ROSETTA STONE INC
Form DEF 14A
April 10, 2014

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

SCHEDULE 14A

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

Filed by the Registrant ý
Filed by a Party other than the Registrant o
Check the appropriate box:
o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
ý Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material under §240.14a-12
ROSETTA STONE INC.
(Name of Registrant as Specified In Its Charter)
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)
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(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

April 10, 2014

Dear Stockholder:

You are cordially invited to attend the 2014 Annual Meeting of Stockholders of Rosetta Stone Inc. (the "Company" or "Rosetta Stone"), which will be held at our offices located at 1919 North Lynn Street, 7th Floor, Arlington, Virginia 22209, on Tuesday, May 20, 2014, at 3:00 p.m., local time.

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

To assist you in voting your shares, you will find enclosed the Notice of 2014 Annual Meeting of Stockholders, the 2014 Proxy Statement and our 2013 Annual Report to Stockholders, which includes the Company's audited financial statements.

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

Sincerely,

Stephen M. Swad

President and Chief Executive Officer

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

NOTICE OF 2014 ANNUAL MEETING OF STOCKHOLDERS
Dear Stockholder:

You are cordially invited to attend our 2014 Annual Meeting of Stockholders, which will be held at 3:00 p.m. local time on May 20, 2014 at our corporate offices located at 1919 North Lynn Street, 7th Floor, Arlington, Virginia 22209 for the following purposes:

1. Elect three Class II directors nominated by our Board of Directors to hold office until our Annual Meeting of Stockholders in 2017, or until their respective successors have been elected;

2. Ratify the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2014;

3. Approve an amendment to the 2009 Omnibus Incentive Plan, to increase the number of shares available for issuance under the 2009 Omnibus Incentive Plan, as amended;

4. Conduct an advisory vote on the compensation of the named executive officers; and

5. Consider any other matters that may properly be brought before the meeting.

A proxy statement describing the matters to be considered at the Annual Meeting is attached to this notice. Only stockholders who owned our stock at the close of business on March 28, 2014 may vote at the meeting, or at any adjournment or postponement of the meeting.

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

By order of our Board of Directors,

Bruce C. Ghrist
Acting General Counsel and Secretary

Arlington, Virginia
April 10, 2014

Important Notice Regarding the Availability of Proxy Materials for the
Annual Meeting of Stockholders to be held on May 20, 2014 at 3:00 p.m. local time
at 1919 North Lynn Street, 7th Floor, Arlington, Virginia 22209.

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

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

ROSETTA STONE INC.
PROXY STATEMENT FOR THE 2014 ANNUAL MEETING OF STOCKHOLDERS

ROSETTA STONE INC.
1919 North Lynn Street, 7th Floor
Arlington, Virginia 22209
PROXY STATEMENT FOR THE
2014 ANNUAL MEETING OF STOCKHOLDERS
INFORMATION ABOUT THE MEETING, VOTING AND PROXIES
Date, Time and Place of Meeting

Our Board of Directors (the "Board") is asking for your proxy for use at the Rosetta Stone Inc. 2014 Annual Meeting of Stockholders (the "Annual Meeting") and at any adjournment or postponement thereof for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. We are holding the Annual Meeting on Tuesday, May 20, 2014 at 3:00 p.m. local time at our offices at 1919 North Lynn Street, 7th Floor, Arlington, Virginia 22209. Directions to the Annual Meeting may be found at http://www.rosettastone.com/directions. We have first released this proxy statement to our stockholders beginning on or about April 10, 2014.

Internet Availability of Proxy Materials

Under rules adopted by the U.S. Securities and Exchange Commission (the "SEC"), we are now furnishing proxy materials on the Internet in addition to mailing paper copies of the materials to each stockholder of record. Instructions on how to access and review the proxy materials on the Internet can be found on the proxy card sent to stockholders of record and on the Notice of Internet Availability of Proxy Materials (the "Notice") sent to stockholders who hold their shares in street name. The Notice will also include instructions for stockholders who hold their shares in street name on how to access the proxy card to vote over the Internet.

Record Date, Outstanding Shares and Quorum

Only holders of record of our common stock at the close of business on March 28, 2014 (the "Record Date") will be entitled to vote at the Annual Meeting. On the Record Date, we had approximately 21,838,135 shares outstanding and entitled to vote, held by approximately 197 stockholders of record and approximately 11,111 beneficial owners, who may hold their shares through banks, brokers or other nominees. We need a quorum to take action at the Annual Meeting. We will have a quorum if a majority of the shares outstanding and entitled to vote on the Record Date are present at the Annual Meeting, either in person or by proxy.

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

Voting Rights

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

Voting and Revoking Proxies

Our Board of Directors is soliciting proxies to vote your shares at the Annual Meeting. If you attend the Annual Meeting, you may submit your vote in person, and any proxy that you previously submitted may be revoked and superseded by the vote that you cast at the Annual Meeting. If you properly submit your proxy, and do not revoke it prior to the Annual Meeting, your shares will be voted in the manner described in this proxy statement or as you may otherwise direct.

If you sign and return your proxy card but do not give any voting instructions, your shares will be voted in favor of the election of each of the director nominees listed in Proposal 1 and in favor of Proposals 2, 3 and 4. As far as we know, no other matters will be presented at the Annual Meeting. However, if any other matters of business are properly presented, the proxy holders named on the proxy card are authorized to vote the shares represented by proxies according to their judgment.

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

Abstentions and Broker Non-Votes

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

If your shares are held in street name and you do not instruct your broker on how to vote your shares, your broker, in its discretion, may either leave your shares un-voted or vote your shares on certain routine matters. However, the New York Stock Exchange (the "NYSE") precludes brokers from exercising voting discretion on certain proposals without specific instructions from the beneficial owner. Importantly, NYSE rules expressly prohibit brokers holding shares in street name for their beneficial holder clients from voting in uncontested director elections or executive compensation matters, including say-on-pay proposals, without receiving specific voting instructions from those clients. Under NYSE rules, only Proposal No. 2 (ratifying the selection of our independent registered public accounting firm) should be treated as a routine matter on which a broker can exercise its discretion and vote your shares without specific instructions. If your broker votes on your behalf on this proposal, your shares also will be counted as present for the purpose of determining a quorum. Proposals 1, 3 and 4 are not considered routine matters, and, without your instruction, your broker cannot vote your shares with respect to these proposals. If a broker, bank, custodian, nominee or other record holder of Rosetta Stone stock indicates on a proxy that it does not have discretionary authority to vote certain shares on a particular matter, these shares (called "broker non-votes") will be counted as present in determining whether we have a quorum.

Soliciting Proxies

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

Delivery of Voting Materials to Stockholders Sharing an Address

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

How to Obtain a Separate Set of Voting Materials

If you would like to have additional copies of our Notice, Annual Report on Form 10-K and proxy materials, as applicable, mailed to you, please submit your request to the General Counsel and Secretary, Rosetta Stone Inc., 1919 North Lynn Street, 7th Floor, Arlington, Virginia 22209, or call the General Counsel and Secretary at (703) 387-5800 and we will promptly deliver these materials to you. You may also contact us at the address or phone number above if you received multiple copies of materials for the Annual Meeting and would prefer to receive a single copy in the future. If you would like to opt out of householding for future mailings, call the General Counsel and Secretary at (703) 387-5800 or send a written request to the General Counsel and Secretary at the above address.

Annual Report on Form 10-K and Additional Materials

The Notice of Annual Meeting, this Proxy Statement and our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 have been made available to all stockholders entitled to vote at the Annual Meeting and who received the Notice. The Annual Report on Form 10-K can also be viewed at http://investors.RosettaStone.com.

OUR BOARD OF DIRECTORS AND NOMINEES

Our Board of Directors currently consists of eight directors and is divided into three classes, with the nominees for one class to be elected at each annual meeting of stockholders, to hold office for a three-year term and until successors of the members of such class have been elected and qualified, subject to their earlier death, resignation or removal.

In February 2014, we announced that Phillip A. Clough and John T. Coleman will be resigning from the Board effective as of the day prior to the 2014 Annual Meeting. Mr. Clough, who has served on the Board of Directors since 2006, is leaving the Board to focus on his role as Managing General Partner at ABS Capital Partners ("ABS"), which completed the liquidation of its holdings in our common stock in December 2013. John Coleman has also served on our Board of Directors since 2006 and will focus on his roles as Chairman of the Property Registration Authority in Ireland and as a board member at Nortek Inc. ("Nortek"). Following the departure of Messrs. Clough and Coleman, our Board will consist of six directors. We are actively conducting a search to add one or more new directors to strengthen the composition of our Board of Directors by contributing additional expertise in areas relevant to the Company's changing business.

Only the terms of the Class II directors are scheduled to expire on the date of the upcoming Annual Meeting. Based on the recommendation of the Corporate Governance and Nominating Committee of our Board of Directors, our Board's nominees for election by the stockholders are three current Class II members of our Board, James P. Bankoff, Laurence Franklin and Laura L. Witt. If elected, the nominees will serve as directors until the annual meeting of stockholders in 2017 and until their successors are elected and qualified, subject to their earlier death, resignation or removal.

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

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

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

Nominees for Class II Directors

The name and age as of March 31, 2014 of each nominee director, his or her position with us, the year in which he or she first became a director and certain biographical information is set forth below:

Name	Age	Positions and Offices Held with the Company	Director Since
James P. Bankoff	45	Director	2012
Laurence Franklin	61	Director	2006
Laura L. Witt	45	Director	2005

Directors Standing for Election

Incumbent Nominees

Each of the incumbent directors listed below was nominated for election by our Board of Directors upon recommendation by the Corporate Governance and Nominating Committee and has agreed to stand for election to a three-year term. Information concerning the incumbent nominees for director is provided below. Mr. Franklin and Ms. Witt have previously been elected by our stockholders. Mr. Bankoff joined the Board in November 2012, upon appointment by our Board of Directors.

James P. Bankoff has served as a director since November 2012. Mr. Bankoff is Chairman and Chief Executive Officer of Vox Media, Inc. ("Vox Media"), the publisher of SB Nation, The Verge, Eater and others. He has served in this capacity since 2009. Immediately prior to joining Vox Media, Mr. Bankoff served as a Senior Adviser with Providence Equity Partners ("Providence"), a leading private equity firm focused on media and telecommunications. Prior to joining Providence in 2008, he served as Executive Vice President of Programming and Products at AOL Inc. ("AOL"). Mr. Bankoff joined AOL in 1995 and held a number of leadership positions, including President, AOL Web Properties; President, Netscape; and Vice President of Strategy and Operations, AOL brand. Mr. Bankoff also served on the board of Audible, Inc., from June 2007 to March 2008. Mr. Bankoff holds an M.B.A. from the Wharton School of the University of Pennsylvania and a B.A. from Emory University.

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

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

Our Board of Directors believes that Mr. Franklin is particularly qualified to serve as a director based on his long-tenured career, which provides valuable business, leadership and management experience, including expertise in wholesale channels of distribution, retail and e-commerce development, corporate management, operations and supply chain management and building international brands. Mr. Franklin's public finance, accounting and operations experience enables him to provide critical insight into, among other things, the Company's financial statements, accounting principles and practices, internal controls over financial reporting and risk management processes. Mr. Franklin qualifies as an audit committee financial expert.

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

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

Directors Not Standing for Election

The names and certain biographical information as of March 31, 2014 about the other members of our Board of Directors who are not standing for election at the Annual Meeting are set forth below:

Name	Age	Positions and Offices Held with the Company	Director Since
Phillip A. Clough	52	Director	2006
John T. Coleman	67	Director	2006
Patrick W. Gross	69	Director, Chairman	2006
Marguerite W. Kondracke	68	Director	2011
Stephen M. Swad	52	Director, President and Chief Executive Officer	2012

Class III Directors Serving Until the 2015 Annual Meeting of Stockholders

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

Our Board of Directors believes that Mr. Gross is particularly qualified to serve as a director based on his demonstrated leadership abilities and business judgment, shaped by four decades of executive management and board experience at complex commercial companies. Mr. Gross has extensive experience in finance, management, information technology, software, and education as a result of his management experience at AMS and service on the boards of other public companies. Mr. Gross' finance and operations experience as well as his long-tenured service on other public company boards provides significant insight into the Company's corporate governance, financial statements, accounting principles and practices, internal controls over financial reporting and risk management processes. Mr. Gross also qualifies as an audit committee financial expert.

Marguerite W. Kondracke has served as a director since December 2011. Since May 2012, Ms. Kondracke has been a Senior Adviser to America's Promise Alliance ("America's Promise"), a nonprofit children's advocacy organization. Ms. Kondracke previously served as President and Chief Executive Officer of America's Promise from October 2004 to May 2012. She also previously served as Special Assistant to U.S. Senator Lamar Alexander, as Staff Director for the Senate Subcommittee on Children and Families, and in the cabinet of former Tennessee Governor Lamar Alexander as Commissioner of the Department of Human Services. Ms. Kondracke co-founded and served as Chief Executive Officer of Corporate Family Solutions, which merged into Bright Horizons Family Solutions ("Bright Horizons"), from 1987 until 1999. She has served on the board of Bright Horizons since its founding, with the exception of a three year period while she served on the staff of the United States Senate. She has also served on the board of LifePoint Hospitals, Inc. since 2007, and served as a Trustee of Duke University from 2008 to 2013. She holds a B.A. in Religion from Duke University and an M.A. in Psychology from Austin Peay State University.

Our Board of Directors believes that Ms. Kondracke is particularly qualified to serve as a director based on her experience in dealing with the legislative and executive branches of government and extensive experience in education, management and operations, including experience as a chief executive officer of a public company.

Class I Director Serving Until the 2016 Annual Meeting of Stockholders

Stephen M. Swad has served as President, Chief Executive Officer and a director since February 2012. Prior to assuming the role of President and Chief Executive Officer, Mr. Swad served as our Chief Financial Officer from November 2010 until May 2012. Prior to joining the Company, Mr. Swad served as the Executive Vice President and Chief Financial Officer of Comverse Technology, Inc. ("Comverse"), from May 2009 to October 2010. From 2007 to 2008, he served as Executive Vice President and Chief Financial Officer of Federal National Mortgage Association (Fannie Mae). Mr. Swad previously served as Executive Vice President and Chief Financial Officer of AOL LLC from 2003 to 2007. He has also held various senior financial management positions with Time Warner and its subsidiaries. Mr. Swad, a former partner of KPMG LLP, has also served as a Deputy Chief Accountant at the SEC. He served on the board of Eloqua, Inc. from August 2011 until February 2013, including during the period between August 2012 and February 2013, during which time it was a publicly-held company. Mr. Swad has served on the board of Benefitfocus, Inc. since December 2013. He holds a B.A. in Business Administration from the University of Michigan and is a Certified Public Accountant.

Our Board of Directors believes that Mr. Swad is particularly qualified to serve as a director, based on his position as our Chief Executive Officer, as well as his extensive leadership, business and operating experience, including his substantial financial background.

Directors Serving Until Immediately Prior to the 2014 Annual Meeting of Stockholders

Phillip A. Clough has served as a director since January 2006. Mr. Clough is a Managing General Partner of ABS and has been one of their general partners since September 2001. Prior to joining ABS, Mr. Clough was President and Chief Executive Officer of Sitel Corporation ("Sitel"), a publicly traded global provider of outsourced customer support services, from 1998 to 2001, and President of Sitel from 1997 to 1998. Prior to that, Mr. Clough was an investment banker with Alex. Brown & Sons Inc. from 1990 to 1997 and served in the United States Army from 1983 to 1988, rising to the rank of Captain. He served on the board of American Public Education, Inc. from August 2002 to May 2010. Mr. Clough currently serves on the boards of Liquidity Services, Inc., and various private companies. Mr. Clough holds a B.S. from the U.S. Military Academy at West Point and an M.B.A. from the Darden Graduate School of Business Administration at the University of Virginia.

Our Board of Directors believes that Mr. Clough is particularly qualified to serve as a director based on his successful career in growth equity. He has significant experience in the operation of public and private capital markets. Mr. Clough also has experience in corporate leadership, business operations, international business and technology.

John T. Coleman has served as a director since May 2006. Mr. Coleman served as President, Chief Operating Officer and a director of Bose Corporation (“Bose”), a manufacturer of high-end audio products, from 2001 to 2005. Prior to that, he was Executive Vice President and Vice President of Human Resources at Bose, and before that, he was General Manager of Bose’s European manufacturing operations. Prior to joining Bose, Mr. Coleman was Director of Human Resources for General Electric Company in Ireland. Mr. Coleman was Head of the College of Business and Law at University College Cork in Ireland from May 2006 until June 2007. He served as a member of the Board of Advisors of the School of Economics at University College Cork from July 2008 until July 2013, and has served as a member of the Board of Advisors of the School of Business at Maynooth College in Ireland since 2010. Mr. Coleman has served on the Board of Nortek since August 2010. Mr. Coleman served as a Major in the Irish Army reserve and holds diplomas in Personnel Management and in Training and Development from the Irish Management Institute. He also holds a diploma in Management Studies and an M.B.A. from the University of Ulster, Northern Ireland.

Our Board of Directors believes that Mr. Coleman is particularly qualified to serve as a director based on his extensive experience in management, international business, operations, technology and human resources as a result of his experience at Bose and General Electric. Mr. Coleman has a background in the retail industry building an international brand. He also brings a global perspective to our Board.

EXECUTIVE OFFICERS

The name, age and position(s) held by each of our executive officers, as of March 31, 2014, are set forth in the table below.

Name	Age	Position(s) Held with the Company
Stephen M. Swad	52	President and Chief Executive Officer
Thomas M. Pierno	52	Chief Financial Officer
Judy K. Verses	57	President, Global Enterprise & Education

Messrs. Michael Wu and Pragnesh Shah served as executive officers until their employment with the Company ended on February 7, 2014 and March 31, 2014, respectively. Biographical information for Mr. Swad is set forth above under "Our Board of Directors and Nominees—Directors Not Standing for Election." Biographical information for each of our other executive officers is set forth below.

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

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

CORPORATE GOVERNANCE

Our Board of Directors believes that good corporate governance is important to ensure that Rosetta Stone is managed for the long-term benefit of our stockholders. This section describes key corporate governance guidelines and practices that our Board has adopted. Complete copies of our corporate governance guidelines, committee charters and Code of Ethics and Business Conduct (the "Code of Conduct") are available on the investor relations section under the corporate governance page of our corporate website, www.rosettastone.com. Alternatively, you can request a copy of any of these documents by writing to the General Counsel and Secretary, Rosetta Stone Inc., 1919 North Lynn Street, 7th Floor, Arlington, Virginia 22209.

Code of Conduct

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

Composition of our Board of Directors; Classified Board

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

Immediately prior to our Annual Meeting, when the resignations of Messrs. Clough and Coleman take effect, our Board will consist of six members. In light of these impending vacancies, we are actively conducting a search to add one or more new directors to strengthen the composition of our Board of Directors by contributing additional expertise in areas relevant to the Company's changing business. Taking into account these impending resignations, our Board of Directors will be classified as follows:

- James P. Bankoff, Laurence Franklin and Laura L. Witt are designated Class II Directors whose terms are scheduled to expire at our upcoming Annual Meeting. If re-elected at our upcoming Annual Meeting, Messrs. Bankoff and Franklin and Ms. Witt will have terms that expire at our 2017 Annual Meeting of Stockholders;

- Patrick W. Gross and Marguerite W. Kondracke are designated Class III Directors whose terms will expire at our 2015 Annual Meeting of Stockholders; and

- Stephen M. Swad is designated a Class I Director whose term will expire at our 2016 Annual Meeting of Stockholders.

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

Director Independence

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

Our Corporate Governance Guidelines provide that the non-management directors will regularly meet in executive session, without management present. As required under applicable NYSE listing standards, in the fiscal year ended December 31, 2013, our non-management directors met in regularly scheduled executive sessions at which only non-management directors were present. Mr. Gross presided over these sessions as Lead Director from February 2012 to May 2013. He has continued to preside over these sessions since his appointment to Chairman in May 2013, after Mr. Tom P.H. Adams resigned from our Board of Directors. Mr. Gross is an "independent director" and meets the independence requirements under the listing standards of the NYSE and rules and regulations of the SEC.

Board Leadership Structure and Role in Risk Oversight

We have separated the positions of Chairman and Chief Executive Officer since our formation. We believe separation of these positions reinforces the independence of the Board in its oversight of the business and affairs of the Company. In addition, we believe having an independent Board Chairman creates an environment that is more conducive to objective evaluation and oversight of management’s performance, increasing management accountability and improving the ability of the Board to monitor whether management’s actions are in the best interests of the Company and its stockholders. As a result, we believe having an independent Board Chairman can enhance the effectiveness of the Board of Directors as a whole.

Mr. Adams, our former President and Chief Executive Officer, served as our non-executive Chairman of the Board for a portion of fiscal 2013. However, in March 2013, the Board of Directors determined, in consultation with Mr. Adams, not to nominate Mr. Adams for re-election at the 2013 Annual Meeting of Stockholders due to other demands on his schedule. The Board of Directors then appointed Mr. Gross as Chairman of the Board to succeed Mr. Adams at the 2013 Annual Meeting of Stockholders. Accordingly, Mr. Gross was appointed Chairman of the Board on May 23, 2013 and the position of Lead Director was eliminated.

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

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

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

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

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

Committees of our Board of Directors

Our Board of Directors has established the following standing committees: the Audit Committee; the Compensation Committee; and the Corporate Governance and Nominating Committee.

Attendance at Meetings

Our Board of Directors held eleven meetings during the fiscal year ended December 31, 2013. Each director attended at least 75% of the aggregate of the meetings of our Board of Directors and committees of the Board of Directors on which he or she served during the period for which he or she was a director. The following table sets forth the standing committees of our Board of Directors, the number of meetings held by each committee in 2013 and the membership of each committee during the fiscal year ended December 31, 2013.

Name	Audit	Compensation	Corporate Governance and Nominating
James P. Bankoff (1)		Member	Member
Phillip A. Clough			
John T. Coleman	Member	Member	Member
Laurence Franklin	Chair		
Patrick W. Gross (2)	Member	Member	Chair
Marguerite W. Kondracke (3)		Member	Member
Stephen M. Swad			
Laura L. Witt		Chair	Member
Total Number of Meetings Held in 2013	12	7	5

(1) In May 2013, Mr. Bankoff was appointed to the Compensation Committee. In August 2013, Mr. Bankoff was appointed to the Corporate Governance and Nominating Committee.
(2) In May 2013, Mr. Gross was appointed Chairman of the Board and to the Compensation Committee.
(3) In August 2013, Ms. Kondracke was appointed to the Corporate Governance and Nominating Committee.

Directors are encouraged, but not required, to attend our annual meeting of stockholders. Three members of our Board of Directors attended the 2013 Annual Meeting of Stockholders.

Audit Committee

Our Audit Committee consists of Laurence Franklin, who serves as the Chairperson, John T. Coleman and Patrick W. Gross, each of whom is a non-employee member of our Board of Directors. Our Board of Directors has determined that each member of our Audit Committee meets the requirements of financial literacy and the standards of financial sophistication under the rules of the NYSE. Messrs. Franklin and Gross serve as our audit committee financial experts, as defined under SEC rules. Messrs. Coleman, Franklin and Gross are independent as such term is defined in Rule 10A-3(b)(1) under the Exchange Act. As described elsewhere in this proxy statement, the term of Mr. Coleman as a director, and therefore as a member of the Audit Committee, will end effective May 19, 2014.

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

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

- approving the appointment, retention and termination of our independent auditors, and approving the audit and non-audit services to be performed by our independent auditors;

- evaluating the qualifications, performance and independence of our independent auditors;
- monitoring the integrity of our financial statements and our compliance with legal and regulatory requirements as they relate to financial statements or accounting matters;
- reviewing the adequacy and effectiveness of our internal control policies and procedures;

- discussing the scope and results of the audit with the independent auditors and reviewing with management and the independent auditors our interim and year-end operating results; and

- preparing the Audit Committee report required by the SEC to be included in our annual proxy statement.

Our Board of Directors has adopted a written charter for the Audit Committee, which is available on our website at www.rosettastone.com.

Report of the Audit Committee of the Board of Directors

During the fiscal year ended December 31, 2013, our Audit Committee met twelve times. In the exercise of the Audit Committee's duties and responsibilities, the Audit Committee has reviewed and discussed the audited financial statements for the fiscal year ended December 31, 2013 with management. The Audit Committee has discussed with the independent registered public accounting firm the matters required to be discussed by Auditing Standard No. 16, Communications with Audit Committees, as currently in effect and as adopted by the Public Company Accounting Oversight Board ("PCAOB"). The Audit Committee has also received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the PCAOB regarding the independent accounting firm's communications with the Audit Committee regarding independence and has discussed with the independent registered public accounting firm the independent registered public accounting firm's independence. Based on the foregoing, including its review and discussions, and subject to the limitations on the role and responsibilities of the Audit Committee in its charter, the Audit Committee recommended to the Board of Directors that our audited financial statements for fiscal year 2013 be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

Members of the Audit Committee

Laurence Franklin (Chairperson)
John T. Coleman
Patrick W. Gross

The Audit Committee Report does not constitute soliciting material, and shall not be deemed to be filed or incorporated by reference into any other filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that we specifically incorporate the Audit Committee Report by reference therein.

Compensation Committee

Our Compensation Committee consists of Laura L. Witt, who serves as the Chairperson, James P. Bankoff, John T. Coleman, Patrick W. Gross and Marguerite W. Kondracke, each of whom is a non-employee, independent member of our Board of Directors. Messrs. Bankoff and Gross were appointed to the Compensation Committee by the Board of Directors on May 23, 2013. As described elsewhere in this proxy statement, John E. Lindahl and Theodore J. "Ted" Leonsis served on this committee in 2013 until their terms as directors, and therefore as members of the Compensation Committee, ended effective upon our 2013 Annual Meeting of Stockholders. As described elsewhere in this proxy statement, the term of Mr. Coleman as a director, and therefore as a member of the Compensation Committee, will end effective May 19, 2014. Our Board of Directors has determined that each member of our Compensation Committee meets the requirements for independence under the requirements of the NYSE.

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

- reviewing and approving compensation of our executive officers including annual base salary, annual incentive bonuses, specific goals, equity-based awards, executive employment agreements, severance and change in control arrangements, and any other special benefits, compensation or arrangements;

- reviewing and approving annual goals and objectives, bonus criteria and equity guidelines for our employees;
- reviewing and discussing annually with management our "Compensation Discussion and Analysis" disclosure required by SEC rules and regulations;
- preparing the Compensation Committee report required by the SEC to be included in our annual proxy statement;
- administering, reviewing and making recommendations with respect to our equity-based compensation plans; and

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- appointing, compensating and overseeing compensation consultants and other advisors.

The Compensation Committee may form and delegate authority to one or more subcommittees as it deems necessary or advisable from time to time, provided, that any such subcommittee shall report any actions taken by it to the full Compensation Committee at its next regularly scheduled meeting.

For 2013, the Compensation Committee engaged Exequity LLP ("Exequity") as its outside independent compensation consultant. Exequity regularly attends committee meetings and executive sessions as requested by the Compensation Committee's chairperson, Ms. Witt. Without the Compensation Committee's prior approval, Exequity will not perform any services for management, although the Compensation Committee has directed that Exequity work in cooperation with management as required to gather and review information necessary to carry out the committee's obligations. For more information about the role of Exequity, see "Compensation Discussion and Analysis." In furtherance of maintaining the independence of the Compensation Committee's compensation consultant, the Committee has the sole authority to retain or terminate Exequity. The Compensation Committee has analyzed whether the work of Exequity as a compensation consultant has raised any conflict of interest, taking into consideration all factors relevant to a consultant's independence, including the following factors: (i) the provision of other services to the Company by Exequity; (ii) the amount of fees from the Company paid to Exequity as a percentage of the firm's total revenue; (iii) Exequity's policies and procedures that are designed to prevent conflicts of interest; (iv) any business or personal relationship of Exequity or the individual compensation advisors employed by the firm with an executive officer of the Company; (v) any business or personal relationship of the individual compensation advisors with any member of the Compensation Committee; and (vi) any stock of the Company owned by Exequity or the individual compensation advisors employed by the firm. The Compensation Committee has determined, based on its analysis of all factors relevant to a consultant's independence, including the above factors, that the work of Exequity and the individual compensation advisors employed by Exequity as compensation consultants to the Company has not created any conflict of interest.

Our Board of Directors has adopted a written charter for the Compensation Committee, which is available on our website at www.rosettastone.com.

Compensation Committee Interlocks and Insider Participation

None of Laura L. Witt, James P. Bankoff, John T. Coleman, Patrick W. Gross and Marguerite W. Kondracke, each of whom is a member of our Compensation Committee, is or was an officer or is an employee of the Company. None of our executive officers currently serves, or in the past year has served, as a member of the Board of Directors or Compensation Committee of any entity that has one or more executive officers serving on our Board of Directors or Compensation Committee.

Corporate Governance and Nominating Committee

Our Corporate Governance and Nominating Committee consists of Patrick W. Gross, who serves as the Chairperson, James P. Bankoff, John T. Coleman, Marguerite W. Kondracke and Laura L. Witt, each of whom is a non-employee member of our Board of Directors. Mr. Bankoff and Ms. Kondracke were appointed to the Corporate Governance and Nominating Committee by the Board of Directors on August 21, 2013, as described elsewhere in this proxy statement. Mr. Leonsis served in 2013 on our Corporate Governance and Nominating Committee until his term as director, and therefore as a member of the Corporate Governance and Nominating Committee, ended effective upon our 2013 Annual Meeting of Stockholders. Also, as described elsewhere in this proxy statement, the term of Mr. Coleman as a director, and therefore as a member of the Corporate Governance and Nominating Committee, will end effective May 19, 2014.

Our Board of Directors has determined that each member of the Corporate Governance and Nominating Committee satisfies the requirements for independence under the NYSE rules.

Under its charter, our Corporate Governance and Nominating Committee is responsible for, among other things:

- assisting our Board of Directors in identifying prospective director nominees and recommending director nominees for each annual meeting of stockholders to our Board of Directors;
- reviewing developments in corporate governance practices and developing and recommending governance principles applicable to our Board of Directors;

- reviewing succession planning for our Chief Executive Officer;

- overseeing the evaluation of our Board of Directors;

- determining the compensation of our directors; and

- recommending members for each committee of our Board of Directors.

Our Corporate Governance and Nominating Committee determines qualification criteria and procedures for the identification and recruitment of candidates for election to serve as directors of Rosetta Stone. The Corporate Governance and Nominating Committee relies on its knowledge and relationships and the knowledge and relationships of our officers and other directors, as well as third parties when it deems appropriate, to identify and evaluate nominees for director, including nominees recommended by stockholders. With respect to nominees recommended by stockholders, our Corporate Governance and Nominating Committee will consider such nominees in the same manner as it evaluates other potential director nominees.

Our Board of Directors has adopted a written charter, reviewed annually, for the Corporate Governance and Nominating Committee, which is available on our website at www.rosettastone.com.

Policy Governing Director Qualifications and Nominations

We seek directors who possess, at a minimum, the qualifications and skills described below as set forth in our Policy Governing Director Qualifications and Nominations. We consider diversity in our nomination of directors, and in our assessment of the effectiveness of the Board of Directors and its committees. In considering diversity, we evaluate each director candidate in the context of the overall composition and needs of our Board of Directors, with the objective of recommending a group that can best manage the business and affairs of the Company and represent stockholder interests using its diversity of backgrounds and experience. Our Corporate Governance and Nominating Committee will consider these and other qualifications, skills, and attributes when recommending candidates to our Board of Directors.

Our Corporate Governance and Nominating Committee must be satisfied that each Committee-recommended nominee meets the following minimum qualifications:

- the candidate shall exhibit high standards of integrity, commitment, and independence of thought and judgment;

- the candidate shall be committed to representing the long-term interests of our stockholders;

- the candidate shall have sufficient time and availability to devote to the affairs of the Company, particularly in light of the number of boards on which the nominee may serve;

- to the extent the candidate serves or has previously served on other boards, the candidate shall have a demonstrated history of contributing at board meetings; and

- the candidate meets any other minimum qualifications and other criteria for board membership approved by our Board of Directors from time to time.

In addition to the minimum qualifications for each candidate set forth above, our Corporate Governance and Nominating Committee shall recommend that our Board of Directors select persons for nomination to help ensure that:

- a majority of the Board of Directors is "independent" in accordance with the standards, if any, promulgated by the SEC, or any exchange upon which securities of the Company are traded, and any governmental or regulatory body exercising authority over the Company;

- each of our Audit, Compensation, and Corporate Governance and Nominating Committees are comprised entirely of independent directors; and

- at least one member of our Audit Committee shall have such experience, education and other qualifications necessary to qualify as an "audit committee financial expert" as defined by the rules of the SEC and financial sophistication requirements under NYSE rules.

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In addition to any other standards our Corporate Governance and Nominating Committee may deem appropriate from time to time for the overall structure and composition of our Board of Directors, the Committee may consider the following factors when selecting and recommending that our Board of Directors select persons for nomination:

- direct experience in our industry or in the markets in which we operate;
- assists in achieving a mix of Board members that represents a diversity of background and experience;
- experience at a strategic or policymaking level in a business, government, non-profit or academic organization of high standing;
- accomplished in his or her respective field, with strong credentials and recognition; and/or
- well-regarded in the community.

DIRECTOR COMPENSATION

Non-Employee Director Compensation Policy

We have adopted a compensation policy under which our non-employee directors receive an annual retainer and fees for attending Board and committee meetings. Mr. Swad, our President and Chief Executive Officer, receives no additional compensation for his service on our Board of Directors. The Corporate Governance and Nominating Committee regularly monitors the compensation policy in relation to the market and our peer data and in February 2013 the committee reviewed the Board of Directors' compensation, utilizing market data previously provided by Exequity. In February 2012, the Board appointed Patrick W. Gross to the role of Lead Director and adopted a policy to pay the Lead Director an additional $47,500 retainer every six months ($95,000 per annum), with such amount paid in either cash or restricted stock units ("RSUs") at the election of the Lead Director. As recommended by the Corporate Governance and Nominating Committee and approved by the Board, the Lead Director additional compensation was reduced in February 2013 going forward to $50,000 per annum. As described elsewhere in this proxy statement, Mr. Adams' service as a director and non-executive Chairman concluded at the 2013 Annual Meeting of Stockholders. As a result, we eliminated the position of Lead Director and we compensate our Chairman on the same basis as we have historically compensated our Lead Director.

The current non-employee director compensation policy provides that each non-employee director will receive the following compensation for Board and committee services:

- an annual retainer paid in cash or RSUs, at the choice of the director, in an amount equal to $35,000;
- an annual cash retainer of $20,000 for chairing the Audit Committee and $15,000 for chairing either the Compensation Committee or the Corporate Governance and Nominating Committee;
- an annual retainer of $10,000 for each Audit Committee member and of $7,500 for each Compensation Committee member and each Corporate Governance and Nominating Committee member;
- the members and chairpersons of any new committees that may be formed will be paid the same amounts as the members and chairpersons of the Compensation Committee and Corporate Governance and Nominating Committee;
- $1,250 for each Board of Directors meeting, in excess of eight per year, attended in person or by telephone lasting more than one hour;

- $1,250 for each meeting of a committee, in excess of ten per year, attended in person or by telephone lasting more than one hour; and
- an annual grant of equity with a fair market value as of the date of grant of $100,000 comprised of:
- 50% stock options vesting quarterly over one year conditioned upon the director's continued service on our Board of Directors during that year; and
- 50% RSUs, which are fully vested upon issuance and will be paid out in shares of our common stock when the recipient director terminates his or her service on our Board of Directors.

Directors are encouraged to accumulate stock ownership, including ownership of RSUs, equal in value to three times the annual retainer for Board membership within three years of their appointment to the Board of Directors. All of our directors have achieved this threshold based on the applicable tenure of and payment to the individual directors.

Non-Employee Director Compensation Table

The following table summarizes the compensation of each non-employee member of our Board of Directors for the fiscal year ended December 31, 2013:

Name	Fees Earned (Services Rendered in 2013) ($)	Option Awards ($)(1)		Restricted Stock Unit Awards ($)(1)		Total ($)
Tom P.H. Adams (2)	19,643	----		----		19,643
James P. Bankoff	42,265	49,996	(3)	49,994	(4)	142,255
Phillip A. Clough (5)	47,500	49,996	(3)	49,994	(4)	147,490
John T. Coleman	69,375	49,996	(3)	49,994	(4)	169,365
Laurence Franklin (6)	64,375	49,996	(3)	49,994	(4)	164,365
Patrick W. Gross	73,929	49,996	(3)	99,999	(7)	223,924
Marguerite W. Kondracke	47,711	49,996	(3)	49,994	(4)	147,701
Theodore J. Leonsis (2)	19,642	----		----		19,642
John E. Lindahl (2)(8)	16,696	----		----		16,696
Laura L. Witt (5)	65,625	49,996	(3)	49,994	(4)	165,615

(1) Represents the aggregate grant date fair value for restricted stock unit ("RSU") awards and option awards granted in the applicable year, computed in accordance with Accounting Standards Codification Topic 718, Compensation—Stock Compensation ("ASC 718"). Information about the assumptions used to value these awards can be found in Note 11 to the consolidated financial statements in the Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed with the SEC on March 3, 2014.

(2) Messrs. Adams, Leonsis and Lindahl resigned from our Board effective as of May 2013 and, therefore, only received compensation for a partial year of service.

(3) Represents options to acquire 4,496 shares of common stock granted on May 23, 2013 at an exercise price of $16.85 per share, which was the closing price per share of our common stock on the NYSE on the grant date. These options vest in four equal quarterly installments from the date of grant.

(4) Represents 2,967 RSUs granted on May 23, 2013. The RSUs were fully vested upon grant and will be paid out in shares of our common stock when the recipient director terminates his or her service on our Board of Directors.

(5) Cash payments were made directly to ABS Capital Partners, LLC. As of December 4, 2013, cash payments were made directly to Mr. Clough and Ms. Witt, respectively.

(6) Cash payments were made directly to LF Enterprises LLC.

(7) Represents 4,010 RSUs granted on February 21, 2013 and 2,967 RSUs granted on May 23, 2013. The RSUs were fully vested upon grant and will be paid out in shares of our common stock when Mr. Gross terminates his service on our Board of Directors.

(8) Cash payments were made directly to Norwest Equity Partners, VIII.

Outstanding Option and RSU Awards for Non-Employee Directors at December 31, 2013

The following table provides information on the outstanding stock options and RSUs held by our non-employee directors as of December 31, 2013.

Name	Aggregate Number of Shares Subject to Outstanding Options (#)	Aggregate Number of Shares Subject to Outstanding RSUs (#)
James P. Bankoff	7,905	4,978
Phillip A. Clough	20,399	12,162
John T. Coleman	46,399	12,162
Laurence Franklin	50,769	16,837
Patrick W. Gross	52,899	25,750
Marguerite W. Kondracke	14,405	8,775
Laura L. Witt	20,399	12,162

STOCKHOLDER MATTERS

Stockholder Communications with our Board of Directors

Stockholders and other interested parties who wish to communicate with our Board of Directors may address any inquiries, items for discussion or other materials to a particular director or to our Board in care of our General Counsel and Secretary at the following address: Rosetta Stone Inc., 1919 North Lynn Street, 7th Floor, Arlington, VA 22209. Our General Counsel and Secretary, or designated staff members in the office of the General Counsel, will review these submissions and forward messages to members of our Board, as appropriate. Communications may also be referred to other departments within our Company. We generally will not forward to our Board communication that we determine to be primarily commercial in nature or related to an improper or irrelevant topic, or that requests general information about our Company.

Stockholder Recommendations of Director Candidates

Our Corporate Governance and Nominating Committee will consider director candidates recommended by our stockholders. A stockholder seeking to recommend a candidate for the Corporate Governance and Nominating Committee's consideration should submit such candidate's name and qualifications to: Corporate Governance and Nominating Committee, c/o General Counsel and Secretary, Rosetta Stone Inc., 1919 North Lynn Street, 7th Floor, Arlington, Virginia 22209.

Stockholder Proposals and Nominations for the 2015 Annual Meeting of Stockholders

Any stockholder who intends to present a proposal for inclusion in our 2015 proxy statement and form of proxy must submit the proposal, in writing, so that our General Counsel and Secretary receives it at our principal executive offices, located at 1919 North Lynn Street, 7th Floor, Arlington, Virginia 22209, by December 11, 2014, which is 120 days prior to the one year anniversary of the date this proxy statement is being sent to our stockholders. Any stockholder who wishes to bring a proposal or nominate a person for election to our Board of Directors at the 2015 Annual Meeting of Stockholders must provide written notice of the proposal or nomination to our General Counsel and Secretary, at our principal executive offices, between January 20, 2015 and February 19, 2015, which is 120 to 90 days prior to the one year anniversary of the upcoming Annual Meeting. In addition, our stockholders must comply with the requirements of the SEC related to nominations and stockholder proposals and the procedural requirements in our bylaws, which stockholders can obtain from us upon request and which are also on file with the SEC.

Our bylaws provide that if a stockholder wishes to nominate a person for election as director or to propose other business to be considered at one of our annual meetings of stockholders, that stockholder must follow the procedures contained in our bylaws and satisfy the requirements of Regulation 14A of the Exchange Act. The stockholder proposing such business or making such nomination must be a stockholder of record of our Company on the date the nomination is delivered to our General Counsel and Secretary and at the time of our annual meeting and be entitled to vote at the annual meeting. The proposal or nomination must be received by our General Counsel and Secretary at our principal executive offices not less than 90 nor more than 120 days prior to the first anniversary of the preceding year's annual meeting, except that if the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the stockholder must be delivered not earlier than the close of business 120 days prior to the annual meeting and no later than 90 days prior to such annual meeting or 10 days following our first public announcement of the date of the annual meeting. In addition, if the number of directors to be elected to our Board of Directors at an annual meeting is increased and there is no public announcement by us naming all of the nominees for director or specifying the size of the increased Board at least 100 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's nomination shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it is delivered to our General Counsel and Secretary at our principal executive offices not later than the close of business on the 10th day following the day on which we first make such public announcement. These time periods are designed to allow us time to adequately consider all proposals and nominees.

To be considered, each nomination must include the following information:

- all information relating to the nominee that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to and in accordance with Section 14 of the Exchange Act and the rules and regulations promulgated thereunder;
- the nominee's written consent to being named in the proxy statement as a nominee and to serving as a director if elected;

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- 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 nominating stockholder and beneficial owner, if any, and their respective affiliates and associates, or others acting in concert with them, on the one hand, and each proposed nominee, and his or her respective affiliates and associates, or others acting in concert with him, on the other hand, including all information that would be required to be disclosed pursuant to Rule 404 promulgated under Regulation S-K of the Exchange Act if the stockholder making the nomination and any beneficial owner on whose behalf the nomination is made, if any, or any of their respective affiliates or associates or persons acting in concert with any such person, were the "registrant" for purposes of such rule and the nominee were a director or executive officer of such registrant;

- a completed questionnaire with respect to the background and qualification of the nominee and the background of any other person or entity on whose behalf the nomination is being made, the form of which questionnaire will be provided by our General Counsel and Secretary upon written request; and

- a written representation and agreement, in the form provided by our General Counsel and Secretary upon written request, that the nominee is not and will not become a party to any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person or entity as to how the nominee, if elected as a director, will act or vote on any issue or question that has not been disclosed to us or that could limit or interfere with the nominee's ability to comply, if elected as a director, with the nominee's fiduciary duties under applicable law, is not and will not become a party to any agreement, arrangement or understanding with any person or entity other than us with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as our director that has not been disclosed to us, and in the nominee'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 our director, and will comply with all of our applicable publicly disclosed corporate governance, conflict of interest, confidentiality and stock trading policies and guidelines.

The proposing stockholder must also include such other information as we may reasonably require or that is otherwise reasonably necessary to determine the eligibility of such proposed nominee to serve as a director of our Company, to determine whether such nominee qualifies as an "independent director" or "audit committee financial expert" under applicable law, securities exchange rule or regulation, or any of our publicly-disclosed corporate governance guidelines or committee charters; including our policy governing director qualifications and nominations, and that could be material to a reasonable stockholder's understanding of the independence and qualifications, or lack thereof, of such nominee.

To be considered, proposals for business to be considered by our stockholders at an annual meeting, other than the nomination of persons for election as directors, must include the following information:

- a brief description of the business desired to be brought before the annual meeting;

- the reasons for conducting such business at the annual meeting;

- the text of the proposal or business, including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend our bylaws, the language of the proposed amendment;

- any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made;

- a description of all agreements, arrangements and understandings between such stockholder and beneficial owner, if any, and any other person or persons, including their names, in connection with the proposal of such business by such stockholder; and

- as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made:

- the name and address of such stockholder, as they appear on our books, and of such beneficial owner, if any;

- the class or series and number of shares of our capital stock that are, directly or indirectly, owned beneficially and of record by such stockholder and by such beneficial owner;

- any option, warrant, convertible security, stock appreciation right ("SAR"), or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of our capital stock, whether or not such instrument or right shall be subject to settlement in the underlying class or series of our capital stock or otherwise directly or indirectly owned beneficially by such stockholder and by such beneficial owner, if any;
- any other direct or indirect opportunity held or owned beneficially by such stockholder and by such beneficial owner, if any, to profit or share in any profit derived from any increase or decrease in the value of our shares;
- any proxy, contract, arrangement, understanding, or relationship pursuant to which such stockholder or beneficial owner, if any, has a right to vote any shares of any of our securities;
- any short interest in any of our securities of the stockholder or beneficial owner;
- any right to dividends on our shares of capital stock owned beneficially by such stockholder or such beneficial owner, if any, which right is separated or separable from the underlying shares;
- any proportionate interest in shares of our capital stock or derivative instrument held, directly or indirectly, by a general or limited partnership in which such stockholder or such beneficial owner, if any, is a general partner or with respect to which such stockholder or such beneficial owner, if any, directly or indirectly, beneficially owns an interest in a general partner; and
- any performance-related fees, other than an asset-based fee, to which such stockholder or such beneficial owner, if any, is entitled to base on any increase or decrease in the value of our shares or derivative instruments, if any, in each case with respect to the information required to be included in the notice.

Such information must include any such interests held by members of such stockholder's or such beneficial owner's immediate family sharing the same household. All such information must be supplemented by such stockholder and such beneficial owner, if any, not later than 10 days after the record date for the annual meeting to disclose such ownership as of the record date, 10 days before the annual meeting date, and immediately prior to the commencement of the annual meeting, by delivery of such supplemented information to our General Counsel and Secretary. Such information shall also include any other information relating to such stockholder and beneficial owner, if any, that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitation of proxies for election of directors in a contested election pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder, a representation that the stockholder is a holder of record of our stock entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business or nomination, and a representation whether the stockholder or the beneficial owner, if any, intends or is part of a group that intends to deliver a proxy statement and/or form of proxy to holders of at least the percentage of our outstanding capital stock required to approve or adopt the proposal or elect the nominee or otherwise to solicit proxies from stockholders in support of such proposal or nomination.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership Table

The following table shows shares of our common stock that we believe are owned as of March 31, 2014 by:

- each of our named executive officers (as defined in "Compensation Discussion and Analysis");
- each director and nominee;

- all current directors, nominees and executive officers as a group; and
- each stockholder owning more than 5% of our common stock.

Unless indicated in the notes, to our knowledge each stockholder has sole voting and investment power for all shares shown, subject to community property laws that may apply to create shared voting and investment power. Unless indicated in the notes, the address of each beneficial owner is c/o Rosetta Stone Inc., 1919 North Lynn Street, 7th Floor, Arlington, Virginia 22209.

We calculated the percentage of shares outstanding based on 21,832,328 shares of common stock outstanding on March 31, 2014. In accordance with SEC regulations, we also include (1) shares subject to options that are currently exercisable or will become exercisable within 60 days of March 31, 2014, and (2) shares issuable upon settlement of RSUs that are vested, or will become vested within 60 days of March 31, 2014. Those shares are deemed to be outstanding and beneficially owned by the person holding such option or RSU for the purpose of computing the percentage ownership of that person, but they are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class	
Named Executive Officers:			
Stephen M. Swad (1)	460,161	2.1	%
Thomas M. Pierno (2)	58,745	*	
Pragnesh N. Shah (3)	7,846	*	
Judy K. Verses (4)	67,858	*	
Michael C. Wu (5)	59,295	*	
Non-Employee Directors:			
James P. Bankoff (6)	12,883	*	
Phillip A. Clough (7)	32,561	*	
John T. Coleman (8)	58,761	*	
Laurence Franklin (9)	67,606	*	
Patrick W. Gross (10)	184,518	*	
Marguerite W. Kondracke (11)	23,180	*	
Laura L. Witt (12)	32,561	*	
All current directors, nominees and executive officers as a group (10 people)(13)	998,834	4.6	%
Other 5% Stockholders:			
Ariel Investments LLC (14)	3,451,460	15.8	%
Nierenberg Investment Management Company, Inc. (15)	1,689,887	7.7	%
Osmium Partners, LLC (16)	2,213,965	10.1	%

* Indicates ownership of 1% or less.

(1) Includes 183,665 shares of our common stock subject to options which are exercisable within 60 days of March 31, 2014. Also includes 77,116 shares of restricted stock that will not be vested within 60 days of March 31, 2014.
(2) Includes 27,039 shares of our common stock subject to options which are exercisable within 60 days of March 31, 2014. Also includes 24,956 shares of restricted stock that will not be vested within 60 days of March 31, 2014.
(3) Includes 2,309 shares of our common stock subject to options which are exercisable within 60 days of March 31, 2014. Also includes 5,807 shares of restricted stock that will not be vested within 60 days of March 31, 2014, which were forfeited on Mr. Shah's last day of employment by the Company, which was March 31, 2014.
(4) Includes 36,115 shares of our common stock subject to options which are exercisable within 60 days of March 31, 2014. Also includes 22,643 shares of restricted stock that will not be vested within 60 days of March 31, 2014.
(5) Mr. Wu's last day of employment by the Company was February 7, 2014.
(6) Includes 7,905 shares of our common stock subject to options which are exercisable within 60 days of March 31, 2014 and 4,978 shares of common stock underlying vested RSUs that will be issued to Mr. Bankoff upon the termination of his service on the Board.
(7) Includes 20,399 shares of our common stock subject to options which are exercisable within 60 days of March 31, 2014, and 12,162 shares of common stock underlying vested RSUs that will be issued to Mr. Clough upon the termination of his service on the Board, which will be May 19, 2014.

(8) Includes 46,399 shares of our common stock subject to options which are exercisable within 60 days of March 31, 2014 and 12,162 shares of common stock underlying vested RSUs that will be issued to Mr. Coleman upon the termination of his service on the Board which will be May 19, 2014. Also includes 200 shares owned by Mr. Coleman's spouse as to which Mr. Coleman disclaims beneficial ownership.

(9) Includes 50,769 shares of our common stock subject to options which are exercisable within 60 days of March 31, 2014 and 16,837 shares of common stock underlying vested RSUs that will be issued to Mr. Franklin upon the termination of his service on the Board.

(10) Includes 52,899 shares of our common stock subject to options which are exercisable within 60 days of March 31, 2014 and 25,750 shares of common stock underlying vested RSUs that will be issued to Mr. Gross upon the termination of his service on the Board. Also includes 63,501 shares owned by Mr. Gross' spouse and 32,368 shares owned by the Stephanie Gross Trust as to which Mr. Gross disclaims beneficial ownership.

(11) Includes 14,405 shares of our common stock subject to options which are exercisable within 60 days of March 31, 2014 and 8,775 shares of common stock underlying vested RSUs that will be issued to Ms. Kondracke upon the termination of her service on the Board.

(12) Includes 20,399 shares of our common stock subject to options which are exercisable within 60 days of March 31, 2014 and 12,162 shares of common stock underlying vested RSUs that will be issued to Ms. Witt upon the termination of her service on the Board.

(13) Includes all shares described in footnotes 1 through 12, except shares held by Messrs. Shah and Wu, which are described in footnotes 3 and 5.

(14) Ownership information is based on the Schedule 13G/A filed with the SEC on January 10, 2014 by Ariel Investments, LLC, whose address is 200 E. Randolph Drive, Suite 2900, Chicago, Illinois 60601.

(15) Ownership information is based on the Schedule 13G/A filed with the SEC on February 12, 2014 by The D3 Family Fund, L.P., The D3 Family Bulldog Fund, L.P., The D3 Family Canadian Fund, L.P., The DIII Offshore Fund, L.P., Nierenberg Investment Management Company, Inc., Nierenberg Investment Management Offshore, Inc. and David Nierenberg, whose address is 19605 N.E. 8th Street, Camas, Washington 98607.

(16) Ownership information is based on the Form 4 filed with the SEC on March 31, 2014 by Osmium Partners, LLC, Osmium Capital, LP, Osmium Capital II, LP and Osmium Spartan, LP, Osmium Diamond, LP, Osmium Special Opportunity Fund, LP and John H. Lewis, whose address is 300 Drakes Landing Road, Suite 172, Greenbrae, California 94904.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors and executive officers, as well as beneficial owners of more than ten percent of our common stock, to file with the SEC an initial report of ownership of our stock on Form 3 and reports of changes in ownership on Form 4 or Form 5. Persons subject to Section 16 are required by SEC regulations to furnish us with copies of all Section 16(a) forms that they file. As a matter of practice, our administrative staff assists our executive officers and directors in preparing initial ownership reports and reporting ownership changes and typically files those reports on their behalf. Based solely on a review of the copies of such forms in our possession and on written representations from reporting persons, we believe that during the fiscal year ended December 31, 2013 all of our executive officers and directors, as well as beneficial owners of more than ten percent of our common stock, filed the required reports on a timely basis under Section 16(a) of the Exchange Act.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis included in this Proxy Statement with the Company's management and, based on such review and discussion, recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference into the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

Members of the Compensation Committee

Laura L. Witt (Chairperson)
James P. Bankoff
John T. Coleman
Patrick W. Gross
Marguerite W. Kondracke

The Compensation Committee Report does not constitute soliciting material, and shall not be deemed to be filed or incorporated by reference into any other filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that we specifically incorporate the Compensation Committee Report by reference therein.

COMPENSATION DISCUSSION AND ANALYSIS

Introduction

This section explains our executive compensation program as it relates to our named executive officers ("NEOs") listed below whose compensation information is presented in the tables following this discussion in accordance with SEC rules.

Named Executive Officer	Title
Stephen M. Swad	President, Chief Executive Officer
Thomas M. Pierno	Chief Financial Officer
Pragnesh N. Shah (1)	President, Global Consumer
Judy K. Verses (2)	President, Global Enterprise & Education
Michael C. Wu (3)	General Counsel and Secretary

(1) Mr. Shah's last day of employment was March 31, 2014.
(2) Ms. Verses' job title was updated in May 2013 from President, Global Institutions to President, Global Enterprise & Education to reflect the change of the operating business unit. There were no compensation or job-related changes associated with the title change.
(3) Mr. Wu's last day of employment was February 7, 2014.

Executive Summary

Overview of Our Executive Compensation

The Compensation Committee believes that our executive compensation program is appropriately designed and reasonable in light of the executive compensation programs of our peer group companies and responsible in that it both encourages our NEOs to work for our long-term prosperity and reflects a pay-for-performance philosophy, without encouraging our employees to assume excessive risks.

Our compensation program is administered under a rigorous process which includes review of peer group and market practices, advice of an independent third-party consultant (who reports to the Compensation Committee, rather than our executive officers) and the Compensation Committee's assessment of the interaction of our compensation programs with our corporate goals, each of which is evaluated in the context of the Compensation Committee's fiduciary duty to act as the directors determine to be in the stockholders' best interests.

Overview of 2013

During 2013, the continuing transformation of the Company's business model was characterized by a strategic plan focusing primarily on the following factors:

•leveraging the brand;

•innovating the platform; and

•expanding distribution.

In pursuing these priorities, we plan to grow the business by continuing to invest in research and development of new products while focusing on maintaining costs and margins at appropriate levels.
As part of executing that strategy, we continue to evaluate changes to our products to strengthen our brand and improve the relevance of our offerings. We are developing our first set of products for children, including several mobile applications that were released in 2013. We also announced the closure of our entire kiosk sales channel in the United States as we shifted our focus to cloud-based learning solutions.
In addition, during the year, we continued to invest more in language learning while expanding deeper into education-technology with several acquisitions, including 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. In early 2014, we also announced plans to streamline our Japan and Korea operations, including the closure of our office in Japan and streamlining our operations in Korea. Our future business plan for these markets includes indirectly distributing our products and services through resellers. We are also enhancing the features, functionalities and content of our product offerings to expand our Global Enterprise & Education business. We continue to make our products more modular, flexible and mobile.
2013 Advisory Vote on Executive Compensation

At our 2013 Annual Meeting of Stockholders, more than 90% of the votes cast on the proposal were in favor of our NEO compensation as disclosed in the proxy statement. As part of its deliberations on the Company's compensation philosophy and pay program construct, the Compensation Committee carefully considered the results of this vote and concluded that stockholders endorsed the decisions made with respect to 2013 compensation. Further, we believe the Company's overall compensation philosophy and pay practices demonstrate an ongoing commitment to align executive compensation with the interests of our stockholders and reflect evolving best practices.

Aligning Compensation with Our Performance

A key principle that underlies the Compensation Committee decisions regarding compensation for our NEOs is alignment with the Company's performance. To that end, we have structured our short-term and long term incentives so that they reward achievement of key performance metrics that help realize our strategic goals and objectives. To ensure that our compensation program continues to be well aligned with our performance, our Compensation Committee annually reviews program construct to ensure that compensation arrangements continue to support a pay-for-performance culture.

Our executive compensation program has consistently and meaningfully been focused on pay-for-performance principles, and has included low or no payouts under our annual incentive plan when the Company's performance was below expectations and the threshold levels for payouts approved by our Compensation Committee.

In 2013, we maintained our commitment to a pay-for-performance culture by:

- structuring our executive bonus plan such that 70% of the award target is based on financial performance metrics, 20% of the award target is based on non-financial strategic performance metrics, and 10% of the award target is based on performance relative to individual goals;
- maintaining distinct bonus metrics for our President, Global Enterprise & Education and President, Global Consumer that are directly aligned with their scope of responsibility and reflect a commitment to compensate them based on their contributions to the financial performance of the Company, namely sales performance in their respective businesses;
- adopting a new 2013 Long Term Incentive Program, with the potential to earn cash and Performance Stock Awards based on achievement relative to two-year cumulative corporate metrics for Bookings, Operating EBITDA, and Percentage Global Digital Sales, as defined below; and
- committing to implement a clawback policy for incentive plans effective January 1, 2014 and beyond, specifically in the event of a restatement of the Company's financial results (other than a restatement caused by a change in applicable accounting rules or interpretations). This policy would allow the Company to recover certain incentive compensation wrongly awarded to an executive officer, including where fraud or intentional misconduct led to a restatement of the Company's financial statements.

Current Executive Compensation "Best Practices"

We employ the following executive compensation best practices:

- No Tax Gross-ups. In 2012, we amended our existing agreements to eliminate previously existing excise tax gross-up provisions related to change of control payments subject to Section 280G and Section 4999 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). We do not maintain any contract or agreement with any NEO that provides for any kind of tax gross-up payment.
- No Excessive Severance Payments. Our termination arrangements with our NEOs do not call for excessive severance payments in cases of their termination of employment.
- Clawback Policy. In early 2014, the Compensation Committee committed to implement the clawback policy described above for incentive plans effective January 1, 2014.
- No Guaranteed Bonuses. We believe that bonuses should reflect actual Company performance. Bonus guarantees undercut that notion, therefore, we do not guarantee bonus payments to our NEOs.
- Implemented Double Trigger Vesting for Equity Awards. Starting with equity awards granted in 2012, we implemented a policy that our equity awards would no longer vest upon consummation of a change in control, unless there is also a termination of service other than for cause or a voluntary resignation for good reason.
- No Repricing or Replacing Outstanding Stock Options. Repricing is not permitted under our 2009 Omnibus Incentive Plan, as amended (the "2009 Plan") without stockholder approval. We did not reprice or replace any of our outstanding stock options during 2013, nor any year prior to 2013.

- No Excessive Perquisites. We do not believe in granting perquisites to our NEOs that are different from the perquisites available to all our employees generally.

- No Hedging by Our Named Executive Officers. None of our NEOs have hedged their Company stock interests, and we have adopted a policy prohibiting the hedging of Company securities by any of our employees.

- No Pledging By Our Named Executive Officers. None of our NEOs have pledged any of their Company stock, and we have adopted a policy prohibiting the pledging of Company securities by any of our employees.

- Stock Ownership Guidelines. We encourage our executives and our directors to hold a significant equity interest in the Company. Effective January 1, 2013, our stock ownership guidelines are as follows:

Chief Executive Officer: equal in value to five times (5x) the base salary within five years of his or her appointment.

Senior Vice Presidents and higher positions: equal in value to twice (2x) the base salary within five years of his or her appointment.

Non-Employee Directors: equal in value to three times (3x) the annual retainer for Board membership within three years of their appointment to the Board of Directors.

Overview

The Compensation Committee has overall responsibility for the compensation program for our executive officers. Members of the Compensation Committee are appointed by our Board of Directors. Currently, the Compensation Committee consists of five members of our Board of Directors, none of whom are executive officers of our Company.

Our executive compensation program is designed to encourage and align our executives to focus on building stockholder value, maximizing rational growth and bottom line results.

Elements of Our Executive Compensation Program for 2013

Our objective is to provide a competitive total compensation package to attract and retain key personnel and drive performance. To achieve this objective, the Compensation Committee has implemented and maintains compensation plans that tie a substantial portion of the executives' overall compensation to financial and non-financial strategic corporate performance goals. Our 2013 executive compensation program consisted of four principal components in 2013: base salary; annual bonus; time-vested equity grants; and a multi-year performance based Long Term Incentive Program ("LTIP"), which is described further below, with award targets that are denominated 70% in stock and 30% in cash.

Compensation Element	Objectives	Key Features
Base Salaries	• Provide a fixed level of cash compensation for performing the essential elements of the job. • Attract and retain executives. • Compensate executives for their daily efforts as management of the Company.	• Individual salaries are approximately at the median of the peer market data.

Annual Cash Incentive Compensation (Bonus)	• Motivate participants to achieve short-term business, financial and individual goals. • Tie financial rewards to measurable achievements, reinforcing pay-for-performance. • Provide a competitive variable award opportunity that attracts and retains our executives.	• Cash incentive payments based on a fixed target percentage of base salary, with actual awards based on attainment of financial, non-financial strategic corporate performance and individual goals, where applicable. • Financial corporate performance goals are based on measurable financial metrics, such as Bookings (1), Adjusted Operating EBITDA (2) and Percentage Global Digital Sales (3). • Non-financial corporate performance goals based on strategic initiatives. • For non-Line of Business Executives, individual goals based on key milestones and accomplishments that support the overall corporate strategy during the plan year; allowing for the Board to use discretion on individual performance.
Annual Equity Incentives	• Align the interests of management with those of our stockholders through stock-based awards by facilitating and encouraging ownership of our common stock. • Retain the services of our executive team for a multi-year period. • Reward achievement of our strategic objectives that drive long term stockholder value. • Facilitate and encourage ownership of our common stock.	• Long term incentives are provided by annual grants of equity awards under the 2009 Plan. In 2013, the equity awards consisted of a mix of approximately 60% stock options and 40% restricted stock. • Target value is intended to provide competitive compensation opportunities based on performance over a multi-year period with realizable value directly tied to stock price performance.
Long Term Incentive Program (LTIP) Awards	• Motivate senior management to achieve key longer term financial and strategic business objectives over a two year period. • Align the interest of management with the interest of stockholders by providing stock based performance awards for successfully reaching key milestones and metrics.	• Performance-based equity awards and cash payments when key, strategic cumulative Company goals are met over a two year period. Company goals include: Bookings; Operating EBITDA (4); and Percentage Global Digital Sales.

	• Retain and reward executives by providing a competitive total compensation package compared to peers.	• The executive's incentive target is determined as a multiple of the executive's base salary dependent on the executive's job level in effect as of December 31, 2012. The CEO's incentive target is 3 times base salary, while all other executives are equal to base salary. The incentive target value consists of 70% Performance Stock Awards and 30% cash. • Each executive's target Performance Stock Award is based on valuation as of January 1, 2013.

(1) Bookings means executed sales contracts by the Company that are either recorded immediately as revenue or as deferred revenue.

(2) Adjusted Operating 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, excluding increase in deferred revenue from acquisitions,

less the change in deferred commissions. In addition, Adjusted Operating 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 (subscription) or ReFLEX), renewals and paid Apps.

(4) 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.

For 2013, approximately 83% of the target total compensation for Mr. Swad, and an average of approximately 66% of the target total compensation for our other NEOs, was variable, including the annual bonus opportunity, stock options, restricted shares, potential LTIP Performance Stock Awards and the target cash value of the LTIP. As detailed in the chart below, all equity grants were valued based on the fair market value on the date of grant.

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(1) GDFV is defined as the grant date fair value.

A detailed description of these components is provided below.

Base Salaries We utilize base salary as the primary means of providing compensation for performing the essential elements of an executive's job. To enhance our ability to attract and retain executives in competitive markets, it is our objective to position base salaries at approximately the median of the relevant peer data.

Annual Cash Incentive Compensation Our annual cash incentive is intended to compensate our executives for performance relative to corporate financial and strategic objectives, as well as individual goals. These objectives 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. With respect to financial objectives, the Compensation Committee typically sets a specific threshold performance goal to ensure that a minimum quantitative financial hurdle is met before any payment is earned for that objective. The Compensation Committee also establishes a target financial goal that would result in a payout at 100% of target for the financial objective, as well as specific milestones above target such that maximum payouts can reach 150% of target payouts for corporate executives and 250% of target payouts for the line of business executives, who are Mr. Pragnesh Shah and Ms. Judy Verses (the "Line of Business Executives"). The non-financial strategic goals and individual performance goals include specific quantitative milestones as well as other metrics and objectives that cannot be defined by bright-line measurements and require a more qualitative determination of the level of achievement by our Compensation Committee.

Time-Vested Equity Incentives Our equity-based compensation is intended to enhance our ability to retain talent over a longer period of time, to reward long-term achievements that enhance future value of the Company, and to provide executives with a form of reward that aligns their interests with those of our stockholders. Upon commencement of their employment, executives typically receive an equity-based award or, a new hire equity grant, in the form of a combination of stock options and restricted stock that vests over a period of time. Thereafter, executives may receive additional awards from time to time as the Compensation Committee determines consistent with the objectives described above.

It is our Compensation Committee's objective to make annual equity-based compensation awards to our executives in amounts that are competitive with the median values of awards made by comparable public companies with whom we compete for talent. However, that is not always possible due to share usage constraints. In general, the Compensation Committee believes that granting a mix of stock options and restricted stock awards is appropriate because it reflects both long-term value creation (through the need for sustained increases in our stock price for stock options to have meaningful value) and promotes retention of executives and facilitates ownership of the Company's stock by executives (through the grant of restricted stock awards). The Compensation Committee believes that this general philosophy is consistent with competitive practices among our peers.

2013 Long Term Incentive Program In February 2013, our Board of Directors approved the 2013 Rosetta Stone Inc. Long Term Incentive Program ("LTIP"). The LTIP will be administered under our 2009 Plan and any shares awarded under the LTIP will be apportioned from the shares reserved under the 2009 Plan. The purposes of the LTIP are to advance the interests of the Company, motivate senior management to achieve key financial and strategic business objectives of the Company, offer eligible executives a competitive total compensation package, reward executives for the success of the Company, facilitate ownership of Company stock, and retain key talent.

Executives designated by the Board of Directors have the opportunity to earn both stock and cash based on the Company's achievement of specified performance goals between January 1, 2013 and December 31, 2014. In order to earn awards under the LTIP, certain minimum threshold performance goals must be achieved for the 2014 fiscal year, in addition to the cumulative performance goals over the two year period ending December 31, 2014. A specific threshold has been established for each goal, and has a range of payout levels depending on the achievement of the goal ranging from zero to 200% of the incentive target.

As of January 1, 2013, the maximum number of shares that may be earned under the LTIP was 883,262 and the maximum cash payout opportunity was $3.17 million, although executives hired after the approval of the plan may be allowed to participate in the plan at the discretion of the Board, which could increase the potential share awards and cash payouts. As of December 31, 2013, these maximums decreased due to terminations and the maximum number of shares that may be earned under the LTIP was 749,589 and the maximum cash payout opportunity was $2.87 million. The minimum number of shares that may be earned under the LTIP and the minimum cash payout are both zero. If Performance Stock Awards are earned, the shares will be 100% vested as of the date of grant and there will be no subsequent holding period requirement.

Benefits   Our benefits, such as our basic health benefits, 401(k) plan, disability and life insurance, are intended to provide a stable array of support to executives and their families throughout various stages of their careers, and these core benefits are provided to all executives regardless of their individual performance levels on the same basis as our other benefits eligible employees in the United States. The 401(k) plan allows participants to defer up to 100% of their annual compensation, subject to any applicable caps set by the Internal Revenue Code. The executives' elective deferrals are immediately vested and non-forfeitable upon contribution to the 401(k) plan, under provision of a safe harbor plan. We currently provide matching contributions equal to 100% of an employee's individual contribution, up to a maximum of 4% of the participant's annual salary, subject to certain limits.

Determining the Amount of Each Element of Compensation

Overview   We consider several factors in determining the overall design of and the various elements comprising our compensation program. In general, the magnitude of each element of our compensation program is determined by our Compensation Committee on an annual basis taking into consideration Company and individual performance, pay practices among companies comprising the competitive market for our executives, the Company's desire to attract and retain key talent, broad economic factors, and the discretion of our Compensation Committee members based on their relevant experience.

In setting each NEO's compensation, the Compensation Committee considers the aggregate compensation opportunities for each executive officer as well as each of the components of the compensation, based on consideration of the parameters highlighted above. As part of these deliberations, the Compensation Committee seeks to achieve the appropriate balance between immediate cash rewards and incentives for the achievement of both annual and long-term financial and non-financial strategic corporate goals, while referencing both publicly-disclosed peer group compensation information as well as broad-based compensation survey data, as described below.

Our objective is to maintain a compensation program that is sufficiently competitive to position the Company to attract, motivate and retain our executives. It is important that our executives perceive that over time they will continue to have the opportunity to be compensated at a level that they regard as competitive. In general, our Board of Directors and Compensation Committee seek to extend total compensation opportunities to our executives, including base salary, variable cash compensation, and long-term equity, that are competitive with median target total compensation opportunities for peer executives, as defined below. In addition to competitive market practices, the Compensation Committee also considers other factors such as individual performance, internal equity, retention and promotions.

Although it has been our objective to target peer median practices for aggregate total compensation as well as each element of compensation, share usage constraints have generally inhibited our ability to provide market-competitive long term incentive opportunities to our NEOs. For this reason, the grant date fair value of target total long term incentive opportunities for our NEOs has generally been below the peer group median grant date fair value of long term incentive opportunities. In an attempt to alleviate this shortfall relative to peer practice and to emphasize long-term performance for our senior executives, the Compensation Committee approved the 2013 LTIP, further described above under the heading "Long Term Incentive Program."

During 2013, the Compensation Committee continued to engage Exequity, an independent compensation consultant, to assist as its advisor. In its capacity as advisor to the Compensation Committee, Exequity assisted it in the review of the competitiveness of our overall executive compensation program, along with the design of a long-term performance incentive program implemented in May 2013. Exequity reviewed with the Compensation Committee in October 2013 the competitiveness of compensation for the Company's senior executive officers in relation to market compensation data. Based on this assessment, the Compensation Committee identified a shortfall of long-term incentive compensation value for the Company's NEOs relative to peer market medians.

Role of Chief Executive Officer and Other Executives in Executive Compensation Decisions   Our Compensation Committee generally seeks input from our Chief Executive Officer and our Senior Vice President, Human Resources, when discussing the compensation levels and performance of our NEOs, other than the Chief Executive Officer. The Chief Executive Officer provides information relating to the other NEOs' performance to assist the Compensation Committee with decision-making on executive compensation.

Comparable Market Compensation   In analyzing the competitiveness of our executive compensation program, Exequity reviews pay practices for two primary sources, as detailed below. The market data for our NEOs and other senior management team members was collected from peer group proxy data (as described below) and the Radford Global Technology Compensation Survey data (the "Radford Survey"). It is our objective to target compensation levels, both in aggregate and by element, to median compensation levels for each of these sources. The Radford Survey includes compensation market data from more than 2,500 companies and provides a holistic perspective on total compensation levels, practices and emerging trends. The following data cuts were included to derive the overall survey data medians against which we benchmarked compensation levels: software companies; companies in the Internet/E-Commerce/Online Community industries; companies located in the mid-Atlantic states or in locations of our remote offices, such as in San Francisco and Austin, and companies with most recent relative annual revenues ranging from $200 million to $499.9 million.

For 2013, our NEOs' base salaries and target annual cash incentive opportunities were generally close to median levels among peers. However, the grant date fair values of total long term incentive opportunities for our NEOs were generally below peer median long term incentive values. As noted above, the competitiveness of pay opportunities relative to those of relevant peer executives was an important consideration for the Compensation Committee in setting compensation for our NEOs, however, the Compensation Committee also considered other factors such as Company and individual performance, the Company's desire to attract and retain key talent, broad economic factors, and the discretion of our Compensation Committee members based on their experience with companies with a similar profile to Rosetta Stone.

The peer group that was defined in the third quarter of 2012 and used for purposes of making 2013 compensation decisions (the "2013 Peer Group") was reviewed and determined based on the following criteria: competitors with Rosetta Stone for key executive talent; similar or complementary industries; and similar revenue size. In the third quarter of 2013, Exequity reviewed the 2013 Peer Group to determine whether it remained an appropriate peer group for pay benchmarking purposes, based on the following criteria: competitors with Rosetta Stone for key executive talent; similar or complementary industries; organizational structure; relative peer as indicated by proxy advisory services; common operational or business challenges; investor feedback and similar size (revenue, market cap, and number of employees). Based on the review completed by Exequity, the Compensation Committee removed Ancestry.com and THQ, Inc., because they are no longer publicly traded, and Nutrisystem due to lack of relevancy and comparability to our transforming business model and product offerings. The Compensation Committee also added Bazaarvoice, Inc., Concur Technologies, OpenTable, Inc., Tivo, Vocus, and Yelp, because the committee believed that these additional companies were collectively representative of growing digital, online services, or technology companies that are located in markets where Rosetta Stone competes for talent. The constituent companies of the updated 2013 Peer Group used for 2014 compensation decisions (the "2014 Peer Group") and the 2013 Peer Group are listed below:

Company	2013 Peer Group	2014 Peer Group
American Public Education, Inc.	X	X
Ancestry.com	X	
Bazaarvoice, Inc.		X
Blackbaud, Inc.	X	X
Capella Education Company	X	X
comScore, Inc.	X	X
Concur Technologies		X
K12 Inc.	X	X
LeapFrog Enterprises, Inc.	X	X
MicroStrategy Incorporated	X	X
Nutrisystem, Inc.	X	
OpenTable, Inc.		X
Shutterfly, Inc.	X	X
Tivo		X
THQ, Inc.	X	
WebMD Health Corp.	X	X
Vocus		X
Yelp		X

Total Number of Companies	12	15

2013 Compensation Decisions

Base Salaries

Our Compensation Committee reviews our executives' base salaries on an annual basis taking into consideration the factors described above as well as changes in position or responsibilities and time and experience in the position. In the event of material changes in position, responsibilities or other factors, the Compensation Committee may consider changes in base pay during the year.

In January 2013, the Compensation Committee approved the merit increases for 2013 with an effective date of July 1, 2013 for Messrs. Pierno, Shah and Wu and Ms. Verses, as outlined below, based on their 2012 performance as well as consideration of competitive market data. In February 2013, the Compensation Committee completed their annual CEO assessment process, which included the Committee discussing and finalizing Mr. Swad’s 2012 performance and compensation recommendations for 2013. These recommendations were implemented effective as of July 1, 2013.

Name	2012 Base Salary ($)	Base Salary after 2013 Adjustments ($)	% Change	
Stephen M. Swad	500,000	515,000	3.0	%
Thomas M. Pierno	320,000	330,000	3.1	%
Pragnesh N. Shah	275,000	300,000	9.1	%
Judy K. Verses	300,000	309,000	3.0	%
Michael C. Wu	300,000	310,000	3.3	%

The Compensation Committee based its decision on a combination of elements designed to maintain compensation at a level it viewed as competitive with our peers and the market, and individual performance and contributions made to the Company in 2012. The Compensation Committee also reviewed individual business goals for 2012 and performance towards those goals for our executive officers.

In setting each NEO's base salary in 2013, as detailed above, the Compensation Committee specifically considered the following:

- Messrs. Swad's, Pierno's and Wu's and Ms. Verses' individual performance and contributions in 2012, and the Committee's desire to more closely align his or her salary with peer medians.

- Mr. Shah's individual performance and contributions in 2012, and the Committee's desire to make a moderate market adjustment to better align his salary with peer medians.

Although Ms. Verses' job title was updated in May 2013 from President, Global Institutions to President, Global Enterprise & Education to reflect the change of the operating business unit, there were no compensation or job-related changes associated with this title change.

Annual Cash Incentive Compensation

Our Compensation Committee reviews our executives' annual cash incentive compensation opportunity on an annual basis taking into consideration the factors described above as well as changes in position or responsibilities. In the event of material changes in position, responsibilities, or other factors, the Compensation Committee may consider changes in target incentive pay during the year.

Our Compensation Committee set each executive's 2013 target bonus under our executive cash bonus plan as a percentage of his or her 2013 annualized base salary as set forth in the following table.

Name	2013 Annualized Base Salary ($)	2013 Total Target Annualized Bonus Opportunity ($)	Target Bonus as Percentage of Base Salary		Financial Goals Target Bonus ($)	Non-financial Strategic Goals Target Bonus ($)	Individual Performance Goals Target Bonus ($)(1)
Stephen M. Swad (2)	515,000	515,000	100	%	360,500	103,000	51,500
Thomas M. Pierno (3)	330,000	198,000	60	%	138,600	39,600	19,800
Pragnesh N. Shah (4)	300,000	225,000	75	%	180,000	45,000	N/A
Judy K. Verses (4)	309,000	231,750	75	%	185,400	46,350	N/A
Michael C. Wu (4)	310,000	155,000	50	%	108,500	31,000	15,500

(1) Since Mr. Shah and Ms. Verses are considered Line of Business Executives, they do not have an individual goals portion included in their 2013 bonus mix. Instead their bonus is based on 80% financial goals, which includes both corporate financial targets (20%) as well as their individual line of business metrics (60%). Their line of business financial goals and the corporate financial goals were combined and included in the financial goals target bonus column.

(2) Mr. Swad's 2013 annualized base salary and bonus opportunity represent his salary and bonus opportunity as of December 31, 2013. No change was made to his annual target bonus percentage from 2012 to 2013.

(3) Mr. Pierno's 2013 annualized base salary and bonus opportunity represent his salary and bonus opportunity as of December 31, 2013. Mr. Pierno's target bonus percentage was increased from 50% to 60% by the Compensation Committee in order to move his bonus target closer to peer medians, with an effective date of January 1, 2013.

(4) Messrs. Shah's and Wu's and Ms. Verses' 2013 annualized base salary and bonus opportunity represent their respective salary and bonus opportunities as of December 31, 2013. No changes were made to their annual target bonus percentages from 2012 to 2013.

Our executive bonus plan for 2013 provided for an annual cash incentive opportunity for each executive, excluding the Line of Business Executives, based on financial goals, non-financial strategic corporate goals, as well as individual performance goals. The annual cash incentive opportunity was based 70% on financial goals, with a threshold attainment as described in the chart below; 20% on non-financial strategic corporate goals, with no threshold attainment; and 10% on individual performance goals, with no threshold attainment. The corporate financial goals, corporate non-financial strategic goals, and individual performance goals are evaluated separately so that some goals can be met and corresponding amounts paid even if other goals are not met and therefore no corresponding amounts are paid. The Compensation Committee believes that maintaining a 70/20/10 split among financial, non-financial strategic corporate goals, and performance against individual goals, aligns the financial interests of our executives with the financial interests of our stockholders.

70% of the award for achieving the financial goals under the executive bonus plan was based on the following:

	Percentage		Threshold	Target	Maximum	2013 Actual Result	% Achievement (relative to target)	
2013 Global Bookings (1)	40	%	$278.01M	$308.9M	$339.79M+	$278.4M	90.1	%
2013 Adjusted Operating EBITDA	40	%	$21.2M	$26M	$30.81M+	$16.3 M	62.7	%
	20	%	41%	51%	59%	41.5%	81.4	%

2013 Percentage Global
Digital Sales

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(1) Global Bookings represent executed sales contracts received by the Company that are either recorded immediately as revenue or as deferred revenue. For 2013 Bookings, actual results were adjusted to eliminate an increase in the expected sales returns from retail partners in Japan as we no longer maintain a physical presence in Japan as of March 31, 2014.

In light of our acquisition of Lexia, in August 2013, we adjusted the Bookings target for the 2013 bonus plan by increasing the target from $300 million to $308.9 million, and reducing Adjusted Operating EBITDA from $27.0 million to $26.0 million.

With respect to the 2013 financial goals portion of the annual cash incentive award (weighted 70%), no amount would be earned with respect to any one of the three financial targets if we failed to achieve the threshold for that particular target. If we

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achieved the threshold of a financial target, 80% of the amount attributable to such target would be earned. If we achieved 100% of a financial target, 100% of the amount attributable to such target would be earned. If we achieved the maximum or more of the target, 150% of the amount attributable to such target would be earned. Between threshold and 100% and between 100% and the maximum of the financial targets, the amount earned would be interpolated between the two points based on the above. The Bookings, Adjusted Operating EBITDA and Percentage Global Digital Sales components of the financial goals were mutually exclusive, so that part or the entire amount attributable to the financial goals could be awarded if one goal was met but not the other.

20% of the award for achieving the non-financial strategic corporate goals was based on the following:

- 70% on leveraging the brand, of which we achieved 120%, for a funding payout of 84%, based on over achievement of goals due to the successful launch of the Kids Product suite, as well as our advanced English product on time and meeting quantified goals for Bookings and number of downloads; and

- 30% on expanding distribution, of which we achieved 50% for a funding payout of 15%, primarily as the result of changing the strategy and the restructuring of our Asian operations.

With respect to the 2013 non-financial strategic corporate goals portion of the bonus, no minimum threshold was set for funding. Our Compensation Committee determined a percentage of overall achievement based on an evaluation of our performance in meeting each of these goals during the year. Some of these goals include defined milestones or other business metrics while others are subjective and not capable of being defined by bright-line measurements. Our Compensation Committee's determination of the percentage of each strategic objective that was achieved was an overall achievement of 99%.

10% of the award for achieving the individual goals was funded at 100%. Our Compensation Committee determined a percentage of overall achievement for each NEO based on an evaluation from Mr. Swad of each executive's performance against their respective individual goals during the year. Some of these goals included defined milestones or other business metrics while others were subjective and not capable of being defined by bright-line measurements.

Based on the assessments detailed above, the funding for the financial goals (70% weight) was 48.3%, the funding for the non-financial corporate goals (20% weight) was 99% and the funding for the individual goals (10%) was 100%. Based on the weights applied to these factors and the funding amounts detailed above, the aggregate funding amount for the executive bonus plan was 63.6%, as illustrated in the chart below:

All of our NEOs are part of this plan, with the exception of our Line of Business Executives. The structure of the plan for the Line of Business Executives, Mr. Shah and Ms. Verses, was generally the same, with 20% based on the corporate financial goals as described above; 60% based on the financial performance of their lines of business, Global Consumer and Global Enterprise & Education, respectively; and 20% based on non-financial strategic corporate goals as outlined above. The threshold for the amount of the bonus attributable to financial targets for the Line of Business Executives was 80%. The line of business and corporate components of the financial metrics were mutually exclusive, so that part or the entire bonus attributable to the financial goals could be awarded if one goal was met but not the other.

The financial targets for Mr. Shah's bonus were determined based on financial targets for the global consumer business of the Company (weighted 60%), corporate financial targets (weighted 20%) and corporate non-financial targets (weighted 20%). The line of business financial metric (weighted 60%) consisted of the following: 50% booking target of $239.55 million (weighted 50%); Adjusted Operating EBITDA target of $83.02 million (weighted 30%); and Percentage Global Digital Sales target as defined above of 51% (weighted 20%). The global consumer business for 2013 achieved: $201.88 million against a target Bookings of $239.55 million (for a funding payout of 84.27%); $64.49 million in Adjusted Operating EBITDA against a target of $83.02 million (below threshold of $66.42 million, for a funding payout of 0%); and 41.5% of the Percentage Global Digital Sales against a target of 51% (for a funding payout of 81%).

The financial targets for Ms. Verses' bonus were determined based on financial targets for the Global Enterprise & Education business of the Company (weighted 60%) and corporate financial targets (weighted 20%) and corporate non-financial targets (weighted 20%). The line of business financial metric (weighted 60%) consisted of the following: Bookings target of $78.75 million (weighted 60%) and Adjusted Operating EBITDA target of $38.63 million (weighted 40%). The Global Enterprise & Education business for 2013 achieved Bookings of $67.59 million against a target of $78.75 million (for a bonus funding payout of 85.83%), and Adjusted Operating EBITDA of $29.48 million against a target of $38.63 million (below threshold of $30.90 million, for a funding payout of 0%).

A summary of the bonus payouts for Mr. Shah's and Ms. Verses' bonus plans is provided in the tables below:

Our Compensation Committee determined the following bonuses were earned by our NEOs for 2013.

Name	Financial Goals Bonus ($)	Non-financial Strategic Goals Bonus ($)	Individual Performance Goals Bonus ($)	Total Bonus ($)
Stephen M. Swad (1)	174,122	101,970	51,500	327,592
Thomas M. Pierno (2)	66,944	39,204	21,780	127,928
Pragnesh N. Shah (3)	100,494	44,550	N/A	145,044
Judy K. Verses (3)	93,998	45,887	N/A	139,885
Michael C. Wu (4)	0	0	0	0

(1) Mr. Swad earned 100% of his individual performance goals based on approval by the Compensation Committee.

(2) Mr. Pierno earned 110% of his individual performance goals based on recommendation by the Chief Executive Officer, Mr. Swad, and approval by the Compensation Committee.

(3) Since Mr. Shah and Ms. Verses are considered Line of Business Executives, they do not have an individual goals portion included in their 2013 bonus mix. Instead their bonus is based on 80% financial goals, which includes both corporate financial targets (20%) as well as their individual line of business metrics (60%). Their line of business financial goals and the corporate financial goals were combined and included in the financial goals bonus column.

(4) Mr. Wu resigned from the Company and his last day of employment was on February 7, 2014, therefore, he was no longer eligible to receive a bonus payout for the 2013 bonus plan year, since our annual bonus plan states that a participant must be employed when the annual bonus is paid out.

The following chart shows the target bonus amount and actual amount paid for each NEO based on achievement of the financial, non-financial strategic corporate goals and individual performance goals, as applicable, under our executive bonus plan, as described above:

2013 Discretionary Bonuses

In August 2013, the Compensation Committee approved a one-time special monetary recognition award for Mr. Wu, our former General Counsel, for his dedication and exemplary service to the Company in the first half of the year, specifically his extensive work on two acquisitions (Live Mocha and Lexia) in the amount of $20,000 gross, subject to taxes and withholdings.

Allocation of Equity-Based Compensation Awards

Throughout the year, our Compensation Committee evaluates grants for new hires at the senior vice president level and above, promotions to the senior vice president level and above, or other changes that may warrant additional grants. Our Compensation Committee exercises its judgment and discretion and considers, among other things, the role and responsibility of the executive, competitive factors, performance, the amount of stock-based equity compensation already held by the executive, the non-equity compensation received by the executive and the total number of shares subject to awards to be granted to all participants during the year. For new hire grants, the vesting start date is typically the date of hire. For ongoing annual grants, the vesting start date is determined by the Compensation Committee.

Our Compensation Committee also evaluates and makes annual grants for the NEOs and other members of senior management on a discretionary basis during the annual performance review process. As noted above, it is the Compensation Committee's intent to provide long term incentive opportunities that are comparable to peer median long term incentive values, and combine with base salary and annual cash incentive opportunities to result in target total compensation opportunities that are comparable to peer median target total compensation opportunities. However, as noted above, share usage constraints have generally resulted in long term incentive opportunities below peer medians.

Equity awards, including non-qualified stock options and restricted stock, granted to executives and other employees under our 2009 Plan, as amended, typically vests over a period of four years, with 25% of the shares vesting on each annual anniversary of the vesting commencement date with the exception of (i) Mr. Swad's November 2010 grant, which includes a three-year vesting schedule that was negotiated at hire; (ii) Mr. Swad's January 2012 grant, received in connection with his expanded operational role and which has a two-year vesting schedule; and (iii) the special retention awards granted to our NEOs and certain other executives in 2012, which have two-year vesting schedules to ensure retention of key executives during a pivotal transformation period of the Company. Prior to 2012, restricted stock was only used for new hire grants of our NEOs and all equity annual grants to NEOs were awards of non-qualified stock options. In 2012, the Compensation Committee modified the approach to long term incentive compensation to provide 60% of long term incentive value in the form of stock options and 40% of long term incentive value in restricted stock to better reflect market practice, promote retention of executives, and provide balance in the long term incentive program. Then, in 2013, the introduction of the LTIP resulted in a portfolio of long term incentive compensation that emphasized the LTIP vehicle. In general, the LTIP is weighted between 60% and 70% of the total long term incentive opportunity (with 70% of this award opportunity denominated in Performance Stock Awards and 30% denominated in cash), while the remaining 30% to 40% of the total long term incentive opportunity is weighted 60% in stock options and 40% in restricted stock.

Timing of Equity-Based Compensation Awards

The Compensation Committee has delegated its authority to our Chief Executive Officer with respect to new hire equity grants (such grants to be made on a monthly basis for eligible employees within the new hire grant matrix), with the exception of the NEOs and senior vice presidents and above. The Compensation Committee retained its authority to approve new hire equity grants for all NEOs and senior vice presidents and above. On a quarterly basis, the Compensation Committee reviews all grants in a summary report provided by management. Our Compensation Committee typically makes annual grants of restricted stock and stock options, if any, to our NEOs and other members of the senior management team in connection with its annual review of our executives' compensation.

We do not have any program, plan or practice to time stock option and restricted stock grants in coordination with the release of material non-public information. The exercise price of stock options for 2013 is determined based on the trading price of our common stock at the close of the market on the date of grant.

2013 Long Term Incentive Program

In February 2013, our Board approved the 2013 Rosetta Stone Inc. Long Term Incentive Program. The LTIP is administered under our 2009 Plan and any shares awarded under the LTIP will be apportioned from the shares reserved under the 2009 Plan.

No payments or awards were granted under the LTIP as of December 31, 2013. If earned and approved, awards of any payment of cash or grants 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 the Compensation Committee's approval that the Company achieved the Performance Goals, as defined below, 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.

Under the LTIP, executives designated by the Board of Directors are eligible 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 to earn awards under the LTIP, certain minimum threshold performance goals must be achieved for the 2014 fiscal year, in addition to the cumulative performance goals over the two year period ending December 31, 2014. A specific threshold has been established for each goal, and has a range of payout levels depending on the achievement of the goal ranging from zero to 200% of the incentive target. Performance assessments for each goal are independent of one another such that a partial payout under one goal may be earned even if threshold performance for other goals has not been achieved.

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 Global 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 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.

Unless specified otherwise by the Compensation Committee in an award agreement at the time an award is granted, the Compensation Committee shall appropriately adjust any evaluation of performance under a Performance Goal.

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 Chief Executive Officer’s incentive target is three times his base salary, while all other executives have

a target of one times their 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 common 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.
2013 LTIP target awards are listed below.

2013 LTIP Performance Goals and thresholds are listed in the chart below:

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 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 Compensation Committee shall certify in writing the level of achievement, if any, of each Performance Goal. The Compensation Committee shall not increase any amount of payment, whether in cash and/or Performance Stock Awards, payable under an 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 Compensation Committee in its sole discretion. All decisions by the Compensation 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 our common 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 Compensation 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 Internal Revenue Code Section 162(m).
Executive Equity Ownership

We encourage our executives to hold a significant equity interest in our Company. Effective January 1, 2013, our Executive Equity Ownership guidelines are as follows:

- CEO: Five times (5x) base salary
- SVPs and above levels: Two times (2x) base salary

We have provided a time frame of five years to attain the equity ownership levels.

Insider Trading Policy Prohibiting Hedging and Pledging

In February 2013, our Board of Directors adopted an amended Insider Trading Policy, which prohibits all hedging and pledging transactions in Company stock by officers, directors and other insiders, to ensure that the interests of these holders of Company stock are fully aligned with those of stockholders in general. We also discourage the purchase and sale of exchange-traded options on our stock by our executives.

Type of Equity-Based Compensation Awards

Our 2009 Plan permits us to issue stock options, RSUs, restricted stock, SARs, performance units and performance shares. In 2013, we issued stock options and restricted stock to our employees and executives and stock options and RSUs to our non-employee directors.

Severance and Change in Control Arrangements

Each of our equity incentive plans provides for a potential acceleration of vesting of outstanding awards in the event of a change in control and/or termination without cause, as defined in each such plan. In 2012, restricted stock agreements were updated to provide that starting with equity awards granted in 2012, none of the equity awards granted to our NEOs would provide for automatic vesting acceleration upon consummation of a change in control transaction unless there is also a termination of service other than for cause or voluntary resignation for good reason in connection with the change in control.

In addition, see "Employment Arrangements with Named Executive Officers" and "Potential Payments Upon Termination of Employment or Upon Change in Control" below for a description of the severance and change in control arrangements we have with our NEOs. The Compensation Committee believes that these arrangements were necessary to attract and are necessary to retain our NEOs. The terms of each arrangement were determined in negotiation with the applicable NEO in connection with his or her hiring, or promotion, and were not based on any set formula.

Effect of Accounting and Tax Treatment on Compensation Decisions

In the review and establishment of our compensation programs, we consider the anticipated accounting and tax implications to the Company and our executives. While we consider the applicable accounting and tax treatment of alternative forms of equity compensation, these factors alone are not dispositive. We also consider the cash and non-cash impact of the programs and whether a program is consistent with our overall compensation philosophy and objectives.

Section 162(m) of the Internal Revenue Code imposes a limit on the amount of compensation that we may deduct in any one year with respect to our Chief Executive Officer and each of our next three most highly compensated executive officers (excluding our Chief Financial Officer), unless specific and detailed criteria are satisfied. Performance-based compensation, as defined in the Internal Revenue Code, is fully deductible if the programs are approved by stockholders and meet certain other requirements. While the Compensation Committee is mindful of the benefit of full deductibility of compensation, the Compensation Committee believes that it should not be constrained by the requirements of Section 162(m) where those requirements would impair flexibility in compensating our executive officers in a manner that can best promote our corporate objectives. Therefore, the Compensation Committee has not adopted a policy that requires that all compensation be deductible. The Compensation Committee intends to continue to compensate our executive officers in a manner consistent with the best interests of our Company and our stockholders.

Compensation Policies and Practices as They Relate to Risk Management

In 2013, our Compensation Committee reviewed our compensation policies and practices and concluded that the mix and design of these policies and practices are not reasonably likely to encourage our employees to take excessive risks. In connection with its evaluation, our Compensation Committee considered, among other things, the structure, philosophy and design characteristics of our primary incentive compensation plans and programs in light of our risk management and governance procedures, as well as other factors that may calibrate or balance potential risk-taking incentives.

The Compensation Committee also reviewed our compensation programs for certain design features that have been identified by experts as having the potential to encourage excessive risk-taking, including:

- long term incentive compensation value that is driven entirely by increases in stock price; and
- low compensation levels exacerbated by performance-driven awards not paying out; including both annual bonus and long term incentive compensation.

The Compensation Committee noted several design features of our cash and equity incentive programs for all employees that reduce the likelihood of excessive risk-taking, including:

- the Compensation Committee's ability to exercise discretion to decrease incentive award payouts;
- the use of an array of performance metrics across compensation programs (that is, bonuses are based on financial goals, non-financial strategic metrics and individual performance goals; LTIP awards are based on both Company operating performance and stock price; and new hire and annual equity incentives are driven by stock price gains);
- the fact that many of our executives hold significant vested equity stakes in the Company; and
- the fact that the mix of compensation balances a short-term and long-term focus.

Based on this assessment, our Compensation Committee concluded that risks arising from our compensation policies and practices for all employees, including executive officers, are not reasonably likely to have a material adverse effect on us.

EXECUTIVE COMPENSATION

2013 Summary Compensation Table

The following table provides information regarding the compensation of our President and Chief Executive Officer, Chief Financial Officer and our other three most highly compensated executive officers serving as of December 31, 2013. We refer to these executive officers as our named executive officers or NEOs.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(1)(2)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation($)	All Other Compensation ($)	Total ($)
Stephen M. Swad	2013	506,923	—	1,212,333	285,251	327,592	29,516 (3)	2,361,615
President and Chief Executive Officer	2012	481,923 (4)	150,000 (5)	1,374,861	642,287	462,951	19,410 (6)	3,131,432
	2011	400,000	—	291,141	—	32,400	9,800 (7)	733,341
Thomas M. Pierno	2013	324,616	—	262,371	67,117	127,928	12,082 (8)	794,114
Chief Financial Officer	2012	200,616 (9)	—	158,250	308,015	108,135	7,979 (10)	782,995
Pragnesh N. Shah (11)	2013	286,539	—	231,100	67,117	145,044	441,769 (12)	1,171,569
President, Global Consumer	2012	275,000	25,000 (5)	24,999	—	199,263	442,751 (13)	967,013
Judy K. Verses	2013	304,154	—	248,465	67,117	139,885	18,171 (14)	777,792
President, Global Enterprise & Education	2012	300,000	25,000 (5)	35,901	16,542	216,068	11,126 (15)	604,637
	2011	61,154 (16)	—	561,521	392,789	68,794	—	1,084,258
Michael C. Wu	2013	304,616	20,000 (17)	238,464	50,336	98,596 (18)	11,628 (19)	723,640
General Counsel and Secretary	2012	300,000	100,000 (5)	143,602	66,172	152,064	11,137 (20)	772,639
	2011	252,000	—	258,228	137,461	13,392	9,800 (7)	670,881

(1) Represents the aggregate grant date fair value for restricted stock awards and stock option awards granted in the applicable year, computed in accordance with ASC 718. Information about the assumptions used to value these awards can be found in Note 11 to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed with the SEC on March 3, 2014. An overview of the features of these awards can be found in "Compensation Discussion and Analysis" above. The amounts under stock awards includes potential performance based equity awards under the 2013 LTIP. Executives are eligible to receive Performance Stock Awards in the form of restricted shares, and cash, upon the Company's achievement of specified performance goals between January 1, 2013 and December 31, 2014. 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 award is a multiple of their base salary as of December 31, 2012 and is represented in the chart entitled, "Grants of Plan-Based Awards in Fiscal Year 2013." The target Performance Stock Award is based on valuation as of January 1, 2013. For this chart, the value of the potential 2013 LTIP stock award is based on the target number of shares and the stock price as of December 31, 2013 of $12.22. The target 2013 LTIP stock awards are as follows: for Mr. Swad, $1,042,329; for Mr. Pierno, $222,367; for Mr. Shah, $191,096; for Ms. Verses, $208,461; and for Mr. Wu, $208,461. No awards, or cash, have been earned, approved or initiated under this plan as of December 31, 2013. Details of the LTIP are included in the section entitled "Determining the Amount of Each Element of Compensation." In order for the granting of any Performance Stock Award or any cash payment to be made under the LTIP, the Company must meet the minimum threshold requirements for each performance goal for the 2014 fiscal year, in addition to the cumulative performance goals over the two year period ending December 31, 2014. Each performance goal is mutually exclusive. Each performance goal has a range of payout levels depending on the achievement of the goal ranging from zero to 200% of the incentive target. The awards upon the Company's

achievement of the following specified performance goals during the Program Period: (i) 33.33% Bookings; (ii) 33.33% Operating EBITDA; and (iii) 33.33% Percentage Global Digital Sales.

(2) Prior to 2012, all executive annual grants were in the form of stock options. For all NEOs other than Ms. Verses, the amounts included for 2011 represent the grant date fair value of stock awards under the 2011 Long Term Incentive Program ("2011 LTIP"), the only stock awards that they received in that year since annual stock grants for 2011 consisted solely of stock options. For Ms. Verses, $361,520 of the amount for 2011 represents the fair value of her award under the 2011 LTIP and $200,001 represents the grant date fair value of a restricted stock grant. If all milestones under the 2011 LTIP had been met, the values of the 2011 LTIP awards as of their respective grant dates would have been: $2,573,750 for Mr. Swad; $364,700 for Ms. Verses; and $514,750 for Mr. Wu. The 2011 LTIP was canceled on November 30, 2011. Accordingly, no shares were ever granted under this program and no value was realized by any of the NEOs in connection with these awards.

(3) For Mr. Swad, represents insurance premiums the Company paid on behalf of the executive under our group term life insurance policy and our health and welfare policies in the amount of $11,447 during the specified year, 401(k) matching contributions in the amount of $10,200 and other perquisites in the amount of $7,869.

(4) In February 2012, Mr. Adams transitioned from his role as President and Chief Executive Officer to the Chairman of the Board and Mr. Swad was appointed from the position of Chief Financial Officer to the positions of President and Chief Executive Officer. The amount listed in the 2012 Salary column above for Mr. Swad includes the base salary earned by Mr. Swad as Chief Financial Officer (at his annualized base salary of $400,000) prior to his appointment as President and Chief Executive Officer. As President and Chief Executive Officer, Mr. Swad earned base salary at an annual rate of $500,000.

(5) In January 2012, the Compensation Committee granted special retention bonuses consisting of cash and equity awards to selected key members of our management team, including our NEOs, other than Mr. Pierno who was hired in May 2012, in order to retain key executives during the transformation of our business model, keeping them focused on our business objectives during the search for a successor to serve as our President and Chief Executive Officer. The retention cash awards were paid in single payments on December 31, 2012 contingent upon the applicable NEO remaining employed until December 31, 2012, or the earlier termination of his or her employment by us without cause.

(6) For Mr. Swad, represents insurance premiums paid by the Company on behalf of the employee under our group term life insurance policy and our health & welfare policies in the amount of $11,968, and 401(k) matching contributions in the amount of $6,909 provided on behalf of Mr. Swad during the specified year, and other perquisites in the amount of $532.

(7) Consists of 401(k) matching contributions provided on behalf of the executive during the specified year.

(8) For Mr. Pierno, represents insurance premiums the Company paid on behalf of the executive under our group term life insurance policy and our health and welfare policies in the amount of $11,447 during the specified year and other perquisites in the amount of $635.

(9) Mr. Pierno joined the Company effective May 2012. His annualized base salary for 2012 was $320,000.

(10) For Mr. Pierno, represents insurance premiums paid by the Company on behalf of the executive under our group term life insurance policy and our health & welfare policies in the amount of $7,979 during the specified year.

(11) Mr. Shah's first year as a NEO was 2012. Accordingly, prior year compensation information is not included in the Summary Compensation Table.

(12) For Mr. Shah, represents insurance premiums the Company paid on behalf of the executive under our group term life insurance policy and our health and welfare policies in the amount of $9,850 during the specified year; 401(k) matching contributions in the amount of $10,200; other perquisites in the amount of $302; and the following amounts paid by the Company attributed to an international assignment to Japan in 2013: $30,745 in tuition costs; $335,195 in housing and living allowances; $55,477 in tax equalization to offset the difference in tax liability attributable to working in Japan while remaining a U.S. citizen for an aggregate of $421,417.

(13) For Mr. Shah, represents insurance premiums the Company paid on behalf of the executive under our group term life insurance policy and our health & welfare policies in the amount of $14,066 during the specified year; represents the following amounts paid by the Company attributed to an international assignment to Japan in 2012: $45,252 in relocation; $40,249 in tuition costs; $201,081 in housing allowances, $132,485 in tax equalization to offset the difference in tax liability attributable to working in Japan while remaining a U.S. citizen for an aggregate of $419,067; 401(k) matching contributions in the amount of $9,097 and other perquisites in the amount of $521.

(14) For Ms.Verses, represents insurance premiums paid by the Company on behalf of the executive under our group term life insurance policy in the amount of $339 during the specified year, 401(k) matching contributions in the amount of $10,200, and other perquisites in the amount of $7,632.

(15) For Ms. Verses, represents insurance premiums the Company paid on behalf of the executive under our group term life insurance policy and our health and welfare policies in the amount of $860 during the specified year; 401(k) matching contributions in the amount of $9,744 and other perquisites in the amount of $521.

(16) Ms. Verses joined the Company effective October 2011. Her annualized base salary for 2011 was $300,000.

(17) Mr. Wu received a one-time $20,000 performance award approved by the Compensation Committee.

(18) This amount represents Mr. Wu's potential 2013 bonus payout. Mr. Wu voluntarily terminated his employment with the Company in February 2014 and therefore was not eligible to receive a bonus payout for the 2013 bonus plan year.

(19) For Mr. Wu, represents insurance premiums the Company paid on behalf of the executive under our group term life insurance policy in the amount of $339 during the specified year, 401(k) matching contributions in the amount of $10,400, and other perquisites in the amount of $889.

(20) For Mr. Wu, represents insurance premiums the Company paid on behalf of the executive under our group term life insurance policy and our health and welfare policies in the amount of $816 during the specified year; 401(k) matching contributions in the amount of $9,800 and other perquisites in the amount of $521.

Grants of Plan-Based Awards in Fiscal Year 2013

The following table sets forth each grant of plan-based awards to our NEOs during the fiscal year ended December 31, 2013.

			Estimated Future Payouts Under Non-Equity Incentive Plan Awards($)(1)			Estimated Future Payouts Under Equity Incentive Plan Awards (# of Shares)(2)			All Other Stock Awards: Number of Shares of Stock or Units (#)(9)	All Other Option Awards: Number of Securities Underlying Options (#)(9)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)
	Award Type	Grant Date	Threshold (3)(4)	Target	Maximum(5)	Threshold(6)	Target(7)	Maximum(8)				
Stephen M. Swad	Annual Cash	—	288,400	515,000	772,500	—	—	—	—	—	—	—
	Restricted Stock	2/21/2013	—	—	—	—	—	—	13,633	—	—	170,004
	Stock Options	2/21/2013	—	—	—	—	—	—	—	34,659	12.47	285,251
	LTIP Restricted Stock (2)	—	—	—	—	42,648	85,297	170,593	—	—	—	—
	LTIP Cash Award (2)	—	225,000	450,000	900,000	—	—	—	—	—	—	—
Thomas M. Pierno	Annual Cash	—	110,880	198,000	297,000	—	—	—	—	—	—	—
	Restricted Stock	2/21/2013	—	—	—	—	—	—	3,208	—	—	