affairs of the Company or any of its Affiliates and not generally known in the industry in which the Company or any of its Affiliates is or may become engaged, and any other information concerning any matters affecting or relating to the Company's or its Affiliates businesses, but in any event Proprietary Information shall include, any of the Company's and its Affiliates' past, present or prospective business opportunities, including information concerning acquisition opportunities in or reasonably related to the Company's or its Affiliates' businesses or industries, customers, customer lists, clients, client lists, the prices the Company and its Affiliates obtain or have obtained from the sale of, or at which they sell or have sold, their products, unit volume of sales to past or present customers and clients, or any other information concerning the business of the Company and its Affiliates, their manner of operation, their plans, processes, figures, sales figures, projections, estimates, tax records, personnel history, accounting procedures, promotions, supply sources, contracts, know-how, trade secrets, information relating to research, development, inventions, technology, manufacture, purchasing, engineering, marketing, merchandising or selling, or other data without regard to whether all of the foregoing matters will be deemed confidential, material or important. Proprietary Information does not include any information that Executive has obtained from a Person other than an

employee of the Company or an Affiliate, which was disclosed to him without a breach of a duty of confidentiality.

"**Section 409A**" means Section 409A of the Code.

"**Separation From Service**" shall have the meaning ascribed to such term in Section 409A.

"**Specified Employee**" means a person who is a "specified employee" within the meaning of Section 409A, taking into account the elections made and procedures established in resolutions adopted by the Board.

"Subsidiary" means any company of which the Company owns securities having a majority of the ordinary voting power in electing the board of directors directly or through one or more subsidiaries.

"Termination Date" means the effective date of the termination of Executive's employment.

11. **Notices.**

Any notice provided for in this Agreement must be in writing and must be mailed, personally delivered or sent by reputable overnight courier service (charges prepaid) to the recipient at the address below indicated:

If to the Company:

Rosetta Stone Ltd.
1919 North Lynn Street
7th Floor
Arlington, VA 22209
Attention: Chief Executive Officer

With a copy to:

Rosetta Stone Ltd.
1919 North Lynn Street
7th Floor
Arlington, VA 22209
Attention: SVP, HR

If to Executive:

The last address on file with the Company.

Or such other addresses or to the attention of such other person as the recipient party shall have specified by prior written notice to the sending party. Any notice under this Agreement will be deemed to have been given when delivered or, if mailed, five (5) business days after deposit in the U.S. mail.

12. **Miscellaneous.**

(a) **Severability.** Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but

this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

(b) **Complete Agreement.** This Agreement, those documents expressly referred to herein and other documents of even date herewith embody the complete agreement and understanding among the parties and supersede and preempt any prior understandings, agreements or representations by or among the parties, written or oral, which may have related to the subject matter hereof in any way.

(c) **Counterparts; Facsimile Transmission.** This Agreement may be executed in separate counterparts, each of which is deemed to be an original and all of which taken together constitute one and the same agreement. Each party to this Agreement agrees that its own telecopied signature will bind it and that it accepts the telecopied signature of each other party to this Agreement.

(d) **Successors and Assigns**. Except as otherwise provided herein, this Agreement shall bind and inure to the benefit of and be enforceable by Executive, the Company and their respective successors and assigns; provided that the rights and obligations of the parties under this Agreement shall not be assignable without the prior written consent of the other party, except for assignments by operation of law and assignments by the Company to any successor of the Company by merger, consolidation, combination or sale of assets. Any purported assignment in violation of these provisions shall be void *ab initio.*

(e) **Choice of Law; Jurisdiction.** All questions or disputes concerning this Agreement and the exhibits hereto will be governed by and construed in accordance with the internal laws of the Commonwealth of Virginia, without giving effect to any choice of law or conflict of law provision or rule (whether of the Commonwealth of Virginia or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the Commonwealth of Virginia. The parties hereby: (i) submit to the non-exclusive jurisdiction of any state or federal court sitting in the Commonwealth of Virginia in any action or proceeding arising out of or relating to this Agreement; and (ii) agree that all claims in respect of such action or proceeding may be heard or determined in any such court. Each party hereby waives any defense of inconvenient forum to the maintenance of any action or proceeding so brought. The parties hereby agree that a final judgment in any action or proceeding so brought shall be conclusive and may be enforced by suit on the judgment or in any other manner provided by law.

(f) **Remedies.** Each of the parties to this Agreement will be entitled to enforce its rights under this Agreement specifically, to recover damages and costs (including attorney's fees) caused by any breach of any provision of this Agreement and to exercise all other rights existing in its favor. The parties hereto agree and acknowledge that money damages may not be an adequate remedy for any breach of the provisions of this Agreement and that any party may in its sole discretion apply to any court of law or equity of competent jurisdiction (without posting any bond or deposit) for specific performance and/or other injunctive relief in order to enforce or prevent any violations of the provisions of this Agreement.

(g) **Amendment and Waiver.** The provisions of this Agreement may be amended or waived only with the prior written consent of the Company and Executive.

(h) **Business Days.** If any time period for giving notice or taking action hereunder expires on a day which is a Saturday, Sunday or holiday in the state in which the Company's chief executive office is located, the time period shall be automatically extended to the business day immediately following, such Saturday, Sunday or holiday. The provisions of this Section 12(h) shall not apply to determine the date an amount is payable under Section 3(c)(ii) or 6.

(i) **Termination.** This Agreement (except for the provisions of Sections 1, 2, 3, and 4) shall survive the termination of Executive's employment with the Company and shall remain in full force and effect after such termination.

(j) **No Waiver.** A waiver by any party hereto of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy that such party would otherwise have on any future occasion. Neither failure to exercise nor any delay in exercising on the part of any party hereto, any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and may be exercised singly or concurrently, and are not exclusive of any rights or remedies provided by law.

(k) **Insurance.** The Company, at its discretion, may apply for and procure in its own name for its own benefit life and/or disability insurance with respect to Executive in any amount or amounts considered available provided, however, that such procurement of insurance does not restrict the amount of insurance that Executive may obtain for his own personal use. Executive agrees to cooperate in any medical or other examination, supply any information, and to execute and deliver any applications or other instruments in writing as may be reasonably necessary to obtain and constitute such insurance. Executive hereby represents that he has no reason to believe that his life is not insurable at rates now prevailing for healthy men of his age.

(l) **Taxes; Withholding of Taxes on Behalf of Executive.** Executive shall be solely responsible for any and all taxes imposed on Executive by reason of any compensation and benefits provided under this Agreement, and all such compensation and benefits shall be subject to applicable withholding. Without limiting the scope of the preceding sentence, the Company and its Affiliates shall be entitled to deduct or withhold from any amounts owing from the Company or any of its Affiliates to Executive any federal, state, provincial, local or foreign withholding taxes, excise taxes, or employment taxes imposed with respect to Executive's compensation or other payments from the Company or any of its Affiliates or Executive's ownership interest in the Company, including, but not limited to, wages, bonuses, dividends, the receipt or exercise of stock options and/or the receipt or vesting of restricted stock.

(m) **Waiver of Jury Trial**. **Both parties to this agreement agree that any action, demand, claim or counterclaim relating to the terms and provisions of this agreement, or to its breach, may be commenced in the Commonwealth of Virginia in a court of competent jurisdiction. Both parties to this agreement further agree that any action, demand, claim or counterclaim shall be resolved by a judge alone, and both parties hereby waive and forever renounce that right to a trial before a civil jury.**

13. **Certain Additional Payments by the Company; Code Section 280G.**

(a) Anything in this Agreement to the contrary notwithstanding, if any payment or benefit Executive would receive pursuant to this Agreement ("**Payment**") would (i) constitute a "parachute payment" within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the "**Excise Tax**"), then such Payment shall be reduced to the Reduced Amount. The "Reduced Amount" shall be either (x) the largest portion of the Payment that would result in no portion of the Payment being subject to the Excise Tax or (y) the largest portion, up to and including the total, of the Payment, whichever amount, after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in Executive's receipt, on an after-tax basis, of the greater amount of the Payment notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in payments or

benefits constituting "parachute payments" is necessary so that the Payment equals the Reduced Amount, reduction shall occur in the following order: (A) cash payments shall be reduced first and in reverse chronological order such that the cash payment owed on the latest date following the occurrence of the event triggering such Excise Tax will be the first cash payment to be reduced; and (B) employee benefits shall be reduced last (but only to the extent such benefits may be reduced under applicable law, including, but not limited to the Code and the Employee Retirement Income Security Act of 1974, as amended) and in reverse chronological order such that the benefit owed on the latest date following the occurrence of the event triggering such Excise Tax will be the first benefit to be reduced.

(b) The determinations and calculations required hereunder shall be made by nationally recognized accounting firm that is (i) not be serving as accountant or auditor for the person who acquires ownership or effective control or ownership of a substantial portion of the Company's assets (within the meaning of Section 280G of the Code) or any Affiliate of such person, and (ii) agreed upon by the Company and Executive (the "**Accounting Firm**") The Company shall bear all expenses with respect to the determinations by the Accounting Firm required to be made hereunder.

(c) The Accounting Firm engaged to make the determinations hereunder shall provide its calculations, together with detailed supporting documentation, to the Company and Eligible Employee within fifteen (15) business days after the date on which right to a Payment is triggered (if requested at that time by the Company or Executive) or such other time as requested by the Company or Executive. Any good faith determinations of the accounting firm made hereunder shall be final, binding and conclusive upon the Company and Executive.

14. **Indemnification.**

During and following the employment period, the Company shall indemnify Executive and hold Executive harmless from and against any claim, loss or cause of action arising from or out of Executive's performance as an officer, director or employee of the Company or any of its Affiliates or in any other capacity, including any fiduciary capacity, in which Executive serves at the request of Company to the maximum extent permitted by applicable law and the Company's By-Laws. Expenses incurred in defending or investigating a threatened or pending action, suit or proceeding shall be paid directly by the Company in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of Executive to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Company. To the extent that the Company reduces the indemnity rights provided for under its By-Laws after execution of this Agreement, the Company's indemnity obligations hereunder shall be unaffected (to the extent permitted by applicable law).

15. **Section 409A.**

Although the Company does not guarantee to Executive any particular tax treatment relating to the payments and benefits under this Agreement, the parties acknowledge that this Agreement is intended to comply with, or be exempt from, the requirements of Section 409A.

For purposes of this Agreement, a termination of employment will mean a "separation from service" as defined in Section 409A, where required for compliance with Section 409A.

With regard to any provision of this Agreement that provides for reimbursement of costs and expenses or in-kind benefits, except as permitted by Section 409A, (i) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit; (ii) the amount of expenses eligible for

reimbursement, or in-kind benefits, provided during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year; and (iii) such payments shall be made on or before the last day of the service provider's taxable year following the taxable year in which the expense was incurred.

Whenever a payment under this Agreement specifies a payment period with reference to a number of days (e.g., "payment shall be made within sixty (60) days after termination"), the actual date of payment within the specified period shall be within the sole discretion of the Company.

[Signature pages follow]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date first written above.

Rosetta Stone Ltd.

By: /s/ Stephen M. Swad
Stephen M. Swad, President and CEO

EXECUTIVE

/s/ Christian S. Na

Christian Na

EXHIBIT A

Form of Release

CONSULT WITH AN ATTORNEY PRIOR TO SIGNING THIS AGREEMENT AND GENERAL RELEASE. BY SIGNING THIS AGREEMENT AND GENERAL RELEASE YOU GIVE UP AND WAIVE IMPORTANT LEGAL RIGHTS.

Agreement and General Release

This Agreement and General Release ("**Release**") is between Rosetta Stone Ltd. (the "**Company**") and Christian Na ("**Executive**") (each a "**Party**," and together, the "**Parties**"). For purposes of this Release "Effective Date" shall mean the date that is the eighth day after the date on which Executive signs this Release, provided Executive has not revoked this Release pursuant to Section 2(c) below.

Recitals

A. Executive and the Company are parties to an Employment Agreement to which this Release is appended as **Exhibit A** (the "**Employment Agreement**").

B. Executive wishes to receive the payments and benefits described Section 6(a) of the Employment Agreement, other than the accrued obligation (the "**Severance Payments**").

C. Executive and the Company wish to resolve, except as specifically set forth herein, all claims between them arising from or relating to any act or omission predating the Separation Date defined below.

Agreement

The Parties agree as follows:

1. Confirmation of Severance Benefit Obligation. The Company shall pay or provide to Executive the entire Severance Payments, as, when and on the terms and conditions specified in the Employment Agreement.

2. Legal Releases

(a) Executive, on behalf of Executive and Executive's heirs, personal representatives and assigns, and any other person or entity that could or might act on behalf of Executive, including, without limitation, Executive's counsel (all of whom are collectively referred to as "Executive Releasers"), hereby fully and forever releases and discharges the Company, its present and future affiliates and subsidiaries, and each of their past, present and future officers, directors, employees, shareholders, independent contractors, attorneys, insurers and any and all other persons or entities that are now or may become liable to any Executive Releaser due to any Executive Releasee's act or omission, (all of whom are collectively referred to as "Executive Releasees") of and from any and all actions, causes of action, claims, demands, costs and expenses, including attorneys' fees, of every kind and nature whatsoever, in law or in equity, whether now known or unknown, that Executive Releasers, or any person acting under any of them, may now have, or claim at any future time to have, based in whole or in part upon any act or omission occurring on or before the Effective Date, without regard to present actual knowledge of such acts or omissions, including specifically, but not by way of limitation, matters which may arise at common law, such as breach of contract, express or implied, promissory estoppel, wrongful discharge, tortious interference with contractual rights, infliction of emotional distress, defamation, or under federal, state or local laws, such as the Fair Labor Standards Act, the Employee Retirement Income Security Act, the National Labor Relations Act, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Rehabilitation Act of 1973, the Equal Pay Act, the Americans with Disabilities Act, the Family and Medical Leave Act, and any civil rights law of any state or other governmental body; PROVIDED, HOWEVER, that notwithstanding the foregoing or anything else contained in this Release, the release set forth in this Section shall not extend to: (i) any rights arising under this Release; (ii) any vested rights under any pension, retirement, profit sharing or similar plan; (iii) any rights Executive has under any grants of stock options, restricted stock, or other forms of equity that may have been provided to Executive during Executive's employment (such grants to be governed by the applicable equity plan and grant agreement); (iv) any rights Executive has under applicable workers compensation laws; (v) Executive's rights, if any, to indemnification, and/or defense under any Company certificate of incorporation, bylaw and/or policy or procedure, or under any insurance contract or any indemnification agreement with the Company, in connection with Executive's acts and omissions within the course and scope of Executive's employment with the Company; (vi) Executive's ability to communicate with the Equal Employment Opportunity Commission (EEOC) or any other governmental agency, provided Executive does not seek any personal relief for any claims released herein; (vii) any claims arising after the date of Executive's execution of this Release; (viii) any obligations of the Company under the Employment Agreement which survive Executive's

termination of employment; or (viii) any other claims that cannot lawfully be released. Executive hereby warrants that Executive has not assigned or transferred to any person any portion of any claim which is released, waived and discharged above. Executive further states and agrees that Executive has not experienced any illness, injury, or disability that is compensable or recoverable under the worker's compensation laws of any state that was not reported to the Company by Executive before the Effective Date, and Executive agrees not to not file a worker's compensation claim asserting the existence of any such previously undisclosed illness, injury, or disability. Executive has specifically consulted with counsel with respect to the agreements, representations, and declarations set forth in the previous sentence. Executive understands and agrees that by signing this Release Executive is giving up any right to bring any legal claim against the Company concerning, directly or indirectly, Executive's employment relationship with the Company, including Executive's separation from employment. Executive agrees that this legal release is intended to be interpreted in the broadest possible manner in favor of the Company, to include all actual or potential legal claims that Executive may have against the Company, except as specifically provided otherwise in this Release.

(b) In order to provide a full and complete release, each of the Parties understands and agrees that this Release is intended to include all claims, if any, covered under this Section 2 that such Party may have and not now know or suspect to exist in his or its favor against any other Party and that this Release extinguishes such claims. Thus, each of the Parties expressly waives all rights under any statute or common law principle in any jurisdiction that provides, in effect, that a general release does not extend to claims which the releasing party does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the party being released.

(c) Executive acknowledges that he consulted with an attorney of his choosing before signing this the Employment Agreement and this Release, and that the Company provided him with no fewer than twenty-one (21) days during which to consider the provisions of the Employment Agreement and this Release and, specifically the release set forth at Section 2(a) above, although Executive may sign and return the Release sooner if he so chooses. Executive further acknowledges that he has the right to revoke this Release for a period of seven (7) days after signing it and that this Release shall not become effective until such seven (7)-day period has expired. Executive acknowledges and agrees that if he wishes to revoke this Release, he must do so in writing, and that such revocation must be signed by Executive and received by the Company in care of the Chief Executive Officer no later than 5 p.m. (Eastern Time) on the seventh (7th) day after Executive has signed this Release. Executive acknowledges and agrees that, in the event that he revokes this Release, he shall have no right to receive the Severance Payments. Executive represents that he has read this Release, including the release set forth in Section 2(a), above, affirms that this Release and the Employment Agreement provide him with benefits to which he would not otherwise be entitled, and understands its terms and that he enters into this Release freely, voluntarily, and without coercion.

3. Executive acknowledges that he has received all compensation to which he is entitled for his work up to his last day of employment with the Company, and that he is not entitled to any further pay or benefit of any kind, for services rendered or any other reason, other than the Severance Payments.

4. Executive agrees that the only thing of value that he will receive by signing this Release is the Severance Payments.

5. The Parties agree that their respective rights and obligations under the Employment Agreement shall survive the execution of this Release.

6. The parties understand and agree that this Release shall not be construed as an admission of liability on the part of any person or entity, liability being expressly denied.

7. Executive represents and warrants to the Company that, prior to the Effective Date, Executive did not disclose to any person, other than to Executive's spouse, tax advisor and counsel, the terms of this Release or the circumstances under which the matter that is the subject of this Release has been resolved. After the Effective Date, neither Executive, counsel for Executive, nor any other person under Executive's control shall disclose any term of this Release or the circumstances of Executive's separation from the Company, except that Executive may disclose such information to Executive's spouse, or as required by subpoena or court order, or to an attorney or accountant to the extent necessary to obtain professional advice. Executive shall not be entitled to rely upon the foregoing exception for disclosures pursuant to subpoena or court order unless Executive has given the Company written notice, within three business days following service of the subpoena or court order.

8. Executive covenants never to disparage or speak ill of the Company or any the Company product or service, or of any past or present employee, officer or director of the Company, nor shall Executive at any time harass or behave unprofessionally toward any past, present or future the Company employee, officer or director.

9. Executive acknowledges that because of Executive's position with the Company, Executive may possess information that may be relevant to or discoverable in connection with claims, litigation or judicial, arbitral or investigative proceedings initiated by a private party or by a regulator, governmental entity, or self-regulatory organization, that relates to or arises from matters with which Executive was involved during Executive's employment with the Company, or that concern matters of which Executive has information or knowledge (collectively, a "Proceeding"). Executive agrees that Executive shall testify truthfully in connection with any such Proceeding, shall cooperate with the Company in connection with every such Proceeding, and that Executive's duty of cooperation shall include an obligation to meet with the Company representatives and/or counsel concerning all such Proceedings for such purposes, and at such times and places, as the Company reasonably requests, and to appear for deposition and/or testimony upon the Company's request and without a subpoena. The Company shall reimburse Executive for reasonable out-of-pocket expenses that Executive incurs in honoring Executive's obligation of cooperation under this Section 9.

10. Miscellaneous Terms and Conditions

(a) Each party understands and agrees that Executive or it assumes all risk that the facts or law may be, or become, different than the facts or law as believed by the party at the time Executive or it executes this Release. Executive and the Company acknowledge that their relationship precludes any affirmative obligation of disclosure, and expressly disclaim all reliance upon information supplied or concealed by the adverse party or its counsel in connection with the negotiation and/or execution of this Release.

(b) The parties warrant and represent that they have been offered no promise or inducement except as expressly provided in this Release, and that this Release is not in violation of or in conflict with any other agreement of either party.

(c) All covenants and warranties contained in this Release are contractual and shall survive the closing of this Release.

(d) This Release shall be binding in all respects upon, and shall inure to the benefit of, the parties' heirs, successors and assigns.

(e) This Release shall be governed by the internal laws of the Commonwealth of Virginia, irrespective of the choice of law rules of any jurisdiction.

(f) Should any provision of this Release be declared illegal or unenforceable by any court of competent jurisdiction and cannot be modified to be enforceable, such provision shall immediately become null and void, leaving the remainder of this Release in full force and effect. Notwithstanding the foregoing, if Section 2(a), above, is declared void or unenforceable, then this Release shall be null and void and both parties shall be restored to the positions that they occupied before the Release's execution (meaning that, among other things, all sums paid by the Company pursuant to Section 1, above, shall be immediately refunded to the Company); provided that in such circumstances this Release and the facts and circumstances relating to its execution shall be inadmissible in any later proceeding between the parties, and the statutes of limitations applicable to claims asserted in the proceeding shall be deemed to have been tolled for the period between the Effective Date and 10 days after the date on which Section 2(a) is declared unenforceable.

(g) This Release constitutes the entire agreement of the parties and a complete merger of prior negotiations and agreements.

(h) This Release shall not be modified except in a writing signed by the parties.

(i) No term or condition of this Release shall be deemed to have been waived, nor shall there be an estoppel against the enforcement of any provision of this Release, except by a writing signed by the party charged with the waiver or estoppel. No waiver of any breach of this Release shall be deemed a waiver of any later breach of the same provision or any other provision of this Release.

(j) Headings are intended solely as a convenience and shall not control the meaning or interpretation of any provision of this Release.

(k) Pronouns contained in this Release shall apply equally to the feminine, neuter and masculine genders. The singular shall include the plural, and the plural shall include the singular.

(l) Each party shall promptly execute, acknowledge and deliver any additional document or agreement that the other party reasonably believes is necessary to carry out the purpose or effect of this Release.

(m) Any party contesting the validity or enforceability of any term of this Release shall be required to prove by clear and convincing evidence fraud, concealment, failure to disclose material information, unconscionability, misrepresentation or mistake of fact or law.

(n) The parties acknowledge that they have reviewed this Release in its entirety and have had a full and fair opportunity to negotiate its terms and to consult with counsel of their own choosing concerning the meaning and effect of this Release. Each party therefore waives all applicable rules of construction that any provision of this Release should be construed against its drafter, and agrees that all provisions of the agreement shall be construed as a whole, according to the fair meaning of the language used.

(o) Every dispute arising from or relating to this Release shall be tried only in the state or federal courts situated in the Commonwealth of Virginia. The parties consent to venue in those courts, and agree that those courts shall have personal jurisdiction over them in, and subject matter jurisdiction concerning, any such action.

(p) In any action relating to or arising from this Release, or involving its application, the party substantially prevailing shall recover from the other party the expenses incurred by the prevailing party in connection with the action, including court costs and reasonable attorneys' fees. If Executive is the substantially prevailing party, the Company shall pay such expenses within 60 days following the determination that he is the substantially prevailing party.

(q) This Release may be executed in counterparts, or by copies transmitted by telecopier, all of which shall be given the same force and effect as the original.

[SIGNATURES FOLLOW]

NOTE: DO NOT SIGN THIS SUPPLEMENTAL LEGAL RELEASE UNTIL AFTER EXECUTIVE'S FINAL DAY OF EMPLOYMENT.

ROSETTA STONE LTD.	EXECUTIVE
By:	
Stephen M. Swad, President and CEO	Christian Na, Chief Legal Officer and Secretary
Date:	Date:

Exhibit 10.29

CONSULT WITH AN ATTORNEY PRIOR TO SIGNING THIS AGREEMENT AND GENERAL RELEASE. BY SIGNING THIS AGREEMENT AND GENERAL RELEASE YOU GIVE UP AND WAIVE IMPORTANT LEGAL RIGHTS.

Agreement and General Release

This Agreement and General Release ("**Release**") is between Rosetta Stone Ltd. (the "**Company**") and Christian Na ("**Executive**") (each a "**Party**," and together, the "**Parties**"). For purposes of this Release "Effective Date" shall mean the date that is the eighth day after the date on which Executive signs this Release, provided Executive has not revoked this Release pursuant to Section 2(c) below.

Recitals

A. Executive and the Company are parties to an Employment Agreement to which this Release is appended as **Exhibit A** (the "**Employment Agreement**").

B. In addition to the Accrued Obligation (as defined in the Employment Agreement), Executive wishes to receive the other payments and benefits described Section 6(a) of the Employment Agreement.

C. Executive and the Company wish to resolve, except as specifically set forth herein, all claims between them arising from or relating to any act or omission predating the Separation Date defined below.

Agreement

The Parties agree as follows:

1. Confirmation of Severance Benefit Obligation. The Company shall pay or provide to Executive the entire Severance Payments (as defined in the Employment Agreement), as, when and on the terms and conditions specified in the Employment Agreement. Additionally, as provided in Section 6(a) of the Employment Agreement, if Executive executes and does not revoke this Release, he shall also be eligible to receive the severance benefits described in Sections 6(a)(ii), 6(a)(iii) and 6(a)(iv) of the Employment Agreement as, when and on the terms and conditions specified in the Employment Agreement. The Severance Payments, together with the severance benefits described in Sections 6(a)(ii), 6(a)(iii) and 6(a)(iv) of the Employment Agreement, are referred to herein as "Severance Benefits."

2. Legal Releases

(a) Executive, on behalf of Executive and Executive's heirs, personal representatives and assigns, and any other person or entity that could or might act on behalf of Executive, including, without limitation, Executive's counsel (all of whom are collectively referred to as "Executive Releasers"), hereby fully and forever releases and discharges the Company, its present and future affiliates and subsidiaries, and each of their past, present and future officers, directors, employees, shareholders, independent contractors, attorneys, insurers and any and all other persons or entities that are now or may become liable to any Executive Releaser due to any Executive Releasee's act or omission, (all of whom are collectively referred to as "Executive Releasees") of and from any and all actions, causes of action, claims, demands, costs and expenses, including attorneys' fees, of every kind and nature whatsoever, in law or in equity, whether now known or unknown, that Executive Releasers, or any person acting under any of them, may now have, or claim at any future time to have, based in whole or in part upon any act or omission occurring on or before the Effective

Date, without regard to present actual knowledge of such acts or omissions, including specifically, but not by way of limitation, matters which may arise at common law, such as breach of contract, express or implied, promissory estoppel, wrongful discharge, tortious interference with contractual rights, infliction of emotional distress, defamation, or under federal, state or local laws, such as the Fair Labor Standards Act, the Employee Retirement Income Security Act, the National Labor Relations Act, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Rehabilitation Act of 1973, the Equal Pay Act, the Americans with Disabilities Act, the Family and Medical Leave Act, and any civil rights law of any state or other governmental body; PROVIDED, HOWEVER, that notwithstanding the foregoing or anything else contained in this Release, the release set forth in this Section shall not extend to: (i) any rights arising under this Release; (ii) any vested rights under any pension, retirement, profit sharing or similar plan; (iii) any rights Executive has under any grants of stock options, restricted stock, or other forms of equity that may have been provided to Executive during Executive's employment (such grants to be governed by the applicable equity plan and grant agreement); (iv) any rights Executive has under applicable workers compensation laws; (v) Executive's rights, if any, to indemnification, and/or defense under any Company certificate of incorporation, bylaw and/or policy or procedure, or under any insurance contract or any indemnification agreement with the Company, in connection with Executive's acts and omissions within the course and scope of Executive's employment with the Company; (vi) Executive's ability to communicate with the Equal Employment Opportunity Commission (EEOC) or any other governmental agency, provided Executive does not seek any personal relief for any claims released herein; (vii) any claims arising after the date of Executive's execution of this Release; (viii) any obligations of the Company under the Employment Agreement which survive Executive's termination of employment; or (viii) any other claims that cannot lawfully be released. Executive hereby warrants that Executive has not assigned or transferred to any person any portion of any claim which is released, waived and discharged above. Executive further states and agrees that Executive has not experienced any illness, injury, or disability that is compensable or recoverable under the worker's compensation laws of any state that was not reported to the Company by Executive before the Effective Date, and Executive agrees not to not file a worker's compensation claim asserting the existence of any such previously undisclosed illness, injury, or disability. Executive has specifically consulted with counsel with respect to the agreements, representations, and declarations set forth in the previous sentence. Executive understands and agrees that by signing this Release Executive is giving up any right to bring any legal claim against the Company concerning, directly or indirectly, Executive's employment relationship with the Company, including Executive's separation from employment. Executive agrees that this legal release is intended to be interpreted in the broadest possible manner in favor of the Company, to include all actual or potential legal claims that Executive may have against the Company, except as specifically provided otherwise in this Release.

(b) In order to provide a full and complete release, each of the Parties understands and agrees that this Release is intended to include all claims, if any, covered under this Section 2 that such Party may have and not now know or suspect to exist in his or its favor against any other Party and that this Release extinguishes such claims. Thus, each of the Parties expressly waives all rights under any statute or common law principle in any jurisdiction that provides, in effect, that a general release does not extend to claims which the releasing party does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the party being released.

(c) Executive acknowledges that he consulted with an attorney of his choosing before signing this the Employment Agreement and this Release, and that the Company provided him with no fewer than twenty-one (21) days during which to consider the provisions of the Employment Agreement and this Release and, specifically the release set forth at Section 2(a) above, although Executive may sign and return the Release sooner if he so chooses. Executive further acknowledges that he has the right to revoke this Release for a period of seven (7) days after signing it and that this Release shall not become effective until such seven (7)-day period has expired. Executive acknowledges and agrees that if he wishes to revoke this

Release, he must do so in writing, and that such revocation must be signed by Executive and received by the Company in care of the Chief Executive Officer no later than 5 p.m. (Eastern Time) on the seventh (7th) day after Executive has signed this Release. Executive acknowledges and agrees that, in the event that he revokes this Release, he shall have no right to receive the Severance Benefits. Executive represents that he has read this Release, including the release set forth in Section 2(a), above, affirms that this Release and the Employment Agreement provide him with benefits to which he would not otherwise be entitled, and understands its terms and that he enters into this Release freely, voluntarily, and without coercion.

3. Executive acknowledges that he has received all compensation to which he is entitled for his work up to his last day of employment with the Company, and that he is not entitled to any further pay or benefit of any kind, for services rendered or any other reason, other than the Severance Benefits, and any expense reimbursement due pursuant Section 3(d)(ii) of the Employment Agreement.

4. Executive agrees that the only thing of value that he will receive by signing this Release is the Severance Benefits.

5. The Parties agree that their respective rights and obligations under the Employment Agreement shall survive the execution of this Release.

6. The parties understand and agree that this Release shall not be construed as an admission of liability on the part of any person or entity, liability being expressly denied.

7. Executive represents and warrants to the Company that, prior to the Effective Date, Executive did not disclose to any person, other than to Executive's spouse, tax advisor and counsel, the terms of this Release or the circumstances under which the matter that is the subject of this Release has been resolved. After the Effective Date, neither Executive, counsel for Executive, nor any other person under Executive's control shall disclose any term of this Release or the circumstances of Executive's separation from the Company, except that Executive may disclose such information to Executive's spouse, or as required by subpoena or court order, or to an attorney or accountant to the extent necessary to obtain professional advice. Executive shall not be entitled to rely upon the foregoing exception for disclosures pursuant to subpoena or court order unless Executive has given the Company written notice, within three business days following service of the subpoena or court order.

8. Executive covenants never to disparage or speak ill of the Company or any the Company product or service, or of any past or present employee, officer or director of the Company, nor shall Executive at any time harass or behave unprofessionally toward any past, present or future the Company employee, officer or director.

9. Executive acknowledges that because of Executive's position with the Company, Executive may possess information that may be relevant to or discoverable in connection with claims, litigation or judicial, arbitral or investigative proceedings initiated by a private party or by a regulator, governmental entity, or self-regulatory organization, that relates to or arises from matters with which Executive was involved during Executive's employment with the Company, or that concern matters of which Executive has information or knowledge (collectively, a "Proceeding"). Executive agrees that Executive shall testify truthfully in connection with any such Proceeding, shall cooperate with the Company in connection with every such Proceeding, and that Executive's duty of cooperation shall include an obligation to meet with the Company representatives and/or counsel concerning all such Proceedings for such purposes, and at such times and places, as the Company reasonably requests, and to appear for deposition and/or testimony upon the Company's request and without a subpoena. The Company shall reimburse Executive for reasonable

out-of-pocket expenses that Executive incurs in honoring Executive's obligation of cooperation under this Section 9.

10. Miscellaneous Terms and Conditions

(a) Each party understands and agrees that Executive or it assumes all risk that the facts or law may be, or become, different than the facts or law as believed by the party at the time Executive or it executes this Release. Executive and the Company acknowledge that their relationship precludes any affirmative obligation of disclosure, and expressly disclaim all reliance upon information supplied or concealed by the adverse party or its counsel in connection with the negotiation and/or execution of this Release.

(b) The parties warrant and represent that they have been offered no promise or inducement except as expressly provided in this Release, and that this Release is not in violation of or in conflict with any other agreement of either party.

(c) All covenants and warranties contained in this Release are contractual and shall survive the closing of this Release.

(d) This Release shall be binding in all respects upon, and shall inure to the benefit of, the parties' heirs, successors and assigns.

(e) This Release shall be governed by the internal laws of the Commonwealth of Virginia, irrespective of the choice of law rules of any jurisdiction.

(f) Should any provision of this Release be declared illegal or unenforceable by any court of competent jurisdiction and cannot be modified to be enforceable, such provision shall immediately become null and void, leaving the remainder of this Release in full force and effect. Notwithstanding the foregoing, if Section 2(a), above, is declared void or unenforceable, then this Release shall be null and void and both parties shall be restored to the positions that they occupied before the Release's execution (meaning that, among other things, all sums paid by the Company pursuant to Section 1, above, shall be immediately refunded to the Company); provided that in such circumstances this Release and the facts and circumstances relating to its execution shall be inadmissible in any later proceeding between the parties, and the statutes of limitations applicable to claims asserted in the proceeding shall be deemed to have been tolled for the period between the Effective Date and 10 days after the date on which Section 2(a) is declared unenforceable.

(g) This Release constitutes the entire agreement of the parties and a complete merger of prior negotiations and agreements.

(h) This Release shall not be modified except in a writing signed by the parties.

(i) No term or condition of this Release shall be deemed to have been waived, nor shall there be an estoppel against the enforcement of any provision of this Release, except by a writing signed by the party charged with the waiver or estoppel. No waiver of any breach of this Release shall be deemed a waiver of any later breach of the same provision or any other provision of this Release.

(j) Headings are intended solely as a convenience and shall not control the meaning or interpretation of any provision of this Release.

(k) Pronouns contained in this Release shall apply equally to the feminine, neuter and masculine genders. The singular shall include the plural, and the plural shall include the singular.

(l) Each party shall promptly execute, acknowledge and deliver any additional document or agreement that the other party reasonably believes is necessary to carry out the purpose or effect of this Release.

(m) Any party contesting the validity or enforceability of any term of this Release shall be required to prove by clear and convincing evidence fraud, concealment, failure to disclose material information, unconscionability, misrepresentation or mistake of fact or law.

(n) The parties acknowledge that they have reviewed this Release in its entirety and have had a full and fair opportunity to negotiate its terms and to consult with counsel of their own choosing concerning the meaning and effect of this Release. Each party therefore waives all applicable rules of construction that any provision of this Release should be construed against its drafter, and agrees that all provisions of the agreement shall be construed as a whole, according to the fair meaning of the language used.

(o) Every dispute arising from or relating to this Release shall be tried only in the state or federal courts situated in the Commonwealth of Virginia. The parties consent to venue in those courts, and agree that those courts shall have personal jurisdiction over them in, and subject matter jurisdiction concerning, any such action.

(p) In any action relating to or arising from this Release, or involving its application, the party substantially prevailing shall recover from the other party the expenses incurred by the prevailing party in connection with the action, including court costs and reasonable attorneys' fees. If Executive is the substantially prevailing party, the Company shall pay such expenses within 60 days following the determination that he is the substantially prevailing party.

(q) This Release may be executed in counterparts, or by copies transmitted by telecopier, all of which shall be given the same force and effect as the original.

[SIGNATURES FOLLOW]

NOTE: DO NOT SIGN THIS SUPPLEMENTAL LEGAL RELEASE UNTIL AFTER EXECUTIVE'S FINAL DAY OF EMPLOYMENT.

ROSETTA STONE LTD.	EXECUTIVE
By: /s/ Stephen M. Swad	/s/ Christian Na
Stephen M. Swad, President and CEO	Christian Na, Chief Legal Officer and Secretary
Date: November 24, 2014	Date: November 24, 2014

Exhibit 10.30

EXECUTIVE EMPLOYMENT AGREEMENT

THIS EXECUTIVE EMPLOYMENT AGREEMENT (this **"Agreement"**) is effective as of January 1, 2014, between Rosetta Stone Ltd., a Virginia corporation (together with its successors and assigns, the **"Company"**), and Eric Ludwig (**"Executive"**).

Recitals

A. The Company and Executive desire to enter into an agreement pursuant to which the Company will employ Executive as its Senior Vice President, North America and EMEA Consumer ("SVP, Consumer") subject to the terms and conditions of this Agreement.

Agreement

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and promises contained herein, the parties agree as follows:

1. **Employment**.

The Company hereby engages Executive to serve as the SVP, Consumer of the Company and its Affiliates, and Executive agrees to serve the Company and its Affiliates, during the Service Term (as defined in Section 4 below) in the capacities, and subject to the terms and conditions, set forth in this Agreement.

2. **Duties.**

During the Service Term, Executive, as SVP, Consumer of the Company, shall have all the duties and responsibilities customarily rendered by sales and marketing Executives of companies of similar size and nature and such other duties and responsibilities as may be delegated from time to time by the Board or the Chief Executive Officer of the Company (**"Chief Executive Officer"**) in their sole discretion. Executive will report to the Chief Executive Officer.

Executive will devote his best efforts and substantially all of his business time and attention (except for vacation periods and periods of illness or other incapacity) to the business of the Company and its Affiliates. With the prior consent of the Chief Executive Officer, Executive will be permitted to serve on the boards of other companies so long as such service does not unreasonably interfere with his duties to the Company.

3. **Salary, Bonus and Benefits.**

The Board shall make all decisions related to Executive's base salary and the payment of bonuses, if any. Executive's Annual Base Salary and other compensation will be reviewed by the Board at least annually.

(a) **Base Salary.** During the Service Term, the Company will pay Executive a base salary (the **"Annual Base Salary"**) as the Board may designate from time to time. The initial Annual Base Salary shall be at the rate of $275,000 per annum paid in accordance with the Company's customary payroll practices (minus all applicable withholdings and deductions). Executive's Annual Base Salary for any partial year will be prorated based upon the number of days elapsed in such year. The Annual Base Salary may be increased (but not decreased) from time to time during the Service Term by the Board based upon the Company's and Executive's performance.

(b) **Bonus Plan.** Executive shall be eligible to receive a bonus in accordance with Company bonus policy to be established by the Board from time to time**.** The bonus, if any, will be determined by the Board based upon the Company's achievement of financial performance goals and other objectives, as determined by the Board in good faith for each fiscal year of the Company. The Company will pay Executive the bonus, if any, in accordance with the terms of the then-current Company bonus policy. As of July 1, 2014, Executive will be able to participate in the annual bonus plan (the "Annual Bonus") and be eligible to receive an Annual Bonus target of seventy-five percent (75%) of his Annual Base Salary upon one hundred percent (100%) achievement of annual objectives, prorated for the length of participation in 2014. For subsequent years, the Annual Bonus target as a percentage of then-current Annual Base Salary, may be adjusted, but may not be less than seventy-five percent (75%) of the Executive's then-current Annual Base Salary.

(c) **Equity.** Executive shall be eligible to receive annual grants of stock options and other equity awards in accordance with equity compensation arrangements established by the Board. The grants shall have such terms as are determined by the Board in accordance with the current stock plan in place at time of grant.

(d) **Benefits.**

(i) Executive and, to the extent eligible, his dependents, shall be entitled to participate in and receive all benefits under any welfare or pension benefit plans and programs made available to the Company's senior level executives or to its employees generally (including, without limitation, medical, disability and life insurance programs, accidental death and dismemberment protection, leave and participation in retirement plans and deferred compensation plans), subject, however, to the generally applicable eligibility, participation, and other provisions of the various plans and programs and laws and regulations in effect from time to time.

(ii) The Company shall reimburse Executive for all reasonable, ordinary and necessary business, travel or entertainment expenses incurred during the Service Term in the performance of his services hereunder in accordance with the policies of the Company as they are from time to time in effect. Executive, as a condition precedent to obtaining such payment or reimbursement, shall provide to the Company any and all statements, bills or receipts evidencing the travel or out-of-pocket expenses for which Executive seeks payment or reimbursement, and any other information or materials, which the Company may from time to time reasonably require. The Company shall reimburse Executive the amount of such an expense in accordance with the Company's expense reimbursement policy as in effect from time to time, subject to Section 15.

(iii) Executive shall be allotted twenty-two (22) paid vacation days per annum which shall be provided pro rata during the applicable year and seven (7) paid sick days and shall be entitled to medical, disability, family and other leave in accordance with Company policies as in effect from time to time for senior executives. Paid vacation and sick days not used by calendar year end shall be forfeited unless otherwise provided in the Company's vacation and sick leave policy.

(iv) Notwithstanding anything to the contrary contained above, the Company shall be entitled to terminate or reduce any employee benefit enjoyed by Executive pursuant to the provisions of this Section 3(g), but only if such reduction is part of an across-the-board

reduction applicable to all executives of the Company who are entitled to such benefit and is permissible under the Code and the Employee Retirement Income Security Act of 1974, as amended.

4. **Employment Term.**

Unless Executive's employment under this Agreement is sooner terminated as a result of Executive's resignation or termination in accordance with the provisions of Section 5 below, Executive's term of employment ("**Service Term"**) under this Agreement shall commence on the date hereof and shall continue for a period of one (1) year, and at the end of each day it shall renew and extend automatically for an additional day so that the remaining Service Term is always one year; provided, however, that either party may terminate this Agreement pursuant to Section 5 below for any reason.

5. **Termination.**

Executive's employment with the Company shall cease upon the first of the following events to occur:

(a) Immediately upon Executive's death.

(b) Upon thirty (30) days' prior written notice by Executive to the Company of Executive's voluntary retirement at age 65 or older.

(c) Upon thirty (30) days' prior written notice by the Company to Executive of the Executive's termination due to Disability. "**Disability"** means (i) Executive is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (ii) Executive is, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Company. A determination of Disability may be made by a physician selected or approved by the Chief Executive Officer and, in this respect, Executive shall submit to an examination by such physician upon request by the Chief Executive Officer. Any such termination for disability shall be only as expressly permitted by the Americans with Disabilities Act and any other applicable laws.

(d) Immediately (after taking into consideration any cure period, if applicable) upon delivery to Executive of a written notice from the Chief Executive Officer that Executive has been terminated with or without Cause. **"Cause"** shall mean termination for any of the following:

(i) Executive (a) commits a felony or a crime involving moral turpitude or commits any other act or omission involving fraud, embezzlement or any other act of dishonesty in the course of his employment by the Company which conduct damages the Company or an Affiliate; (b) substantially and repeatedly fails to perform duties of the office held by Executive as reasonably directed by the Board and/or the Chief Executive Officer, (c) commits gross negligence or willful misconduct with respect to the Company or an Affiliate; (d) commits a material breach of this Agreement that is not cured within ten (10) days after receipt of written notice thereof from the Board and/or Chief Executive Officer; (e) fails, within ten (10) days after receipt by Executive of written notice thereof from the Board and/or Chief Executive Officer, to correct, cease or otherwise alter any failure to comply with instructions or other action or omission which the Board and/or Chief Executive Officer reasonably believes does

or may materially or adversely affect the Company's or an Affiliate's business or operations, (f) commits misconduct which is of such a serious or substantial nature that a reasonable likelihood exists that such misconduct will materially injure the reputation of the Company or an Affiliate, (g) harasses or discriminates against the Company's or an Affiliate's employees, customers or vendors in violation of the Company's policies with respect to such matters, (h) misappropriates funds or assets of the Company or an Affiliate for personal use or willfully violates the Company policies or standards of business conduct as determined in good faith by the Board and/or Chief Executive Officer, (i) fails, due to some action or inaction on the part of Executive, to have immigration status that permits Executive to maintain full-time employment with the Company in the United States in compliance with all applicable immigration law, or (j) discloses trade secrets of the Company or an Affiliate.

(e) Upon Executive's voluntary resignation by the delivery to the Chief Executive Officer of a written notice from Executive that Executive has resigned with or without Good Reason. **"Good Reason"** shall mean Executive's resignation from employment with the Company after the occurrence of any of the following events without Executive's consent: (i) a material diminution in Executive's Annual Base Salary, duties, authority or responsibilities from the Annual Base Salary, duties, authority or responsibilities as in effect at the commencement of the Service Term, (ii) a material breach of the Agreement by the Company, or (iii) a relocation of Executive's primary place of employment to a geographic area more than fifty (50) miles from the Company's office in Arlington, Virginia; provided, that the foregoing events shall not be deemed to constitute Good Reason unless Executive has notified the Company in writing of the occurrence of such event(s) within sixty (60) days of such occurrence and the Company has failed to have cure such event(s) within thirty (30) business days of its receipt of such written notice and termination occurs within one hundred (100) days of the event.

6. **Rights on Termination.**

(a) If during the Service Term Executive's employment is terminated under Section 5 above (x) by the Company without Cause or (y) by Executive with Good Reason, then:

(i) The Company shall pay to Executive, at the times specified in Section 6(a)(vi) below, the following amounts:

(1) the Accrued Obligation;

(2) a lump sum payment in cash equal to the product of (x) one-twelfth ($1/12^{th}$) of the amount of the Annual Base Salary in effect immediately prior to the Termination Date and (y) twelve (12); and

(3) a lump sum payment in cash equal to the product of (x) the monthly basic life insurance premium applicable to Executive's basic life insurance coverage immediately prior to the Termination Date and (y) twelve (12). To the extent then available under the life insurance program, Executive may, at his option, convert his basic life insurance coverage to an individual policy after the Termination Date by completing the forms required by the Company for this purpose.

The amounts described in Section 6(a)(i)(2) and (3) above shall be referred to herein as the "**Severance Payments**."

(ii) The Company will pay Executive the pro rata portion, if any, of Executive's Annual Bonus earned up until such Termination Date in accordance with the terms of the then-current Company bonus policy.

(iii) The Company shall provide professional outplacement and counseling services through an outplacement firm chosen by the Company for six (6) months from the Termination Date to assist Executive in his search for other employment.

(iv) Upon Executive’s termination, Executive and his spouse and eligible dependents, as applicable, may elect health care coverage for up to eighteen (18) months from his last day of work at the Company pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (**“COBRA”**). Subject to Section 6(a)(v) below, the Company will pay for up to twelve (12) months, on an after-tax basis, the portion of Executive’s COBRA premiums for such coverage that exceeds the amount that Executive would have incurred in premiums for such coverage under the Company’s health plan if then employed by the Company; provided, however, the Company’s obligation shall only apply to the extent COBRA coverage is elected and in effect during such period. Following the twelve (12) months of coverage, Executive will be responsible for the full amount of all future premium payments should he wish to continue COBRA coverage. However, if Executive or his spouse becomes eligible for group health coverage sponsored by another employer (regardless of whether such coverage is actually elected) or for any other reason his COBRA coverage terminates, the Company shall not be obligated to pay any portion of the premiums provided hereunder for periods after he becomes eligible for such other coverage or his COBRA coverage terminates. Executive shall have the obligation to notify the Company if he or his spouse becomes eligible for group health coverage sponsored by another employer.

(v) Payments and benefits provided to Executive under this Section 6 (other than Accrued Obligation) are contingent upon Executive’s execution of a release substantially in the form of **Exhibit A** hereto and such release becoming irrevocable within sixty (60) days following his termination of employment.

(vi) The Company shall pay Executive the amounts specified in Sections 6(a)(i)(1), (2) and (3) within sixty (60) days after the Termination Date, except that the Accrued Obligation will be paid earlier if required by law; provided, however, that in no event shall the timing of Executive’s execution of the release, directly or indirectly, result in him designating the calendar year of payment, and if a payment that is subject to execution of the release could be made in more than one taxable year, such payment shall be made in the later taxable year. Notwithstanding the forgoing, if the Executive is deemed on the Termination Date to be a Specified Employee, then with regard to any Severance Payment or other payment or benefit under this Agreement that is “deferred compensation” within the meaning of Section 409A and which is paid as a result of the Executive’s Separation from Service, such payment or benefit shall be made or provided at the date which is the earlier of (A) the expiration of the six (6)-month period measured from the date of such Separation from Service of the Executive, and (B) the date of the Executive’s death (the **“Delay Period”**). Upon the expiration of the Delay Period, all payments and benefits delayed pursuant to the preceding sentence (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid or reimbursed to the Executive in a lump sum with interest at the six (6)-month U.S. Treasury Rate in effect on the date of Executive’s Separation From Service, and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the normal payment dates specified for them herein. To the extent subject to a mandatory six-month delay in payment under Section 409A, the Company shall pay the amounts specified in Section 6(a)(iv) for the first six (6) month period commencing on the date of Executive’s Separation From Service on the date that is six (6) months following the date of Executive’s Separation Form Service and shall also pay Executive the amount of interest

that would be earned on this amount until the date of payment calculated using an interest rate equal to the six (6) month U.S. Treasury Rate in effect on the date of Executive's Separation From Service.

(b) If the Company terminates Executive's employment for Cause, if Executive dies or is Disabled, or if Executive resigns without Good Reason, the Company's obligations to pay any compensation or benefits under this Agreement will cease effective as of the Termination Date and the Company shall pay to Executive the Accrued Obligation within sixty (60) days following the Termination Date or earlier if required by law. Following such payments, the Company shall have no further obligations to Executive, other than as may be required by law or the terms of an employee benefit plan of the Company.

(c) Notwithstanding the foregoing, the Company's obligation to Executive for Severance Payments or other rights under either Section 6(a) or (b) above shall cease if Executive is in violation of the provisions of Section 8 or 9 below.

(d) If the Executive retires at age sixty-five (65) or older, the Company shall pay the Executive: (i) the Accrued Obligation within sixty (60) days after the Termination Date or earlier if required by law, and (ii) the pro rata portion of any Annual Bonus that may have been earned by the Executive through the retirement date in accordance with the terms of the then-current Company bonus policy. No other amounts will be payable by the Company, other than as may be required by law or the terms of an employee benefit plan of the Company.

7. **Representations of Executive.**

Executive hereby represents and warrants to the Company that the statements contained in this Section 7 are true and accurate as of the date of this Agreement.

(a) **Legal Proceedings.** Executive has not been (i) the subject of any criminal proceeding (other than a minor traffic violation or other minor offense) which has resulted in a conviction against Executive, nor is Executive the subject of any pending criminal proceeding (other than a minor traffic violation or other minor offense), (ii) indicted for, or charged in a court of competent jurisdiction with, any felony or crime of moral turpitude, (iii) the defendant in any civil complaint alleging damages in excess of $50,000, or (iv) the defendant in any civil complaint alleging sexual harassment, unfair labor practices or discrimination in the work place.

(b) **Securities Law.** Executive has not been found in a civil action by the Securities and Exchange Commission, Commodity Futures Trading Commission, a state securities authority or any other regulatory agency to have violated any federal, state or other securities or commodities law.

(c) **Work History; Immigration Status.** Executive's resume, previously provided by Executive to the Company, is complete and correct in all material respects, and accurately reflects Executive's prior work history. Executive has the full legal right to be employed on a full-time basis by the Company in the United States under all applicable immigration laws on the basis of the Company's continued willingness to employ him on a full-time basis, and has provided the Company with evidence of legal immigration status and will do so at any time upon request. The Company will, if applicable, continue to cooperate with Executive in maintaining Executive's work visa status and/or any mutually agreeable adjustment of status.

(d) **Employment Restrictions.** Executive is not currently a party to any non- competition, non-solicitation, confidentiality or other work-related agreement that limits or restricts Executive's ability to work

in any particular field or in any particular geographic region, whether or not such agreement would be violated by this Agreement.

8. **Confidential Information; Proprietary Information, etc.**

(a) **Obligation to Maintain Confidentiality.** Executive acknowledges that any Proprietary Information disclosed or made available to Executive or obtained, observed or known by Executive as a direct or indirect consequence of his employment with or performance of services for the Company or any of its Affiliates during the course of his performance of services for, or employment with, any of the foregoing Persons (whether or not compensated for such services) and during the period in which Executive is receiving Severance Payments, are the property of the Company and its Affiliates. Therefore, Executive agrees that, other than in the course of performance of his duties as an employee of the Company, he will not at any time (whether during or after Executive's term of employment) disclose or permit to be disclosed to any Person or, directly or indirectly, utilize for his own account or permit to be utilized by any Person any Proprietary Information or records pertaining to the Company, its Affiliates and their respective business for any reason whatsoever without the Chief Executive Officer's consent, unless and to the extent that (except as otherwise provided in the definition of Proprietary Information) the aforementioned matters become generally known to and available for use by the public other than as a direct or indirect result of Executive's acts or omissions to act. Executive agrees to deliver to the Company at the termination of his employment, as a condition to receipt of the Severance Payments, or at any other time the Company may request in writing (whether during or after Executive's term of employment), all records pertaining to the Company, its Affiliates and their respective business which he may then possess or have under his control. Executive further agrees that any property situated on the Company's or its Affiliates' premises and owned by the Company or its Affiliates, including disks and other storage media, filing cabinets or other work areas, is subject to inspection by Company or its Affiliates and their personnel at any time with or without notice. Nothing in this Section 8(a) shall be construed to prevent Executive from using his general knowledge and experience in future employment so long as Executive complies with this Section 8(a) and the other restrictions contained in this Agreement.

(b) **Ownership of Property.** Executive acknowledges that all inventions, innovations, improvements, developments, methods, processes, programs, designs, analyses, drawings, reports and all similar or related information (whether or not patentable) that relate to the Company's or any of its Affiliates' actual or anticipated business, research and development, or existing or future products or services and that are conceived, developed, contributed to, made, or reduced to practice by Executive (either solely or jointly with others) while employed by the Company or any of its Affiliates (including any of the foregoing that constitutes any Proprietary Information or records) (**"Work Product"**) belong to the Company or such Affiliate and Executive hereby assigns, and agrees to assign, all of the above Work Product to the Company or such Affiliate. Any copyrightable work prepared in whole or in part by Executive in the course of his work for any of the foregoing entities shall be deemed a "work made for hire" under the copyright laws, and the Company or such Affiliate shall own all rights therein. To the extent that any such copyrightable work is not a "work made for hire," Executive hereby assigns and agrees to assign to Company or such Affiliate all right, title and interest, including without limitation, copyright in and to such copyrightable work. Executive shall promptly disclose such Work Product and copyrightable work to the Chief Executive Officer and perform all actions reasonably requested by the Chief Executive Officer (whether during or after Executive's term of employment) to establish and confirm the Company's or its Affiliate's ownership (including, without limitation, execution of assignments, consents, powers of attorney and other instruments). Notwithstanding anything contained in this Section 8(b) to the contrary, the Company's ownership of Work Product does not apply to any invention that Executive develops entirely on his own time without using the equipment, supplies or facilities of the Company or Affiliates or any Proprietary Information (including trade secrets), except

that the Company's ownership of Work Product does include those inventions that: (i) relate to the business of the Company or its Affiliates or to the actual or demonstrably anticipated research or development relating to the Company's business; or (ii) result from any work that Executive performs for the Company or its Affiliates.

(c) **Third Party Information.** Executive understands that the Company and its Affiliates will receive from third parties confidential or proprietary information (**"Third Party Information"**) subject to a duty on the Company's and its Affiliates' part to maintain the confidentiality of such information and to use it only for certain limited purposes. During the term of Executive's employment and thereafter, and without in any way limiting the provisions of Sections 8(a) and 8(b) above, Executive shall hold Third Party Information in the strictest confidence and shall not disclose to anyone (other than personnel of the Company or its Affiliates who need to know such information in connection with their work for the Company or its Affiliates) or use, except in connection with his work for the Company or its Affiliates, Third Party Information unless expressly authorized by the Chief Executive Officer in writing.

(d) **Use of Information of Prior Employers, etc.** Executive will abide by any enforceable obligations contained in any agreements that Executive has entered into with his prior employers or other parties to whom Executive has an obligation of confidentiality.

(e) **Compelled Disclosure.** If Executive is required by law or governmental regulation or by subpoena or other valid legal process to disclose any Proprietary Information or Third Party Information to any Person, Executive will immediately provide the Company with written notice of the applicable law, regulation or process so that the Company may seek a protective order or other appropriate remedy. Executive will cooperate fully with the Company and the Company's representatives in any attempt by the Company, at its sole cost and expense, to obtain any such protective order or other remedy. If the Company elects not to seek, or is unsuccessful in obtaining, any such protective order or other remedy in connection with any requirement that Executive disclose Proprietary Information or Third Party Information then Executive may disclose such Proprietary Information or Third Party Information to the extent legally required; provided, however, that Executive will use his reasonable best efforts to ensure that such Proprietary Information is treated confidentially by each Person to whom it is disclosed.

9. **Noncompetition and Nonsolicitation.**

(a) **Noncompetition and Nonsolicitation.**

During Executive's employment, and for a period of twelve (12) months following the termination of Executive's employment, Executive will not, within any geographic area served or supervised by Executive during the twelve (12)-month period immediately preceding the Termination Date:

(1) render or offer any Competing Service or Product to any client or customer for whom Executive provided a Competing Service/Product on behalf of Company;

(2) render or offer any Competing Service or Product to any Prospective Customer of Company; or,

(3) participate in the recruitment or hiring of any Company employee to provide any Competing Service or Product.

"Competing Service or Product" means producing or selling software or services used for learning foreign languages, including English as a foreign language, and any other business carried on by the Company during Executive's employment. A "Prospective Customer" means any Person that the Executive, or other employee

working under the Executive, has entertained discussions with to become a client or customer of Company at any time during the twelve (12)-month period immediately preceding the Termination Date and who has not explicitly rejected a business relationship with the Company. For purposes of this Section 9(a), "Company" includes Company and any Affiliate to which Executive provided services during his employment.

(b) **Acknowledgment.** Executive acknowledges that in the course of his employment with the Company and its Affiliates, he has and will become familiar with the trade secrets and other Proprietary Information of the Company and its Affiliates. Executive further acknowledges that as the SVP, Consumer of the Company, Executive has and will have direct or indirect responsibility, oversight or duties with respect to the businesses of the Company and its Affiliates and its and their current and prospective employees, vendors, customers, clients and other business relations, and that, accordingly, the geographical restriction contained in this Section 9 is reasonable in all respects and necessary to protect the goodwill and Proprietary Information of the Company and that without such protection the Company's customer and client relations and competitive advantage would be materially adversely affected. It is specifically recognized by Executive that his services to the Company and its Affiliates are special, unique and of extraordinary value, that the Company has a protectable interest in prohibiting Executive as provided in this Section 9, that Executive is responsible for the growth and development of the Company and the creation and preservation of the Company's goodwill, that money damages are insufficient to protect such interests, that there is adequate consideration being provided to Executive hereunder, that such prohibitions are necessary and appropriate without regard to payments being made to Executive hereunder and that the Company would not enter this Agreement with Executive without the restriction of this Section 9. Executive further acknowledges that the restrictions contained in this Section 9 do not impose an undue hardship on him and, since he has general business skills that may be used in industries other than that in which the Company and its Affiliates conduct their business, do not deprive Executive of his livelihood. Executive further acknowledges that the provisions of this Section 9 are separate and independent of the other sections of this Agreement.

(c) **Enforcement, etc.** If, at the time of enforcement of Section 8 or 9 of this Agreement, a court concludes that the restrictions stated herein are unenforceable or unreasonable under circumstances then existing, the parties hereto agree that the unenforceable or unreasonable restriction should be severed from the Agreement and shall not affect the validity of enforceability of the other restrictions in Section 8 or 9. Because Executive's services are unique, because Executive has access to Proprietary Information and for the other reasons set forth herein, the parties hereto agree that money damages would be an inadequate remedy for any breach of this Agreement. Therefore, without limiting the generality of Section 12(f), in the event of a breach or threatened breach of this Agreement, the Company or its successors or assigns may, in addition to other rights and remedies existing in their favor, apply to any court of competent jurisdiction for specific performance and/or injunctive or other relief in order to enforce, or prevent any violations of, the provisions hereof (without posting a bond or other security).

(d) **Submission to Jurisdiction.** The parties hereby: (i) submit to the jurisdiction of any state or federal court sitting in the Commonwealth of Virginia in any action or proceeding arising out of or relating to Section 8 and/or 9 of this Agreement; (ii) agree that all claims in respect of such action or proceeding may be heard or determined in any such court; and (iii) agree not to bring any action or proceeding arising out of or relating to Section 8 and/or 9 of this Agreement in any other court. The parties hereby waive any defense of inconvenient forum to the maintenance of any action or proceeding so brought. The parties hereby agree that a final judgment in any action or proceeding so brought shall be conclusive and may be enforced by suit on the judgment or in any other manner provided by law.

GENERAL PROVISIONS

10. **Definitions.**

"**Accrued Obligation**" means the sum of (a) Executive's Annual Base Salary through the Termination Date for periods through but not following his Separation From Service and (b) any accrued vacation pay earned by Executive, in each case, to the extent not theretofore paid.

"Affiliate" means, with respect to any particular Person, any other Person controlling, controlled by or under common control with such particular Person. A Subsidiary of the Company shall be an Affiliate of the Company.

"Board" means the Board of Directors of the Company or any committee of the Board, such as the Compensation Committee, to which the Board has delegated applicable authority.

"**Code**" means the Internal Revenue Code of 1986, as amended and the regulations and guidance issued thereunder.

"Person" means any individual or corporation, association, partnership, limited liability company, joint venture, joint stock or other company, business trust, trust, organization, university, college, governmental authority or other entity of any kind.

"Proprietary Information" means any and all data and information concerning the business affairs of the Company or any of its Affiliates and not generally known in the industry in which the Company or any of its Affiliates is or may become engaged, and any other information concerning any matters affecting or relating to the Company's or its Affiliates businesses, but in any event Proprietary Information shall include, any of the Company's and its Affiliates' past, present or prospective business opportunities, including information concerning acquisition opportunities in or reasonably related to the Company's or its Affiliates' businesses or industries, customers, customer lists, clients, client lists, the prices the Company and its Affiliates obtain or have obtained from the sale of, or at which they sell or have sold, their products, unit volume of sales to past or present customers and clients, or any other information concerning the business of the Company and its Affiliates, their manner of operation, their plans, processes, figures, sales figures, projections, estimates, tax records, personnel history, accounting procedures, promotions, supply sources, contracts, know-how, trade secrets, information relating to research, development, inventions, technology, manufacture, purchasing, engineering, marketing, merchandising or selling, or other data without regard to whether all of the foregoing matters will be deemed confidential, material or important. Proprietary Information does not include any information that Executive has obtained from a Person other than an employee of the Company or an Affiliate, which was disclosed to him without a breach of a duty of confidentiality.

"**Section 409A**" means Section 409A of the Code.

"**Separation From Service**" shall have the meaning ascribed to such term in Section 409A.

"**Specified Employee**" means a person who is a "specified employee" within the meaning of Section 409A, taking into account the elections made and procedures established in resolutions adopted by the Board.

"Subsidiary" means any company of which the Company owns securities having a majority of the ordinary voting power in electing the board of directors directly or through one or more subsidiaries.

"Termination Date" means the effective date of the termination of Executive's employment.

11. **Notices.**

Any notice provided for in this Agreement must be in writing and must be mailed, personally delivered or sent by reputable overnight courier service (charges prepaid) to the recipient at the address below indicated:

If to the Company:

Rosetta Stone Ltd.
1919 North Lynn Street
7th Floor
Arlington, VA 22209
Attention: Chief Executive Officer

With a copy to:

Rosetta Stone Ltd.
1919 North Lynn Street
7th Floor
Arlington, VA 22209
Attention: General Counsel

If to Executive:

The last address on file with the Company.

Or such other addresses or to the attention of such other person as the recipient party shall have specified by prior written notice to the sending party. Any notice under this Agreement will be deemed to have been given when delivered or, if mailed, five (5) business days after deposit in the U.S. mail.

12. **Miscellaneous.**

(a) **Severability.** Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

(b) **Complete Agreement.** This Agreement, those documents expressly referred to herein and other documents of even date herewith embody the complete agreement and understanding among the parties and supersede and preempt any prior understandings, agreements or representations by or among the parties, written or oral, which may have related to the subject matter hereof in any way.

(c) **Counterparts; Facsimile Transmission.** This Agreement may be executed in separate counterparts, each of which is deemed to be an original and all of which taken together constitute one and the same agreement. Each party to this Agreement agrees that its own telecopied signature will bind it and that it accepts the telecopied signature of each other party to this Agreement.

(d) **Successors and Assigns**. Except as otherwise provided herein, this Agreement shall bind and inure to the benefit of and be enforceable by Executive, the Company and their respective successors and assigns; provided that the rights and obligations of the parties under this Agreement shall not be assignable without the prior written consent of the other party, except for assignments by operation of law and assignments by the Company to any successor of the Company by merger, consolidation, combination or sale of assets. Any purported assignment in violation of these provisions shall be void *ab initio.*

(e) **Choice of Law; Jurisdiction.** All questions or disputes concerning this Agreement and the exhibits hereto will be governed by and construed in accordance with the internal laws of the Commonwealth of Virginia, without giving effect to any choice of law or conflict of law provision or rule (whether of the Commonwealth of Virginia or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the Commonwealth of Virginia. The parties hereby: (i) submit to the non-exclusive jurisdiction of any state or federal court sitting in the Commonwealth of Virginia in any action or proceeding arising out of or relating to this Agreement; and (ii) agree that all claims in respect of such action or proceeding may be heard or determined in any such court. Each party hereby waives any defense of inconvenient forum to the maintenance of any action or proceeding so brought. The parties hereby agree that a final judgment in any action or proceeding so brought shall be conclusive and may be enforced by suit on the judgment or in any other manner provided by law.

(f) **Remedies.** Each of the parties to this Agreement will be entitled to enforce its rights under this Agreement specifically, to recover damages and costs (including attorney's fees) caused by any breach of any provision of this Agreement and to exercise all other rights existing in its favor. The parties hereto agree and acknowledge that money damages may not be an adequate remedy for any breach of the provisions of this Agreement and that any party may in its sole discretion apply to any court of law or equity of competent jurisdiction (without posting any bond or deposit) for specific performance and/or other injunctive relief in order to enforce or prevent any violations of the provisions of this Agreement.

(g) **Amendment and Waiver.** The provisions of this Agreement may be amended or waived only with the prior written consent of the Company and Executive.

(h) **Business Days.** If any time period for giving notice or taking action hereunder expires on a day which is a Saturday, Sunday or holiday in the state in which the Company's chief executive office is located, the time period shall be automatically extended to the business day immediately following, such Saturday, Sunday or holiday. The provisions of this Section 12(h) shall not apply to determine the date an amount is payable under Section 3(c)(ii) or 6.

(i) **Termination.** This Agreement (except for the provisions of Sections 1, 2, 3, and 4) shall survive the termination of Executive's employment with the Company and shall remain in full force and effect after such termination.

(j) **No Waiver**. A waiver by any party hereto of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy that such party would otherwise have on any future occasion. Neither failure to exercise nor any delay in exercising on the part of any party hereto, any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and may be exercised singly or concurrently, and are not exclusive of any rights or remedies provided by law.

(k) **Insurance.** The Company, at its discretion, may apply for and procure in its own name for its own benefit life and/or disability insurance with respect to Executive in any amount or amounts considered

available provided, however, that such procurement of insurance does not restrict the amount of insurance that Executive may obtain for his own personal use. Executive agrees to cooperate in any medical or other examination, supply any information, and to execute and deliver any applications or other instruments in writing as may be reasonably necessary to obtain and constitute such insurance. Executive hereby represents that he has no reason to believe that his life is not insurable at rates now prevailing for healthy men of his age.

(l) **Taxes; Withholding of Taxes on Behalf of Executive.** Executive shall be solely responsible for any and all taxes imposed on Executive by reason of any compensation and benefits provided under this Agreement, and all such compensation and benefits shall be subject to applicable withholding. Without limiting the scope of the preceding sentence, the Company and its Affiliates shall be entitled to deduct or withhold from any amounts owing from the Company or any of its Affiliates to Executive any federal, state, provincial, local or foreign withholding taxes, excise taxes, or employment taxes imposed with respect to Executive's compensation or other payments from the Company or any of its Affiliates or Executive's ownership interest in the Company, including, but not limited to, wages, bonuses, dividends, the receipt or exercise of stock options and/or the receipt or vesting of restricted stock.

(m) **Waiver of Jury Trial**. **Both parties to this agreement agree that any action, demand, claim or counterclaim relating to the terms and provisions of this agreement, or to its breach, may be commenced in the Commonwealth of Virginia in a court of competent jurisdiction. Both parties to this agreement further agree that any action, demand, claim or counterclaim shall be resolved by a judge alone, and both parties hereby waive and forever renounce that right to a trial before a civil jury.**

13. **Certain Additional Payments by the Company; Code Section 280G.**

(a) Anything in this Agreement to the contrary notwithstanding, if any payment or benefit Executive would receive pursuant to this Agreement ("**Payment**") would (i) constitute a "parachute payment" within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the "**Excise Tax**"), then such Payment shall be reduced to the Reduced Amount. The "Reduced Amount" shall be either (x) the largest portion of the Payment that would result in no portion of the Payment being subject to the Excise Tax or (y) the largest portion, up to and including the total, of the Payment, whichever amount, after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in Executive's receipt, on an after-tax basis, of the greater amount of the Payment notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in payments or benefits constituting "parachute payments" is necessary so that the Payment equals the Reduced Amount, reduction shall occur in the following order: (A) cash payments shall be reduced first and in reverse chronological order such that the cash payment owed on the latest date following the occurrence of the event triggering such Excise Tax will be the first cash payment to be reduced; and (B) employee benefits shall be reduced last (but only to the extent such benefits may be reduced under applicable law, including, but not limited to the Code and the Employee Retirement Income Security Act of 1974, as amended) and in reverse chronological order such that the benefit owed on the latest date following the occurrence of the event triggering such Excise Tax will be the first benefit to be reduced.

(b) The determinations and calculations required hereunder shall be made by nationally recognized accounting firm that is (i) not be serving as accountant or auditor for the person who acquires ownership or effective control or ownership of a substantial portion of the Company's assets (within the meaning of Section 280G of the Code) or any Affiliate of such person, and (ii) agreed upon by the Company

and Executive (the "**Accounting Firm**") The Company shall bear all expenses with respect to the determinations by the Accounting Firm required to be made hereunder.

(c) The Accounting Firm engaged to make the determinations hereunder shall provide its calculations, together with detailed supporting documentation, to the Company and Eligible Employee within fifteen (15) business days after the date on which right to a Payment is triggered (if requested at that time by the Company or Executive) or such other time as requested by the Company or Executive. Any good faith determinations of the accounting firm made hereunder shall be final, binding and conclusive upon the Company and Executive.

14. **Indemnification.**

During and following the employment period, the Company shall indemnify Executive and hold Executive harmless from and against any claim, loss or cause of action arising from or out of Executive's performance as an officer, director or employee of the Company or any of its Affiliates or in any other capacity, including any fiduciary capacity, in which Executive serves at the request of Company to the maximum extent permitted by applicable law and the Company's By-Laws. Expenses incurred in defending or investigating a threatened or pending action, suit or proceeding shall be paid directly by the Company in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of Executive to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Company. To the extent that the Company reduces the indemnity rights provided for under its By-Laws after execution of this Agreement, the Company's indemnity obligations hereunder shall be unaffected (to the extent permitted by applicable law).

15. **Section 409A.**

Although the Company does not guarantee to Executive any particular tax treatment relating to the payments and benefits under this Agreement, the parties acknowledge that this Agreement is intended to comply with, or be exempt from, the requirements of Section 409A.

For purposes of this Agreement, a termination of employment will mean a "separation from service" as defined in Section 409A, where required for compliance with Section 409A.

With regard to any provision of this Agreement that provides for reimbursement of costs and expenses or in-kind benefits, except as permitted by Section 409A, (i) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit; (ii) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year; and (iii) such payments shall be made on or before the last day of the service provider's taxable year following the taxable year in which the expense was incurred.

Whenever a payment under this Agreement specifies a payment period with reference to a number of days (e.g., "payment shall be made within sixty (60) days after termination"), the actual date of payment within the specified period shall be within the sole discretion of the Company.

[Signature pages follow]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date first written above.

Rosetta Stone Ltd.

By: /s/ Stephen M. Swad
Stephen M. Swad, President and CEO

EXECUTIVE

/s/ Eric Ludwig

Eric Ludwig

EXHIBIT A

Form of Release

CONSULT WITH AN ATTORNEY PRIOR TO SIGNING THIS AGREEMENT AND GENERAL RELEASE. BY SIGNING THIS AGREEMENT AND GENERAL RELEASE YOU GIVE UP AND WAIVE IMPORTANT LEGAL RIGHTS.

Agreement and General Release

This Agreement and General Release ("**Release**") is between Rosetta Stone Ltd. (the "**Company**") and Eric Ludwig ("**Executive**") (each a "**Party**," and together, the "**Parties**"). For purposes of this Release "Effective Date" shall mean the date that is the eighth day after the date on which Executive signs this Release, provided Executive has not revoked this Release pursuant to Section 2(c) below.

Recitals

A. Executive and the Company are parties to an Employment Agreement to which this Release is appended as **Exhibit A** (the "**Employment Agreement**").

B. Executive wishes to receive the payments and benefits described Section 6(a) of the Employment Agreement, other than the accrued obligation (the "**Severance Payments**").

C. Executive and the Company wish to resolve, except as specifically set forth herein, all claims between them arising from or relating to any act or omission predating the Separation Date defined below.

Agreement

The Parties agree as follows:

1. Confirmation of Severance Benefit Obligation. The Company shall pay or provide to Executive the entire Severance Payments, as, when and on the terms and conditions specified in the Employment Agreement.

2. Legal Releases

(a) Executive, on behalf of Executive and Executive's heirs, personal representatives and assigns, and any other person or entity that could or might act on behalf of Executive, including, without limitation, Executive's counsel (all of whom are collectively referred to as "Executive Releasers"), hereby fully and forever releases and discharges the Company, its present and future affiliates and subsidiaries, and each of their past, present and future officers, directors, employees, shareholders, independent contractors, attorneys, insurers and any and all other persons or entities that are now or may become liable to any Executive Releaser due to any Executive Releasee's act or omission, (all of whom are collectively referred to as "Executive Releasees") of and from any and all actions, causes of action, claims, demands, costs and expenses, including attorneys' fees, of every kind and nature whatsoever, in law or in equity, whether now known or unknown, that Executive Releasers, or any person acting under any of them, may now have, or claim at any future time to have, based in whole or in part upon any act or omission occurring on or before the Effective Date, without regard to present actual knowledge of such acts or omissions, including specifically, but not by way of limitation, matters which may arise at common law, such as breach of contract, express or implied, promissory estoppel, wrongful discharge, tortious interference with contractual rights, infliction of emotional distress, defamation, or under federal, state or local laws, such as the Fair Labor Standards Act, the Employee Retirement Income Security Act, the National Labor Relations Act, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Rehabilitation Act of 1973, the Equal Pay Act, the Americans with Disabilities Act, the Family and Medical Leave Act, and any civil rights law of any state or other governmental body; PROVIDED, HOWEVER, that notwithstanding the foregoing or anything else contained in this Release, the release set forth in this Section shall not extend to: (i) any rights arising under this Release; (ii) any vested rights under any pension, retirement, profit sharing or similar plan; (iii) any rights Executive has under any grants of stock options, restricted stock, or other forms of equity that may have been provided to Executive during Executive's employment (such grants to be governed by the applicable equity plan and grant agreement); (iv) any rights Executive has under applicable workers compensation laws; (v) Executive's rights, if any, to indemnification, and/or defense under any Company certificate of incorporation, bylaw and/or policy or procedure, or under any insurance contract or any indemnification agreement with the Company, in connection with Executive's acts and omissions within the course and scope of Executive's employment with the Company; (vi) Executive's ability to communicate with the Equal Employment Opportunity Commission (EEOC) or any other governmental agency, provided Executive does not seek any personal relief for any claims released herein; (vii) any claims arising after the date of Executive's execution of this Release; (viii) any obligations of the Company under the Employment Agreement which survive Executive's termination of employment; or (viii) any other claims that cannot lawfully be released. Executive hereby warrants that Executive has not assigned or transferred to any person any portion of any claim which is released, waived and discharged above. Executive further states and agrees that Executive has not experienced any illness, injury, or disability that is compensable or recoverable under the worker's compensation laws of any state that was not reported to the Company by Executive before the Effective Date, and Executive agrees not to not file a worker's compensation claim asserting the existence of any such previously undisclosed illness, injury, or disability. Executive has specifically consulted with counsel with respect to the agreements, representations, and declarations set forth in the previous sentence. Executive understands and agrees that by signing this Release Executive is giving up any right to bring any legal claim against the Company concerning, directly or indirectly, Executive's employment relationship with the Company, including Executive's separation from employment. Executive agrees that this legal release is intended to be interpreted

in the broadest possible manner in favor of the Company, to include all actual or potential legal claims that Executive may have against the Company, except as specifically provided otherwise in this Release.

(b) In order to provide a full and complete release, each of the Parties understands and agrees that this Release is intended to include all claims, if any, covered under this Section 2 that such Party may have and not now know or suspect to exist in his or its favor against any other Party and that this Release extinguishes such claims. Thus, each of the Parties expressly waives all rights under any statute or common law principle in any jurisdiction that provides, in effect, that a general release does not extend to claims which the releasing party does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the party being released.

(c) Executive acknowledges that he consulted with an attorney of his choosing before signing this the Employment Agreement and this Release, and that the Company provided him with no fewer than twenty-one (21) days during which to consider the provisions of the Employment Agreement and this Release and, specifically the release set forth at Section 2(a) above, although Executive may sign and return the Release sooner if he so chooses. Executive further acknowledges that he has the right to revoke this Release for a period of seven (7) days after signing it and that this Release shall not become effective until such seven (7)-day period has expired. Executive acknowledges and agrees that if he wishes to revoke this Release, he must do so in writing, and that such revocation must be signed by Executive and received by the Company in care of the Chief Executive Officer no later than 5 p.m. (Eastern Time) on the seventh (7th) day after Executive has signed this Release. Executive acknowledges and agrees that, in the event that he revokes this Release, he shall have no right to receive the Severance Payments. Executive represents that he has read this Release, including the release set forth in Section 2(a), above, affirms that this Release and the Employment Agreement provide him with benefits to which he would not otherwise be entitled, and understands its terms and that he enters into this Release freely, voluntarily, and without coercion.

3. Executive acknowledges that he has received all compensation to which he is entitled for his work up to his last day of employment with the Company, and that he is not entitled to any further pay or benefit of any kind, for services rendered or any other reason, other than the Severance Payments.

4. Executive agrees that the only thing of value that he will receive by signing this Release is the Severance Payments.

5. The Parties agree that their respective rights and obligations under the Employment Agreement shall survive the execution of this Release.

6. The parties understand and agree that this Release shall not be construed as an admission of liability on the part of any person or entity, liability being expressly denied.

7. Executive represents and warrants to the Company that, prior to the Effective Date, Executive did not disclose to any person, other than to Executive’s spouse, tax advisor and counsel, the terms of this Release or the circumstances under which the matter that is the subject of this Release has been resolved. After the Effective Date, neither Executive, counsel for Executive, nor any other person under Executive’s control shall disclose any term of this Release or the circumstances of Executive’s separation from the Company, except that Executive may disclose such information to Executive’s spouse, or as required by subpoena or court order, or to an attorney or accountant to the extent necessary to obtain professional advice. Executive shall not be entitled to rely upon the foregoing exception for disclosures pursuant to subpoena or court order unless Executive has given the Company written notice, within three business days following service of the subpoena or court order.

8. Executive covenants never to disparage or speak ill of the Company or any the Company product or service, or of any past or present employee, officer or director of the Company, nor shall Executive at any time harass or behave unprofessionally toward any past, present or future the Company employee, officer or director.

9. Executive acknowledges that because of Executive's position with the Company, Executive may possess information that may be relevant to or discoverable in connection with claims, litigation or judicial, arbitral or investigative proceedings initiated by a private party or by a regulator, governmental entity, or self-regulatory organization, that relates to or arises from matters with which Executive was involved during Executive's employment with the Company, or that concern matters of which Executive has information or knowledge (collectively, a "Proceeding"). Executive agrees that Executive shall testify truthfully in connection with any such Proceeding, shall cooperate with the Company in connection with every such Proceeding, and that Executive's duty of cooperation shall include an obligation to meet with the Company representatives and/or counsel concerning all such Proceedings for such purposes, and at such times and places, as the Company reasonably requests, and to appear for deposition and/or testimony upon the Company's request and without a subpoena. The Company shall reimburse Executive for reasonable out-of-pocket expenses that Executive incurs in honoring Executive's obligation of cooperation under this Section 9.

10. Miscellaneous Terms and Conditions

(a) Each party understands and agrees that Executive or it assumes all risk that the facts or law may be, or become, different than the facts or law as believed by the party at the time Executive or it executes this Release. Executive and the Company acknowledge that their relationship precludes any affirmative obligation of disclosure, and expressly disclaim all reliance upon information supplied or concealed by the adverse party or its counsel in connection with the negotiation and/or execution of this Release.

(b) The parties warrant and represent that they have been offered no promise or inducement except as expressly provided in this Release, and that this Release is not in violation of or in conflict with any other agreement of either party.

(c) All covenants and warranties contained in this Release are contractual and shall survive the closing of this Release.

(d) This Release shall be binding in all respects upon, and shall inure to the benefit of, the parties' heirs, successors and assigns.

(e) This Release shall be governed by the internal laws of the Commonwealth of Virginia, irrespective of the choice of law rules of any jurisdiction.

(f) Should any provision of this Release be declared illegal or unenforceable by any court of competent jurisdiction and cannot be modified to be enforceable, such provision shall immediately become null and void, leaving the remainder of this Release in full force and effect. Notwithstanding the foregoing, if Section 2(a), above, is declared void or unenforceable, then this Release shall be null and void and both parties shall be restored to the positions that they occupied before the Release's execution (meaning that, among other things, all sums paid by the Company pursuant to Section 1, above, shall be immediately refunded to the Company); provided that in such circumstances this Release and the facts and circumstances relating to its execution shall be inadmissible in any later proceeding between the parties, and the statutes of limitations

applicable to claims asserted in the proceeding shall be deemed to have been tolled for the period between the Effective Date and 10 days after the date on which Section 2(a) is declared unenforceable.

(g) This Release constitutes the entire agreement of the parties and a complete merger of prior negotiations and agreements.

(h) This Release shall not be modified except in a writing signed by the parties.

(i) No term or condition of this Release shall be deemed to have been waived, nor shall there be an estoppel against the enforcement of any provision of this Release, except by a writing signed by the party charged with the waiver or estoppel. No waiver of any breach of this Release shall be deemed a waiver of any later breach of the same provision or any other provision of this Release.

(j) Headings are intended solely as a convenience and shall not control the meaning or interpretation of any provision of this Release.

(k) Pronouns contained in this Release shall apply equally to the feminine, neuter and masculine genders. The singular shall include the plural, and the plural shall include the singular.

(l) Each party shall promptly execute, acknowledge and deliver any additional document or agreement that the other party reasonably believes is necessary to carry out the purpose or effect of this Release.

(m) Any party contesting the validity or enforceability of any term of this Release shall be required to prove by clear and convincing evidence fraud, concealment, failure to disclose material information, unconscionability, misrepresentation or mistake of fact or law.

(n) The parties acknowledge that they have reviewed this Release in its entirety and have had a full and fair opportunity to negotiate its terms and to consult with counsel of their own choosing concerning the meaning and effect of this Release. Each party therefore waives all applicable rules of construction that any provision of this Release should be construed against its drafter, and agrees that all provisions of the agreement shall be construed as a whole, according to the fair meaning of the language used.

(o) Every dispute arising from or relating to this Release shall be tried only in the state or federal courts situated in the Commonwealth of Virginia. The parties consent to venue in those courts, and agree that those courts shall have personal jurisdiction over them in, and subject matter jurisdiction concerning, any such action.

(p) In any action relating to or arising from this Release, or involving its application, the party substantially prevailing shall recover from the other party the expenses incurred by the prevailing party in connection with the action, including court costs and reasonable attorneys' fees. If Executive is the substantially prevailing party, the Company shall pay such expenses within 60 days following the determination that he is the substantially prevailing party.

(q) This Release may be executed in counterparts, or by copies transmitted by telecopier, all of which shall be given the same force and effect as the original.

[SIGNATURES FOLLOW]

NOTE: DO NOT SIGN THIS SUPPLEMENTAL LEGAL RELEASE UNTIL AFTER EXECUTIVE'S FINAL DAY OF EMPLOYMENT.

ROSETTA STONE LTD.	EXECUTIVE
By:	
Stephen M. Swad, President and CEO	Eric Ludwig, SVP, North America and EMEA Consumer
Date:	Date:

Exhibit 10.31

DIRECTOR AGREEMENT

In consideration of being considered for a position on the Board of Directors of Rosetta Stone Inc. (the "***Corporation***") and in accordance with Section 1.4 of the Second Amended and Restated Bylaws (as amended, the "***Bylaws***") of the Corporation, the undersigned hereby represents and agrees that the undersigned (a) is not and will not become a party to (i) any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person or entity as to how the undersigned, if elected as a director of the Corporation, will act or vote on any issue or question (a "***Voting Commitment***") that has not been disclosed to the Corporation or (ii) any Voting Commitment that could limit or interfere with the undersigned's ability to comply, if elected as a director of the Corporation, with the undersigned's fiduciary duties under applicable law, (b) is not and will not become a party to any agreement, arrangement or understanding with any person or entity other than the Corporation with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a director, and (c) in the undersigned's individual capacity and on behalf of any person or entity on whose behalf the nomination is being made, would be in compliance, if elected as a director of the Corporation, and will comply with all applicable publicly disclosed corporate governance, conflict of interest, confidentiality and stock trading policies and guidelines of the Corporation. The undersigned has listed and described in detail any Voting Commitment in place as of the date of this Agreement on **Exhibit A** attached hereto and attached to **Exhibit A** a copy of such Voting Commitment if it is in writing and agrees that if he enters into any such Voting Commitment at a later date, he will describe such Voting Commitment in detail and provide a copy of such Voting Commitment to the board of directors of the Corporation if it is in writing.

In accordance with Section 1.3(a)(ii)(A) of the Bylaws of the Corporation, attached as **Exhibit B** hereto is a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among the undersigned or any Affiliate or Associate of the undersigned and any of John H. Lewis ("Lewis"), Osmium Partners, LLC ("Osmium Partners"), Osmium Capital, LP ("Fund I"), Osmium Capital II, LP ("Fund II"), Osmium Spartan, LP ("Fund III"), Osmium Diamond, LP (Fund IV"), and Osmium Special Opportunity Fund, LP ("Fund V", and together with Lewis, Osmium Partners, Fund I, Fund II, Fund III, and Fund IV, the "Osmium Parties"), or any Affiliates (defined below) or Associates (defined below) of the Osmium Parties or others acting in concert therewith, including, without limitation all information that would be required to be disclosed pursuant to Rule 404 promulgated under Regulation S-K if the Osmium Parties or their Affiliates or Associates were the "registrant" for purposes of such rule and the undersigned were a director or executive officer of such registrant.

Although the undersigned has previously had a relationship with the Osmium Parties, as of the date of this Agreement the undersigned does not, and so long as the undersigned is a director of the Corporation, the undersigned will not:

- receive any compensation from any of the Osmium Parties other than the return on his investment as a limited partner in various of the funds described above;
- have any investment authority with any of the Osmium Parties; or
- have any ownership interest in any Osmium Party other than his interest as a limited partner certain funds.

For purposes of this Agreement: the terms "Affiliate" and "Associate" shall have the meanings set forth in Rule 12b-2 promulgated by the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the terms "person" or "persons" shall mean any individual, corporation (including not-for-profit), general or limited partnership, limited liability or

unlimited liability company, joint venture, estate, trust, association, organization or other entity of any kind or nature.

The undersigned understands and agrees that, if he becomes a member of the Corporation's board of directors, he has no right or authority to speak on behalf of the Corporation or share any non-public information concerning the Corporation, its subsidiaries and its and their officers, directors and employees and that he will keep confidential any information that he obtains about the Corporation, its subsidiaries and its and their officers, directors and employees unless such information is already generally available to the public other than as a result of a breach of this provision by the undersigned or his Affiliates or Associates or he is specifically authorized to share any such information with any of the Osmium Parties or any other third parties by the Board of Directors of the Corporation.

The undersigned has listed on **Exhibit C** attached hereto all other directorships he has obtained through, or been nominated for by, any Osmium Related Party.

The undersigned is aware that the Corporation and the Osmium Parties have executed that certain Nomination and Support Agreement, and in accordance with Section 1(f) of that agreement, the undersigned has executed and delivered the Irrevocable Resignation attached as Exhibit A to that agreement which the Company may exercise at any time upon the occurrence of any of the events described in Section 1(f) of the Nomination and Support Agreement.

The undersigned has accurately and truthfully completed, executed and delivered the Company's standard director and officer questionnaire and will notify the Company promptly if any such information changes.

The undersigned hereby represents and agrees that he will comply with all of the Corporation's corporate governance, conflict of interest, confidentiality and stock trading policies and guidelines that are applicable to directors of the Corporation, including the Corporation's Code of Ethics and Business Conduct and Corporate Governance Guidelines.

The undersigned hereby consents to serving as a director of the Corporation and consents to being named as such in any of the Corporation's filings with the Securities and Exchange Commission and to being named as a nominee in the Corporation's proxy statements.

(Signature) /s/ Arthur John Hass

Print Name: Arthur John Hass

Date: November 18, 2014

Exhibits:
Exhibit A - Voting Commitments (None)
Exhibit B - Compensation and Monetary Arrangements with Osmium Partners
Exhibit C - Other Directorships obtained through or nominated for by Osmium Partners (None)

Exhibit 21.1

ROSETTA STONE INC. SUBSIDIARIES

As of March 16, 2015

Entity	**Jurisdiction of Incorporation**
Rosetta Stone Holdings Inc.	Delaware
Rosetta Stone Ltd. (Formerly Fairfield & Sons Ltd. d/b/a Fairfield Language Technologies)	Virginia
Rosetta Stone International Inc.	Delaware
Rosetta Stone Brazil Holding LLC	Delaware
Rosetta Stone (UK) Limited	England and Wales
Rosetta Stone Japan Inc.	Japan
Rosetta Stone GmbH	Germany
Rosetta Stone Korea Ltd.	Republic of Korea
Rosetta Stone Canada Inc.	Canada
Rosetta Stone Hong Kong Limited	Hong Kong
Rosetta (Shanghai) Software Trading Co., Ltd.	Shanghai
Rosetta Stone Ensino de Linguas Ltda.	Brazil
Rosetta Stone France SAS	France
Livemocha LLC (formerly Livemocha Inc.)	Delaware
Lexia Learning Systems LLC (formerly Lexia Learning Systems Inc.)	Delaware
Rosetta Stone S.A. (formerly Tell Me More S.A.)	France
Auralog Studios SARL	France
Auralog SL	Spain
Rosetta Stone Mexico SA de CV (formerly Auralog SA de CV)	Mexico
Auralog Software Development (Beijing) Company Ltd.	China

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-201025, 333-190528, 333-183148, 333-180483, and 333-158828 on Form S-8 and Registration Statement No. 333-188444 on Form S-3 of our reports dated March 16, 2015, relating to the consolidated financial statements of Rosetta Stone Inc. and subsidiaries, and the effectiveness of Rosetta Stone Inc. and subsidiaries' internal control over financial reporting, appearing in this Annual Report on Form 10-K of Rosetta Stone Inc. and subsidiaries for the year ended December 31, 2014.

/s/ Deloitte & Touche LLP
McLean, Virginia
March 16, 2015

Exhibit 24.1

ROSETTA STONE INC.
POWER OF ATTORNEY

Each person whose signature appears below hereby constitutes and appoints Stephen M. Swad, Thomas M. Pierno and Sonia G. Cudd, or any of them, each with power to act without the other, a true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for each person whose signature appears below and in his or her name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K of Rosetta Stone Inc. (the "***Company***") and any or all subsequent amendments and supplements to the Annual Report on Form 10-K, and to file the same, or cause to be filed the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby qualifying and confirming all that said attorney-in-fact and agent or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Each person whose signature appears below may at any time revoke this power of attorney as to himself or herself only by an instrument in writing specifying that this power of attorney is revoked as to him or her as of the date of execution of such instrument or at a subsequent specified date. This power of attorney shall be revoked automatically with respect to any person whose signature appears below effective on the date he or she ceases to be a member of the Board of Directors or an officer of the Company. Any revocation hereof shall not void or otherwise affect any acts performed by any attorney-in-fact and agent named herein pursuant to this power of attorney prior to the effective date of such revocation.

March 16, 2015

Signature	Title
/s/ STEPHEN M. SWAD Stephen M. Swad	Chief Executive Officer and Director (Principal Executive Officer)
/s/ THOMAS M. PIERNO Thomas M. Pierno	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
/s/ Patrick W. Gross Patrick W. Gross	Chairman of the Board, Director
/s/ JAMES P. BANKOFF James P. Bankoff	Director
/s/ LAURENCE FRANKLIN Laurence Franklin	Director
/s/ A. JOHN HASS III A. John Hass III	Director
/s/ MARGUERITE W. KONDRACKE Marguerite W. Kondracke	Director
/s/ CAROLINE J. TSAY Caroline J. Tsay	Director
/s/ LAURA L. WITT Laura L. Witt	Director
Steven P. Yankovich	Director

Exhibit 31.1

**CERTIFICATION OF
PRINCIPAL EXECUTIVE OFFICER
OF ROSETTA STONE INC.
PURSUANT TO SECURITIES EXCHANGE ACT RULES 13a-14 AND 15d-14, AS ADOPTED
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Stephen M. Swad, certify that:

1. I have reviewed this Annual Report on Form 10-K of Rosetta Stone Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

d. disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's Board of Directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

By: /s/ STEPHEN M. SWAD

Stephen M. Swad
(*Principal Executive Officer*)

Date: March 16, 2015

Exhibit 31.2

CERTIFICATION OF
PRINCIPAL FINANCIAL OFFICER
OF ROSETTA STONE INC.
PURSUANT TO SECURITIES EXCHANGE ACT RULES 13a-14 AND 15d-14, AS ADOPTED
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Thomas M. Pierno, certify that:

1. I have reviewed this Annual Report on Form 10-K of Rosetta Stone Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

d. disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's Board of Directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

By: /s/ THOMAS M. PIERNO

Thomas M. Pierno
(*Principal Financial Officer*)

Date: March 16, 2015

Exhibit 32.1

CERTIFICATION OF
PRINCIPAL EXECUTIVE OFFICER
OF ROSETTA STONE INC.
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen M. Swad, Chief Executive Officer of Rosetta Stone Inc. (the "Company"), hereby certify, to my knowledge, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ STEPHEN M. SWAD

Stephen M. Swad
(Principal Executive Officer)

Date: March 16, 2015

Exhibit 32.2

CERTIFICATION OF
PRINCIPAL FINANCIAL OFFICER
OF ROSETTA STONE INC.
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas M. Pierno, Chief Financial Officer of Rosetta Stone Inc. (the "Company"), hereby certify, to my knowledge, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ THOMAS M. PIERNO

Thomas M. Pierno
(Principal Financial Officer)

Date: March 16, 2015