

ROSETTA STONE INC
Form DEF 14A
April 13, 2012

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

SCHEDULE 14A

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

ROSETTA STONE INC.

(Name of Registrant as Specified In Its Charter)

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

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April 11, 2012

Dear Stockholder:

You are cordially invited to attend the 2012 Annual Meeting of Stockholders of Rosetta Stone Inc. (the "Company"), which will be held at our offices located at 1919 North Lynn St., 7th Fl., Arlington, Virginia 22209, on Wednesday, May 23, 2012, at 3:30 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 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 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 2012 Annual Meeting of Stockholders, the 2012 Proxy Statement and our 2011 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,

Tom P.H. Adams
Chairman of the Board

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.**

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NOTICE OF 2012 ANNUAL MEETING OF STOCKHOLDERS

Dear Stockholder:

You are cordially invited to attend our 2012 Annual Meeting of Stockholders, which will be held at 3:30 p.m. local time on May 23, 2012 at our corporate offices located at 1919 North Lynn St., 7th Fl., Arlington, Virginia 22209 for the following purposes:

1. Elect three Class III directors nominated by our Board of Directors to hold office until our annual meeting of stockholders in 2015 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 year ending December 31, 2012;
3. Approve an amendment to our 2009 Omnibus Incentive Plan;
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 April 3, 2012 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,

Michael C. Wu
General Counsel and Secretary

Arlington, Virginia
April 11, 2012

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be held on May 23, 2012 at 3:30 pm local time at 1919 North Lynn St., 7th Fl., 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.

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ROSETTA STONE INC.

1919 North Lynn St., 7th Fl.
Arlington, Virginia 22209

**PROXY STATEMENT FOR THE
2012 ANNUAL MEETING OF STOCKHOLDERS
INFORMATION ABOUT THE MEETING, VOTING AND PROXIES**

Date, Time and Place of Meeting

Our Board of Directors is asking for your proxy for use at the Rosetta Stone Inc. 2012 Annual Meeting of Stockholders (the "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 Meeting on Wednesday, May 23, 2012 at 3:30 p.m. local time at our offices at 1919 North Lynn St., 7th Fl., Arlington, Virginia 22209. We have first released this proxy statement to our stockholders beginning on or about April 11, 2012.

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 April 3, 2012 (the "Record Date") will be entitled to vote at the Meeting. On the Record Date, we had approximately 20,953,605 shares outstanding and entitled to vote, held by approximately 249 stockholders of record and approximately 13,000 beneficial owners, who may hold their shares through banks, brokers or other nominees. We need a quorum to take action at the 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 Meeting, either in person or by proxy.

If by the date of the Meeting we do not receive sufficient shares to constitute a quorum or approve one or more of the proposals, the Chair of the Meeting, or the persons named as proxies, may propose one or more adjournments of the 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 Meeting will tabulate all votes. The Inspector will separately tabulate yes and no votes, abstentions and broker non-votes for each proposal.

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Voting and Revoking Proxies

Our Board of Directors is soliciting proxies to vote your shares at the Meeting. If you attend the 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 Meeting. If you properly submit your proxy, and do not revoke it prior to the 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 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 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 St., 7th Fl., Arlington, Virginia 22209. You may also revoke a proxy by submitting a later-dated proxy or by voting in person at the 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 Meeting, you must bring to the 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 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 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 a Notice of Internet Availability of Proxy Materials to people or entities for which they hold shares and forward copies of the proxy materials to beneficial owners who request paper copies.

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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 of Internet Availability of Proxy Materials, 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 continue receiving 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 of Internet Availability of Proxy Materials, 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 St., 7th Fl., 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 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 year ended December 31, 2011 have been made available to all stockholders entitled to vote at the Meeting and who received the Notice of Internet Availability of Proxy Materials. 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 ten 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.

Only the terms of the Class III directors are scheduled to expire on the date of the upcoming Meeting. Based on the recommendation of the Corporate Governance and Nominating Committee of our Board of Directors, our Board of Directors' nominees for election by the stockholders are the three current Class III members of our Board of Directors, John T. Coleman, Patrick W. Gross, and Marguerite W. Kondracke. If elected, the nominees will serve as directors until the annual meeting of stockholders in 2015 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 of Directors 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 III 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 Meeting, the proxies may be voted for the election of a substitute nominee that our Board of Directors may designate in place of such nominee.

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Because the upcoming Meeting will trigger the expiration of the terms of only three 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 Meeting will be elected Class III 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 III Directors

The name and age as of April 1, 2012 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
John T. Coleman	65	Director	2006
Patrick W. Gross	67	Lead Director	2006
Marguerite W. Kondracke	66	Director	2011

Directors Standing for Election

Incumbent Nominees

Each of the incumbent directors listed below has been 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. Each of the nominees listed below, other than Ms. Kondracke, has previously been elected by our stockholders. Ms. Kondracke, who joined the Board of Directors in December 2011, was recommended for director service by one of the non-employee members of our Board of Directors.

John T. Coleman has served as a director since May 2006. Mr. Coleman served as President, Chief Operating Officer and a Director of Bose Corp., a manufacturer of high-end audio products, from July 2001 to July 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 has been a member of the Board of Advisors of the School of Economics at University College Cork since July 2008 and a member of the Board of Advisors of the School of Business at Maynooth College in Ireland since May 2010. Mr. Coleman has served on the Board of Nortek, Inc. 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 the Board of Directors.

Patrick W. Gross has served as Lead Director of the Board of Directors since February 2012 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 in 2002, Mr. Gross was a founder, and served as a principal executive officer from 1970 to September 2002, of American Management Systems, Inc., or AMS, a publicly traded information technology consulting, software development, and systems integration firm. Mr. Gross is a director of

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Capital One Financial Corporation, Career Education Corporation, Liquidity Services, Inc., Taleo Corporation, 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 and Mobius Management System, Inc. from 2002 to 2007. 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 October 2004, Ms. Kondracke has been President and Chief Executive Officer of America's Promise Alliance, a nonprofit children's advocacy organization. She 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 was co-founder and Chief Executive Officer of Bright Horizons Family Solutions. She serves on the boards of Saks, Inc. and LifePoint Hospitals, Inc. Ms. Kondracke also serves on the Board of Trustees of Duke University. 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.

Directors Not Standing for Election

The names and certain biographical information as of April 1, 2012 about the continuing members of our Board of Directors who are not standing for election at the Meeting are set forth below:

Name	Age	Positions and Offices Held with the Company	Director Since
Tom P.H. Adams	39	Chairman	2006
Phillip A. Clough	50	Director	2006
Laurence Franklin	59	Director	2006
Theodore J. Leonsis	56	Director	2009
John E. Lindahl	67	Director	2006
Stephen M. Swad	50	Director	2012
Laura L. Witt	43	Director	2005

Tom P.H. Adams has served as Chairman of the Board of Directors since February 2012 and as a director since January 2006. Mr. Adams served as our President and Chief Executive Officer from January 2006 to February 2012, prior to which he served as Chief Executive Officer of Fairfield & Sons, Ltd., the predecessor company of Rosetta Stone, since February 2003. Mr. Adams received his B.A. with honors from the University of Bristol, United Kingdom and an M.B.A. from INSEAD in Fontainebleau, France. Mr. Adams was named the 2009 Ernst & Young Entrepreneur of the Year, 2009 Executive of the Year by American Business Awards and Smart CEO of the Year 2009.

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Our Board of Directors believes that Mr. Adams is particularly qualified to serve as a director, given his long-standing service as our former Chief Executive Officer. Mr. Adams brings extensive business and operating experience to the Board, as well as a thorough and comprehensive knowledge of the Company's business.

Phillip A. Clough has served as a director since January 2006. Mr. Clough is a Managing General Partner of ABS Capital Partners, and has been a General Partner of ABS Capital Partners since September 2001. Prior to joining ABS Capital Partners, Mr. Clough was President and Chief Executive Officer of Sitel Corporation, a publicly traded global provider of outsourced customer support services, from May 1998 to March 2001 and President of Sitel from January 1997 to May 1998. Prior to that, Mr. Clough was an investment banker with Alex. Brown & Sons Inc., an investment bank, 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, focusing on growth companies. 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.

Laurence Franklin served as the Chairman of the Board of Directors from February 2011 to February 2012 and as a director since May 2006. Since July 2011, Mr. Franklin has served as the Chief Executive Officer of Frette Srl, a leading manufacturer and retailer of luxury linens and home furnishings. Mr. Franklin served as President and Chief Executive Officer of Tumi Inc., a manufacturer and retailer of luxury travel, business and lifestyle accessories, from January 2002 until March 2009 and was retired from March 2009 until joining Frette in July 2011. Prior to joining Tumi, Mr. Franklin served as President of Coach Leatherware Company, Inc. and General Manager of Elizabeth Arden Inc. Mr. Franklin began his career at Peat Marwick Mitchell and Co. in audit, and then worked in the Management Consulting Services group at Price Waterhouse & Co. Mr. Franklin earned his B.A. from Colgate University and his M.S. from the New York University Graduate School of Business. Mr. Franklin serves on the boards of two private companies in addition to his role at Rosetta Stone.

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 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.

Theodore ("Ted") J. Leonsis has served as a director since December 2009. Mr. Leonsis is the founder, chairman and majority owner of Lincoln Holdings, LLC, a sports and entertainment company d/b/a Monumental Sports and Entertainment that owns 100% of the NBA's Washington Wizards, NHL's Washington Capitals, the WNBA's Washington Mystics, and the Verizon Center in Washington, D.C. In January 2012, Mr. Leonsis was named Chairman of the Board of Directors of FedBid Inc., an online marketplace for business to government purchases. Since 2006, Mr. Leonsis has been Vice Chairman Emeritus at AOL LLC, where he served as Vice Chairman from 2000 to 2006, as President from 2003 to 2006, and in various capacities from 1994 to 2000. He is co-founder and partner of the newly-created "speed-up capital" Revolution Growth Fund II. Mr. Leonsis serves on the boards of American Express Company, NutriSystem Inc., Groupon, Inc., and several private companies.

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Mr. Leonsis holds a B.A. from Georgetown University. Mr. Leonsis is involved in numerous charities through the work of the Leonsis Foundation, including Best Buddies, DC College Access Program, DC College Success Foundation, Georgetown University, and See Forever Foundation.

Our Board of Directors believes that Mr. Leonsis' status as an Internet pioneer with a distinguished career in the technology sector makes him particularly qualified to serve as a director. Mr. Leonsis has significant corporate leadership, operations, finance and international business experience, having held various executive positions with AOL, and significant entrepreneurial business experience with Lincoln Holdings, LLC.

John E. Lindahl has served as a director since February 2006 and is Managing Partner at Norwest Equity Partners VIII, LP, or Norwest, a private equity firm, which he joined in 1984. Prior to joining Norwest, Mr. Lindahl worked at Norwest Bank for 16 years. Mr. Lindahl serves on the boards of various private companies. He holds a B.S. and a B.A. from the University of Minnesota.

Our Board of Directors believes that Mr. Lindahl is particularly qualified to serve as a director based on his long-tenured career in private equity and banking, which gives him a keen grasp of finance and investment matters. He also has extensive experience in management, business operations and international business.

Stephen M. Swad serves as Chief Financial Officer, President, Chief Executive Officer and a director. Mr. Swad has served as President, Chief Executive Officer and a director since February 2012. Prior to assuming this role, Mr. Swad served as our Chief Financial Officer since November 2010. Mr. Swad will continue to serve as our Chief Financial Officer until such time as a successor is named. Prior to joining the Company, Mr. Swad served as the Executive Vice President and Chief Financial Officer of Converse Technologies, Inc. from May 2009 to October 2010. From May 2007 to August 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 February 2003 to February 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 U.S. Securities and Exchange Commission. 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.

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. In September 1997, Ms. Witt joined ABS Capital Partners, a private equity investment partnership, 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 at 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 Capital Partners.

Table of Contents**EXECUTIVE OFFICERS**

The name, age and position(s) held by each of our executive officers, as of April 1, 2012, are set forth in the table below.

Name	Age	Position(s) Held with the Company
Stephen M. Swad	50	President, Chief Executive Officer, Chief Financial Officer
Michael S. Fulkerson	44	Chief Technology Officer
Pragnesh N. Shah	43	President, Global Consumer
Judy K. Verses	55	President, Global Institutions
Michael C. Wu	45	General Counsel and Secretary

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.

Michael S. Fulkerson has served as Chief Technology Officer since February 2011. Mr. Fulkerson previously served as Senior Vice President of Labs and Technology from August 2008 to February 2011. Mr. Fulkerson's prior positions at the Company also include Vice President of Labs and Technology from December 2006 to August 2008 and Senior Director of Software Development from April 2005 to December 2006. Previously, he was a Technical Director for Serco, a provider of managerial and technological consulting services, from March 2004 to April 2005 and a Technical Product Manager at iLOG from January 2003 to March 2004. Mr. Fulkerson started his career as a Surface Warfare Officer in the U.S. Navy. Mr. Fulkerson holds a B.S. and M.A. in computer science from Villanova University and a Ph.D. in Computer Science from Duke University.

Pragnesh N. Shah has served as President, Global Consumer since November 2011. Prior to joining Rosetta Stone, Mr. Shah was Vice President and General Manager at Network Solutions, LLC, a wholly-owned subsidiary of Web.com Group, a provider of internet services and online marketing, from 2009 to 2011. Before joining Network Solutions, Mr. Shah was President and Chief Executive Officer of Mobilians International, Inc. from 2007 to 2008. He also served in several key leadership roles at Sprint Nextel from 1996 to 2007, including roles in e-commerce, retail and distribution for mobile products. Mr. Shah began his career with NASA (National Aeronautics & Space Administration) as an Aerospace Engineer at the Goddard Space Flight Center and holds an M.B.A. from Harvard Business School, an M.S. in Space Systems Engineering and a B.S. in Mechanical Engineering from George Washington University.

Judy K. Verses has served as President, Global Institutions 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 2009 to 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., notably Senior Vice President for Business Sales and Senior Vice President for Verizon's portfolio of voice, video and data products. Ms. Verses earned her B.S. in business administration from the University of Connecticut.

Michael C. Wu has served as General Counsel and Secretary of Rosetta Stone since November 2006. From August 2001 to October 2006, Mr. Wu served in several executive positions with Teleglobe International Holdings Ltd., a publicly traded international telecommunications company, and its predecessor company including as Vice President and General Counsel, Executive Director, Legal, and Executive Director, Operations and Corporate Services. Prior to joining Teleglobe, Mr. Wu was a Senior Counsel for Global One Communications LLC, an international telecommunications joint venture between Sprint Corporation, Deutsche Telekom and France Telecom. He also practiced law at Baker Botts LLP and a predecessor firm of Bingham McCutchen LLP. Mr. Wu holds a J.D. from the University of Virginia School of Law and a B.A. from Emory University.

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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 of Directors has adopted. Complete copies of our corporate governance guidelines, committee charters and 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 General Counsel and Secretary, Rosetta Stone Inc., 1919 North Lynn St., 7th Fl., Arlington, VA 22209.

Code of Ethics

We have adopted a code of business conduct and ethics applicable to 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.

Composition of our Board of Directors; Classified Board

Our Board of Directors currently consists of ten members, nine of whom are non-employee members and eight of whom 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. Our Board of Directors is classified as follows:

Tom P.H. Adams, Phillip A. Clough, John E. Lindahl and Stephen M. Swad are designated Class I Directors whose terms will expire at our 2013 annual meeting of stockholders;

Laura L. Witt, Laurence Franklin and Theodore J. Leonsis are designated Class II Directors whose terms will expire at our 2014 annual meeting of stockholders; and

John T. Coleman, Patrick W. Gross and Marguerite W. Kondracke are designated Class III Directors whose terms will expire at our 2012 annual meeting of stockholders.

Our certificate of incorporation also 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 the Chairman of our Board of Directors, Tom P.H. Adams, 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.

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The Company's 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, 2011, the Company's non-management directors met in regularly scheduled executive sessions at which only non-management directors were present. The Chairman of the Board of Directors presided over these executive sessions.

Board Leadership Structure and Role in Risk Oversight

We have separated the positions of Chairman and Chief Executive Officer since our formation and funding by ABS Capital and Norwest Equity Partners. This separation reflected the determination of those stockholders at that time that such a structure was the most appropriate for us at that stage of our development. In February 2011, we announced the appointment of Laurence Franklin as Chairman of the Board of Directors and that Mr. Franklin would lead a new office of the chairman through which he would work, on behalf of the Board of Directors, with Rosetta Stone's senior management to help bring the Board of Directors' collective experience to support the Company and its management team.

In October 2011, we announced that Tom P.H. Adams would be transitioning from President and Chief Executive Officer to Non-Executive Chairman of the Board of Directors, succeeding Mr. Franklin in such position upon appointment of a new president and chief executive officer. The Board of Directors commenced a search to identify a successor to serve as president and chief executive officer of the Company, and created a special Board of Directors search committee for this purpose. After an extensive search, the Board of Directors identified and appointed Stephen M. Swad as President and Chief Executive Officer in February 2012. Additionally, the Board of Directors appointed Patrick W. Gross to the role of Lead Director in February 2012.

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 Board of Directors members. 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 which does not encourage unnecessary and excessive risk-taking. The Compensation Committee also ensures that our compensation practices are in line with '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.

Table of Contents**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 fifteen meetings during the year ended December 31, 2011. Each director attended at least 75% of the aggregate of the meetings of our Board of Directors and of the committees on which he or she served during the period for which he or she was a director or committee member, respectively. The following table sets forth the standing committees of our Board of Directors, the number of meetings held by each committee in 2011 and the membership of each committee during the year ended December 31, 2011.

Name	Audit	Compensation	Corporate Governance and Nominating
Tom P.H. Adams			
Phillip A. Clough			
John T. Coleman	Member	Member	Member
Laurence Franklin(1)	Chair		
Patrick W. Gross(2)	Member		Member
Marguerite W. Kondracke(3)		Member	
Theodore J. Leonsis		Member	Member
John E. Lindahl		Member	
Stephen M. Swad			
Laura L. Witt		Chair	Chair
Total Number of Meetings Held in 2011	9	7	4

- (1) In February 2011, Mr. Franklin was appointed Chairman of the Board of Directors. In February 2012, the Board of Directors accepted Mr. Franklin's resignation as Chairman of the Board of Directors and appointed him Chairman of the Audit Committee.
- (2) In February 2012, Mr. Gross was appointed Lead Director and the Board of Directors accepted Mr. Gross' resignation as Chairman of the Audit Committee. Mr. Gross continues to serve as a member of the Audit Committee.
- (3) In December 2011, Ms. Kondracke was appointed as a director and member of the Compensation Committee.

Directors are encouraged, but not required, to attend our annual meeting of stockholders. Three members of our Board of Directors attended the 2011 Annual Meeting of Stockholders.

Audit Committee

Our Audit Committee consists of John T. Coleman, Laurence Franklin and Patrick W. Gross, each of whom is a non-employee member of our Board of Directors. In February 2012, Mr. Franklin was appointed Chairman of our Audit Committee, succeeding Mr. Gross. 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. Mr. Coleman, Mr. Franklin and Mr. Gross are independent as such term is defined in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

No member of the Audit Committee simultaneously serves on the audit committees of more than three public companies, including that of Rosetta Stone, except for Mr. Gross. The Board of Directors

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has determined, in accordance with NYSE rules, that Mr. Gross' simultaneous service does not impair his ability to effectively serve on Rosetta Stone's Audit Committee.

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 year ended December 31, 2011, our Audit Committee met nine 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, 2011 with management. The Audit Committee has discussed with the independent registered public accounting firm the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1. AU Section 380), as adopted by the Public Company Accounting Oversight Board ("PCAOB") in Rule 3200T. 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 2011 be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

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

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, John T. Coleman, Marguerite W. Kondracke, Theodore J. Leonsis and John E. Lindahl, each of whom is a non-employee member of our Board of Directors. Ms. Witt is the Chairperson of our Compensation Committee. Our

Board of Directors has determined that each member of our Compensation Committee meets the requirements

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for independence under the requirements of the NYSE. The 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, compensations 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; and

administering, reviewing and making recommendations with respect to our equity-based compensation plans.

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.

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, John T. Coleman, Marguerite W. Kondracke, Theodore J. Leonsis and John E. Lindahl, 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 Laura L. Witt, John T. Coleman, Patrick W. Gross and Theodore J. Leonsis, each of whom is a non-employee member of our Board of Directors. Ms. Witt is the Chairperson of this Committee. 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.

The 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.

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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 for the Corporate Governance and Nominating Committee, which is available on our website at www.rosettastone.com.

Policy Governing Director Qualifications and Nominations

Our Company seeks directors who possess, at a minimum, the qualifications and skills described below as set forth in our Policy Governing Director Qualifications and Nominations. Our Company considers diversity in its nomination of directors, and in its 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 Company's stockholders;

the candidate shall have sufficient time and availability to devote to the affairs of our 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 our Company are traded, and any governmental or regulatory body exercising authority over our Company;

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

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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:

whether the candidate has direct experience in our Company's industry or in the markets in which our Company operates;

whether the candidate, if elected, assists in achieving a mix of Board members that represents a diversity of background and experience;

whether the candidate has experience at a strategic or policymaking level in a business, government, non-profit or academic organization of high standing;

whether the candidate is accomplished in his or her respective field, with strong credentials and recognition; and/or

whether the candidate is well regarded in the community.

DIRECTOR COMPENSATION

Summary Non-Employee Director Compensation Table

Our former Chief Executive Officer, Tom P.H. Adams, did not receive any compensation specifically related to his service on our Board of Directors for the fiscal year ended December 31, 2011. The following table summarizes the compensation of each non-employee member of our Board of Directors for the fiscal year ended December 31, 2011:

Name	Fees Earned	Option Awards (4)	Restricted Stock Unit Awards (4)	Total
Phillip A. Clough(1)	\$ 50,000	\$ 28,139(5)	\$ 29,997(6)	\$ 108,136
John T. Coleman	\$ 73,750	\$ 28,139(5)	\$ 29,997(6)	\$ 131,886
Laurence Franklin(2)	\$ 144,750	\$ 56,317(7)	\$ 83,167(8)	\$ 284,234
Patrick W. Gross	\$ 85,000	\$ 28,139(5)	\$ 29,997(6)	\$ 143,136
Marguerite W. Kondracke	\$ 3,610	\$ 15,091(9)	\$ 14,998(10)	\$ 33,699
Theodore J. Leonsis	\$ 55,000	\$ 28,139(5)	\$ 29,997(6)	\$ 113,136
John E. Lindahl(3)	\$ 48,750	\$ 28,139(5)	\$ 29,997(6)	\$ 106,886
Laura L. Witt(1)	\$ 87,500	\$ 28,139(5)	\$ 29,997(6)	\$ 145,636

(1) Cash payments are made directly to ABS Capital Partners, LLC.

(2) Cash payments are made directly to LF Enterprises LLC.

(3) Cash payments are made directly to Norwest Equity Partners, VIII.

(4) Represents the aggregate grant date fair value for restricted stock unit, or "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 10 to the consolidated financial statements in the Form 10-K for the fiscal year ended December 31, 2011 filed on March 14, 2012.

(5)

Represents options to acquire 3,787 shares of common stock granted on May 26, 2011 at an exercise price of \$13.66 per share, which was the closing price per share of our common stock on the NYSE on the grant date. These options vest 25% quarterly from the date of grant.

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- (6) Represents 2,196 RSUs granted on May 26, 2011. 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.
- (7) Represents options to acquire 5,891 shares of common stock granted on May 26, 2011 at an exercise price of \$13.66 per share, which was the closing price per share of our common stock on the NYSE on the grant date and options to acquire 2,266 shares of common stock granted on October 17, 2011 at an exercise price of \$9.51 per share, which was the closing price per share of our common stock on the NYSE on the grant date. These options vest 25% quarterly from the date of grant.
- (8) Represents 4,295 RSUs granted on May 26, 2011 and 2,576 RSUs granted on October 17, 2011. The RSUs were fully vested upon grant and will be paid out in shares of our common stock when Mr. Franklin terminates his service on our Board of Directors.
- (9) Represents options to acquire 3,759 shares of common stock granted on December 1, 2011 at an exercise price of \$6.88 per share, which was the closing price per share of our common stock on the NYSE on the grant date. These options vest 25% quarterly from the date of grant.
- (10) Represents 2,180 RSUs granted on December 1, 2011. The RSUs were fully vested upon grant and will be paid out in shares of our common stock when Ms. Kondracke terminates her service on our Board of Directors.

Non-Employee Director Compensation Policy

In April 2009, our Board of Directors adopted a compensation policy applicable to all of our non-employee directors effective upon completion of our initial public offering. The Corporate Governance and Nominating Committee monitors the compensation policy in relation to the market and our peer data. In the fourth quarter of 2011, Exequity, Inc. ("Exequity") reviewed the Board of Directors' compensation policy utilizing market data. To date, our Corporate Governance and Nominating Committee has not taken any action with respect to the non-employee director compensation in response to that review, but has deferred the topic for future consideration. The current non-employee director compensation policy provides that each non-employee director will receive the following compensation for Board of Directors 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 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, above eight in a year, attended in person or by telephone lasting more than one hour;

\$1,250 for each meeting of a committee, above ten in a year, attended in person or by telephone lasting more than one hour; and

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an annual grant of equity with a fair market value as of the date of grant of \$60,000 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 will be 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.

In November 2010, the Board of Directors appointed Laurence Franklin as Lead Director and adopted a policy to pay the lead director an additional retainer in the amount of \$25,000 per quarter. In February 2011, the lead director role was eliminated in connection with the appointment of Mr. Franklin as Chairman of the Board of Directors. The Board of Directors approved the following additional compensation for the Non-Executive Chairman position (prorated during the first quarter of 2011) effective March 1, 2011 through at least September 30, 2011: (i) \$40,000 cash retainer per quarter with an option to receive this compensation in combination of cash and RSUs; and (ii) quarterly grants of \$12,500 in RSUs and \$12,500 in stock options. This additional compensation was intended to compensate Mr. Franklin for the additional role and responsibilities he assumed in working with our executive management team and was reviewed and approved by the Corporate Governance and Nominating Committee and Board of Directors.

In November 2011, the Board of Directors approved the recommendation of the Corporate Governance and Nominating Committee to reduce the additional compensation for the Chairman of the Board of Directors to a \$25,000 annual retainer paid in either cash or RSUs at the election of the Chairman, to reflect the diminished role of Mr. Franklin in working with our management after that date. The additional retainer was prorated for the fourth quarter of 2011 with respect to Mr. Franklin's compensation in his continuing role as Chairman.

In February 2012, the Board of Directors 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 RSUs at the election of the Lead Director. This additional Lead Director compensation was recommended by the Corporate Governance and Nominating Committee and approved by the Board of Directors.

In February 2012, the Board of Directors appointed Tom P.H. Adams to serve as Non-Executive Chairman on the Board of Directors. In such role, Mr. Adams shall be entitled to receive our standard non-employee director compensation described above, as well as an additional \$15,000 annual cash retainer for service as Non-Executive Chairman (which amounts will be prorated for 2012). This additional compensation for Non-Executive Chairman service was recommended by the Corporate Governance and Nominating Committee and approved by the Board of Directors.

Directors are encouraged to accumulate stock ownership, including ownership of the RSUs, equal in value to three times the annual retainer within three years of their appointment to the Board of Directors.

Table of Contents**Outstanding Option and RSU Awards for Directors at December 31, 2011**

The following table provides information on the outstanding stock options and RSUs held by our non-employee directors as of December 31, 2011.

Director Name	Aggregate Number of Shares Subject to Outstanding Options (#)	Aggregate Number of Shares Subject to Outstanding RSUs (#)
Phillip A. Clough	9,753	5,567
John T. Coleman	35,753	5,567
Laurence Franklin	40,123	10,242
Patrick W. Gross	42,253	5,567
Marguerite W. Kondracke	3,759	2,180
Theodore J. Leonsis	8,025	4,617
John E. Lindahl	9,753	5,567
Laura L. Witt	9,753	5,567

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 of Directors, in care of our General Counsel and Secretary, Mr. Michael C. Wu, 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 of Directors, as appropriate. Communications may also be referred to other departments within our Company. We generally will not forward to our Board of Directors any 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 2013 Annual Meeting of Stockholders

Any stockholder who intends to present a proposal for inclusion in our 2013 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 12, 2012, 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 2013 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 23, 2013 and February 22, 2013, which is 120 to 90 days prior to the one year anniversary of the upcoming 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.

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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 of Directors 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;

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

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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, 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;

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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;

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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 based 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, 2012 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.

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We calculated the percentage of shares outstanding based on 20,953,605 shares of common stock outstanding on March 31, 2012. 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, 2012, and (2) shares issuable upon settlement of RSUs that are vested, or will become vested within 60 days of March 31, 2012. 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:		
Tom P.H. Adams(1)	1,018,909	4.86%
Stephen M. Swad(2)	309,817	1.48%
Michael S. Fulkerson(3)	166,929	*
Judy K. Verses(4)	23,953	*
Helena Wong(5)	0	*
Michael C. Wu(6)	104,184	*
Non-Employee Directors:		
Phillip A. Clough(7)	5,114,938	24.41%
John T. Coleman(8)	41,520	*
Laurence Franklin(9)	49,232	*
Patrick W. Gross(10)	53,242	*
Marguerite W. Kondracke(11)	3,120	*
Theodore J. Leonsis(12)	32,642	*
John E. Lindahl(13)	3,349,322	15.98%
Laura L. Witt(14)	5,114,938	24.41%
All current directors, nominees and executive officers as a group (14 people)(15)	10,293,472	49.13%
Other 5% Stockholders:		
ABS Capital Partners IV Trust(16)	5,099,618	24.34%
Norwest Equity Partners VIII, LP(17)	3,334,002	15.91%
Allianz Global Investors Capital, LLC(18)	1,415,375	6.75%
Artisan Investment Corporation(19)	1,644,100	7.85%

*
Indicates ownership of 1% or less.

- (1) Includes 370,499 shares of our common stock subject to options which are exercisable within 60 days of March 31, 2012. Options to purchase shares will continue to vest as long as Mr. Adams remains a member of our Board of Directors. Includes 1,780 shares owned by Mr. Adams' spouse as to which Mr. Adams disclaims beneficial ownership.
- (2) Includes 37,500 shares of our common stock subject to options which are exercisable within 60 days of March 31, 2012. Also includes 249,727 shares of restricted stock that will not be vested within 60 days of March 31, 2012.
- (3) Includes 120,411 shares of our common stock subject to options which are exercisable within 60 days of March 31, 2012. Also includes 26,118 shares of restricted stock that will not be vested within 60 days of March 31, 2012.
- (4) Includes 23,953 shares of restricted stock that will not be vested within 60 days of March 31, 2012.

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- (5) Ms. Wong's employment with the Company terminated on October 17, 2011.
- (6) Includes 54,174 shares of our common stock subject to options which are exercisable within 60 days of March 31, 2012. Also includes 19,036 shares of restricted stock that will not be vested within 60 days of March 31, 2012.
- (7) Includes 9,753 shares of our common stock subject to options which are exercisable within 60 days of March 31, 2012, 5,567 shares of common stock underlying vested RSUs that will be issued to Mr. Clough upon the termination of his service on the Board of Directors and an aggregate of 5,099,618 shares held by the ABS Capital Partners IV Trust (the "Trust"). Mr. Clough is a managing director of the trustee of the Trust. Mr. Clough disclaims beneficial ownership of all of these shares. See footnote 16.
- (8) Includes 35,753 shares of our common stock subject to options which are exercisable within 60 days of March 31, 2012 and 5,567 shares of common stock underlying vested RSUs that will be issued to Mr. Coleman upon the termination of his service on the Board of Directors. Includes 200 shares owned by Mr. Coleman's spouse as to which Mr. Coleman disclaims beneficial ownership.
- (9) Includes 38,990 shares of our common stock subject to options which are exercisable within 60 days of March 31, 2012 and 10,242 shares of common stock underlying vested RSUs that will be issued to Mr. Franklin upon the termination of his service on the Board of Directors.
- (10) Includes 42,253 shares of our common stock subject to options which are exercisable within 60 days of March 31, 2012 and 10,989 shares of common stock underlying vested RSUs that will be issued to Mr. Gross upon the termination of his service on the Board of Directors.
- (11) Includes 940 shares of our common stock subject to options which are exercisable within 60 days of March 31, 2012 and 2,180 shares of common stock underlying vested RSUs that will be issued to Ms. Kondracke upon the termination of her service on the Board of Directors.
- (12) Includes 8,025 shares of our common stock subject to options which are exercisable within 60 days of March 31, 2012 and 4,617 shares of common stock underlying vested RSUs that will be issued to Mr. Leonsis upon the termination of his service on the Board of Directors.
- (13) Includes 9,753 shares of our common stock subject to options which are exercisable within 60 days of March 31, 2012, 5,567 shares of common stock underlying vested RSUs that will be issued to Mr. Lindahl upon the termination of his service on the Board of Directors and 3,334,002 shares held by Norwest Equity Partners VIII, LP, or Norwest. Mr. Lindahl disclaims beneficial ownership of all of these shares. See footnote 17.
- (14) Includes 9,753 shares of our common stock subject to options which are exercisable within 60 days of March 31, 2012, 5,567 RSUs and an aggregate of 5,099,618 shares held by the Trust. Ms. Witt is a managing director of the trustee of the Trust. Ms. Witt disclaims beneficial ownership of the all of these shares. See footnote 16.
- (15) Includes shares described in footnotes 1 through 4 and 5 through 14 above, but excludes duplicative shares that are included in the ownership of both Ms. Witt and Mr. Clough. In addition, this number also includes 10,249 shares of restricted stock for beneficially owned by Pragnesh N. Shah that will not be vested within 60 days of March 31, 2012.
- (16) The Trust has voting and dispositive power over these shares, which is shared by each of Ms. Witt and Mr. Clough as managing directors of the trustee of the Trust. Ms. Witt and Mr. Clough, who both serve on our Board of Directors, disclaim beneficial ownership of these shares. The address of this entity is 400 East Pratt Street, Suite 910, Baltimore, MD 21202.
- (17)

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Norwest Equity Partners VIII, LP, or Norwest, is a limited partnership whose sole general partner is Itasca Partners VIII, LLC, or Itasca, and whose managing member is Norwest Venture Capital

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Management Inc., which is a wholly owned subsidiary of Wells Fargo & Co. All voting and dispositive power over these shares is held by Norwest acting by and through Itasca and its managing member. Norwest Venture Capital Management Inc. and Wells Fargo & Co. disclaim beneficial ownership of these shares. The address for Norwest, Itasca and Norwest Venture Capital Management Inc. is 80 South 8th Street, Suite 3600, Minneapolis, MN 55402.

(18) Ownership information is based on the Schedule 13G filed with the SEC on February 13, 2012 by Allianz Global Investors Capital, LLC, the address of which is NFJ Investment Group, 2100 Ross Avenue, Suite 700, Dallas, TX 75201.

(19) Ownership information is based on the Schedule 13G filed with the SEC on February 6, 2012 by Artisan Partners Holdings LP, Artisan Partners Limited Partnership, Artisan Investment Corporation, Artisan Investments GP LLC, ZFIC, Inc., Andrew A. Ziegler, Carlene M. Ziegler and Artisan Partners Funds, Inc., the address of such persons is 875 East Wisconsin Avenue, Ste 800, Milwaukee, WI 53202. These reporting persons have shared voting and dispositive power over these shares.

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 year ended December 31, 2011 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 with the exception of one Form 4 that was filed on January 11, 2012 by Mr. Swad with respect to the automatic sale by his broker of 10,744 shares of common stock on November 9, 2011 to satisfy tax obligations triggered by the vesting of a restricted stock grant.

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, 2011.

Laura L. Witt (Chair)
John T. Coleman
Marguerite W. Kondracke
Theodore J. Leonsis
John E. Lindahl

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.

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COMPENSATION DISCUSSION AND ANALYSIS

Introduction

This section explains our executive compensation program as it relates to the "named executive officers" listed below whose 2011 compensation information is presented in the tables following this discussion in accordance with SEC rules.

Tom P.H. Adams	Former President and Chief Executive Officer(1)
Stephen M. Swad	Chief Executive Officer and Chief Financial Officer(2)
Michael C. Wu	General Counsel and Secretary
Michael S. Fulkerson	Chief Technology Officer
Helena Wong	Former President, International(3)
Judy K. Verses	President, Global Institutions(4)

(1) Mr. Adams resigned as our Chief Executive Officer on February 22, 2012.

(2)