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Total included in cost of revenue

101

108

175

Included in operating expenses:

Sales and marketing

1,327

1,975

1,840

Research & development

841

958

1,460

General and administrative

4,926

3,721

5,766

Total included in operating expenses

7,094

6,654

9,066

Total

$
7,195

$
6,762

$
9,241

11. STOCKHOLDERS' EQUITY
At December 31, 2015, the Company's Board of Directors had the authority to issue 200,000,000 shares of stock, of which 190,000,000 were designated as Common Stock, with a par value of $0.00005 per share, and 10,000,000 were designated as Preferred Stock, with a par value of $0.001 per share. At December 31, 2015 and 2014, the Company had shares of Common Stock issued of 23,149,634 and 22,935,620, respectively, and shares of Common Stock outstanding of 22,149,634 and 21,935,620, respectively.

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

On August 22, 2013, the Company’s Board of Directors approved a share repurchase program under which the Company is authorized to repurchase up to $25.0 million of its outstanding common stock from time to time in the open market or in privately negotiated transactions depending on market conditions, other corporate considerations, and applicable legal requirements. The Company expects to fund the repurchases through existing cash balances and cash generated from operations. For the year ended December 31, 2013, the Company paid $11.4 million to repurchase 1,000,000 shares at a weighted average price of $11.44 per share as part of this program. No shares were repurchased during the year ended December 31, 2015. Shares repurchased under the program were recorded as treasury stock on the Company’s consolidated balance sheet. The shares repurchased under this program during the year ended December 31, 2013 were not the result of an accelerated share repurchase agreement. Management has not made a decision on whether shares purchased under this program will be retired or reissued.

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

12. EMPLOYEE BENEFIT PLAN

The Company maintains a defined contribution 401(k) Plan (the "Plan"). The Company matches employee contributions to the Plan up to 4% of their compensation. The Company recorded Company contribution matching expenses for the Plan totaling $2.0 million, $2.2 million, and $1.9 million for the years ended December 31, 2015, 2014 and 2013, respectively.

13. RESTRUCTURING AND OTHER EMPLOYEE SEVERANCE

2015 Restructuring Actions

In the first quarter of 2015, the Company announced and initiated actions to reduce headcount and other costs in order to support its strategic shift in business focus.

Restructuring charges included in the Company’s consolidated statement of operations related to the 2015 Restructuring Plan include the following:

- Employee severance and related benefits costs incurred in connection with headcount reductions involving employees primarily in the U.S. and the U.K.;
- Contract termination costs; and
- Other related costs.

ROSETTA STONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
13. RESTRUCTURING AND OTHER EMPLOYEE SEVERANCE (Continued)

The following table summarizes activity with respect to the restructuring charges for the 2015 Restructuring Plan during the year ended December 31, 2015 (in thousands):

	Balance at January 1, 2015	Cost Incurred	Cash Payments	Other Adjustments (1)	Balance at December 31, 2015
Severance costs	$—	$7,240	$(5,940)	$(1,048)	$252
Contract termination costs	—	1,134	(1,134)	—	—
Other costs	—	417	(417)	—	—
Total	$—	$8,791	$(7,491)	$(1,048)	$252

(1) Other Adjustments includes non-cash period changes in the liability balance, which may include non-cash stock compensation expense and foreign currency translation adjustments.

As of December 31, 2015, the entire restructuring liability of $0.3 million was classified as a current liability within accrued compensation and other current liabilities on the consolidated balance sheets.

The following table presents restructuring costs included in the related line items of our Statement of Operations (in thousands):

	Years Ended December 31,	
	2015	2014
Cost of revenue	$113	$—
Sales and marketing	4,492	—
Research and development	602	—
General and administrative	3,584	—
Total	$8,791	$—

These restructuring expenses are not allocated to any reportable segment under our definition of segment contribution as defined in Note 17 "Segment Information."

The Company does not expect to incur any additional restructuring costs in connection with the 2015 Restructuring Plan.

At each reporting date, the Company will evaluate its accrued restructuring costs to ensure the liabilities reported are still appropriate. Any changes to the estimated costs of executing approved restructuring plans will be reflected in the Company’s consolidated statements of operations.

2014 Employee Severance Actions

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

Under the requirements of French Labour Law, there is an expectation on the part of both the employer and employee that if an employee is terminated, the employer is required to pay a minimum amount of severance. Accordingly, the Company concluded that the termination benefits for certain employees as the result of the reduction in force in France were payable based upon an ongoing benefit arrangement. A severance liability became probable and estimable when the Company received approval from the French Labour Administration and when the specific employees impacted were determined. These criteria were met in the third quarter of 2014 and the Company recorded an accrual and related expense of $1.0 million. Severance payments totaling $0.5 million related to this reduction in force were paid during the fourth quarter of 2014, $0.4 million was paid in 2015, and the remaining amount is expected to be paid in 2016.

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ROSETTA STONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
13. RESTRUCTURING AND OTHER EMPLOYEE SEVERANCE (Continued)

During 2014, the Company initiated other actions across its business to reduce headcount in order to align resources to support business needs. The Company recorded $3.2 million in severance costs associated with these actions. As a result, $2.3 million was paid during 2014, $0.8 million was paid during 2015, and the remaining $0.1 million liability will be paid in 2016.

14. LEASE ABANDONMENT AND TERMINATION

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

In March 2013 Rosetta Stone Japan Inc. partially abandoned its Japan office as a result of excess office space due to reduction in staff along with overall local operations business performance. The Company estimated the liability under the operating lease agreement reduced for anticipated sublease income in accordance with ASC 420 as the Company had no future economic benefit from the abandoned space and the lease did not terminate until February 28, 2015. As of March 31, 2014, the Company ceased to use the remaining office space in this facility and simultaneously negotiated and paid a lease termination fee of $0.4 million. The Company has been released from all obligations under the lease arrangement as of December 31, 2014.

A summary of the Company’s lease abandonment activity for the years ended December 31, 2015 and 2014 is as follows (in thousands):

	As of December 31,	
	2015	2014
Accrued lease abandonment costs, beginning of period	$1,679	$413
Costs incurred and charged to expense	55	3,812
Principal reductions	(452)	(2,546)
Accrued lease abandonment costs, end of period	$1,282	$1,679
Accrued lease abandonment costs liability:		
Short-term	$455	$496
Long-term	827	1,183
Total	$1,282	$1,679

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ROSETTA STONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. INCOME TAXES
The following table summarizes the significant components of the Company's deferred tax assets and liabilities as of December 31, 2015 and 2014 (in thousands):

	As of December 31, 2015	2014
Deferred tax assets:		
Inventory	$564	$535
Net operating and capital loss carryforwards	48,334	27,637
Deferred revenue	13,908	12,447
Accrued liabilities	9,780	12,890
Stock-based compensation	4,656	5,760
Amortization and depreciation	31	—
Bad debt reserve	398	501
Foreign and other tax credits	1,517	1,283
Gross deferred tax assets	79,188	61,053
Valuation allowance	(70,464)	(53,809)
Net deferred tax assets	8,724	7,244
Deferred tax liabilities:		
Goodwill and indefinite lived intangibles	(4,782)	(3,465)
Deferred sales commissions	(7,337)	(5,714)
Prepaid expenses	(625)	(555)
Amortization and depreciation	—	(1,337)
Foreign currency translation	(973)	(391)
Other	(5)	(5)
Gross deferred tax liabilities	(13,722)	(11,467)
Net deferred tax liabilities	$(4,998)	$(4,223)

For the year ended December 31, 2015, the Company recorded income tax expense of $1.2 million primarily related to current year operations in Germany and the UK and the tax impact of the amortization of indefinite lived intangibles, and the inability to recognize tax benefits associated with current year losses of operations in all other foreign jurisdictions and in the U.S. due to the valuation allowance recorded against the deferred tax asset balances of these entities. These tax expenses were partially offset by tax benefits related to current year losses (excluding the Consumer Fit Brains goodwill impairment) in Canada. The goodwill that was impaired is not deductible for tax. Additionally, tax benefits were recorded related to the reversal of accrued withholding taxes as a result of an intercompany transaction.

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

During the third quarter of 2012, the Company established a full valuation allowance to reduce the deferred tax assets of its operations in Brazil, Japan, and the U.S., resulting in a non-cash charge of $0.4 million, $2.1 million, and $23.1 million,

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ROSETTA STONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
15. INCOME TAXES (Continued)

respectively. Additionally, no tax benefits were provided on 2012 losses incurred in foreign jurisdictions where the Company has determined a valuation allowance is required. As of December 31, 2015, a full valuation allowance was provided for domestic and certain foreign deferred tax assets in those jurisdictions where the Company has determined the deferred tax assets will more likely than not be realized.

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

As of December 31, 2015, the Company had federal, state and foreign tax NOL carryforward amounts and expiration periods as follows (in thousands):

Year of Expiration	U.S. Federal	State	Brazil	France	Japan	Other Foreign	Total
2016-2020	$—	$498	$—	$—	$—	$—	$498
2021-2025	—	1,180	—	—	11,872	607	13,659
2026-2030	—	6,288	—	—	—	152	6,440
2031-2035	39,437	34,008	—	—	—	251	73,696
2036-2040	48,904	38,532	—	—	—	932	88,368
Indefinite	—	—	5,511	13,158	—	—	18,669
Totals	$88,341	$80,506	$5,511	$13,158	$11,872	$1,942	$201,330

As of December 31, 2015, the Company had federal and state capital loss carryforward amounts and expiration periods as follows (in thousands):

Year of Tax Credit Expiration	U.S. Federal	State
2016-2020	$—	$—
2021-2025	6,837	6,055
2026-2030	—	—
2031-2035	—	360
2036-2040	—	—
Indefinite	—	—
Totals	$6,837	$6,415

As of December 31, 2015, the Company had federal tax credit carryforward amounts and expiration periods as follows (in thousands):

Year of Tax Credit Expiration	U.S. Federal
2016-2020	$—
2021-2025	1,516
2026-2030	1
2031-2035	—
2036-2040	—
Indefinite	—
Totals	$1,517

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ROSETTA STONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
15. INCOME TAXES (Continued)

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

	Years Ended December 31,		
	2015	2014	2013
United States	$(41,458)	$(60,434)	$(14,360)
Foreign	(4,179)	(19,761)	(3,658)
Loss before income taxes	$(45,637)	$(80,195)	$(18,018)
The provision for taxes on income consists of the following (in thousands):			
Federal	$(157)	$29	$155
State	96	23	123
Foreign	444	1,258	1,709
Total current	$383	$1,310	$1,987
Deferred:			
Federal	$1,148	$(5,425)	$(3,972)
State	169	(797)	(112)
Foreign	(541)	(1,577)	213
Total deferred	776	(7,799)	(3,871)
Provision (benefit) for income taxes	$1,159	$(6,489)	$(1,884)

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

	Years Ended December 31,		
	2015	2014	2013
Income tax benefit at statutory federal rate	$(15,973)	$(28,068)	$(6,306)
State income tax expense, net of federal income tax effect	231	(782)	7
Acquired intangibles	—	—	(859)
Nondeductible goodwill impairment	1,961	—	—
Other nondeductible expenses	88	482	1,105
Tax rate differential on foreign operations	(1,019)	276	(264)
Increase in valuation allowance	15,713	21,772	4,263
Tax audit settlements	(96)	—	—
Change in prior year estimates	225	(69)	(17)
Other tax credits	29	(102)	—
Other	—	2	187
Income tax expense (benefit)	$1,159	$(6,489)	$(1,884)

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

The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense (benefit). As of December 31, 2015 and 2014, the Company had zero and $26,000 accrued for interest and penalties, respectively, in "Other Long Term Liabilities". During the years ended December 31, 2015 and 2014, the Company accrued zero and $10,000 in interest expense, respectively.

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ROSETTA STONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
15. INCOME TAXES (Continued)

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

	Years Ended December 31,	
	2015	2014
Balance at January 1,	$446	$143
Increases for tax positions taken during prior years	—	322
Settlements with tax authorities	(446)	—
Reductions for tax positions taken during prior years	—	(2)
Lapse of statute of limitations	—	(17)
Balance at December 31,	$—	$446

The Company is subject to taxation in the U.S. and various states and foreign jurisdictions. The Company's tax years 2010 and forward are subject to examination by the tax authorities. The Company was under audit by the Internal Revenue Service for tax years 2009 to 2012. During 2015, the U.S. audit for tax years 2009 through 2012 concluded and resulted in the Company recording a $0.1 million tax benefit. The previously recorded $0.4 million of unrecognized tax benefits were settled as a result of the concluded IRS audit. During the year ended December 31, 2015, the Company recorded a net decrease of $0.4 million of additional unrecognized tax benefits related to tax credits claimed in a prior period. As of December 31, 2015 and 2014, the Company had zero and $0.4 million of unrecognized tax benefits, respectively. Any liabilities for unrecognized tax benefits were netted against "Income Tax Receivable." The Company does not expect that the amounts of unrecognized tax benefits will change significantly within the next twelve months.

The Company had an accumulated consolidated deficit related to its foreign subsidiaries of $34.4 million at December 31, 2015 and aggregate 2015 losses before income tax related to its foreign subsidiaries of approximately $4.2 million. The Company has certain foreign subsidiaries with aggregate undistributed earnings of $11.6 million at December 31, 2015. The foreign subsidiaries with aggregate undistributed earnings are considered indefinitely reinvested as of December 31, 2015. As a result of the multitude of scenarios in which the earnings could be repatriated, if desired, and the complexity of associated calculations, it is not practicable to estimate the amount of additional tax that might be payable on the undistributed foreign earnings.

The Company made income tax payments of $1.4 million, $1.7 million, and $3.3 million, in 2015, 2014 and 2013, respectively.

16. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases copiers, parking spaces, buildings, a warehouse, and office space under operating lease and site license arrangements, some of which contain renewal options. Building, warehouse and office space leases range from 7 months to 74 months. Certain leases also include lease renewal options.

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ROSETTA STONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
16. COMMITMENTS AND CONTINGENCIES (Continued)

The following table summarizes future minimum operating lease payments as of December 31, 2015 and the years thereafter (in thousands):

	As of December 31, 2015
Periods Ending December 31,	
2016	$5,591
2017	4,367
2018	3,829
2019	1,253
2020	962
Thereafter	590
Total future minimum operating lease payments	$16,592

Total expenses under operating leases were $5.1 million, $5.6 million and $7.1 million during the years ended December 31, 2015, 2014 and 2013, respectively.
The Company accounts for its leases under the provisions of ASC topic 840, Accounting for Leases ("ASC 840"), which require that leases be evaluated and classified as operating leases or capital leases for financial reporting purposes. Certain operating leases contain rent escalation clauses, which are recorded on a straight-line basis over the initial term of the lease with the difference between the rent paid and the straight-line rent recorded as either a deferred rent asset or liability depending on the calculation. Lease incentives received from landlords are recorded as deferred rent liabilities and are amortized on a straight-line basis over the lease term as a reduction to rent expense.
Royalty Agreements
The Company has entered into agreements to license software from vendors for incorporation in the Company's products. Pursuant to some of these agreements, the Company is required to pay minimum royalties or license fees over the term of the agreement regardless of actual license sales. In addition, such agreements typically specify that, in the event the software is incorporated into specified Company products, royalties will be due at a contractual rate based on actual sales volumes. These agreements are subject to various royalty rates typically calculated based on the level of sales for those products. The Company expenses these amounts to cost of sales or research and development expense, as appropriate. Royalty expense was $0.2 million, $31,000, and $0 for the years ended December 31 2015, 2014 and 2013, respectively.
Employment Agreements
The Company has agreements with certain of its executives and key employees which provide guaranteed severance payments upon termination of their employment without cause.
Litigation
In June 2011, Rosetta Stone GmbH, a subsidiary of the Company, was served with a writ filed by Langenscheidt KG (“Langenscheidt”) in the District Court of Cologne, Germany alleging trademark infringement due to Rosetta Stone GmbH’s use of the color yellow on its packaging of its language-learning software and the advertising thereof in Germany. Langenscheidt sought relief in the form of monetary damages and injunctive relief; however there has not been a demand for a specific amount of monetary damages and there has been no specific damage amount awarded to Langenscheidt. In January 2012, the District Court of Cologne ordered an injunction against specific uses of the color yellow made by Rosetta Stone GmbH in packaging, on its website and in television commercials and declared Rosetta Stone GmbH liable for damages, attorneys’ fees and costs to Langenscheidt. In its decision, the District Court of Cologne also ordered the destruction of Rosetta Stone GmbH’s product and packaging which utilized the color yellow and which was deemed to have infringed Langenscheidt’s trademark. The Court of Appeals in Cologne and the German Federal Supreme Court have affirmed the District Court's decision. The Company has filed special

complaints with the German Federal Supreme Court and the German Constitutional Court directed to constitutional issues in the German Federal Supreme Court’s decision.

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ROSETTA STONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
16. COMMITMENTS AND CONTINGENCIES (Continued)

In August 2011, Rosetta Stone GmbH commenced a separate proceeding for the cancellation of Langenscheidt’s German trademark registration of yellow as an abstract color mark. In June 2012, the German Patent and Trademark Office rendered a decision in the cancellation proceeding denying our request to cancel Langenscheidt’s German trademark registration. The German Federal Supreme Court has denied Rosetta Stone GmbH's further appeal but has not yet issued its written decision denying further appeal. A constitutional complaint was filed with the German Federal Supreme Court in May 2015, which is still pending.

In October 2015, the parties engaged in further settlement discussions and executed a settlement agreement pursuant to which Rosetta Stone GmbH will pay a lump sum of $0.4 million in full settlement of all financial claims resulting from the proceedings, including damages and cost reimbursement to Langenscheidt. Both parties have withdrawn the pending motions. As of December 31, 2015, the Company recorded a liability equal to the full settlement amount of $0.4 million, which was paid in January 2016.

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

17. SEGMENT INFORMATION

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

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

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ROSETTA STONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
17. SEGMENT INFORMATION (Continued)

Operating results by segment for the years ended December 31, 2015, 2014, and 2013 were as follows (in thousands):

	Years Ended December 31,		
	2015	2014	2013
Revenue:			
Enterprise & Education	$98,057	$84,700	$60,209
Consumer	119,613	177,153	204,436
Total revenue	$217,670	$261,853	$264,645
Segment contribution:			
Enterprise & Education	$30,431	$22,864	$20,965
Consumer	34,547	35,298	70,884
Total segment contribution	64,978	58,162	91,849
Unallocated expenses, net:			
Unallocated cost of sales	8,291	8,947	4,586
Unallocated sales and marketing	15,282	16,168	16,447
Unallocated research and development	29,939	33,176	33,993
Unallocated general and administrative	48,470	54,576	54,423
Unallocated non-operating expense/(income)	1,824	1,345	(424)
Unallocated impairment	6,754	20,333	—
Unallocated lease abandonment	55	3,812	842
Total unallocated expenses, net	110,615	138,357	109,867
Income (loss) before income taxes	$(45,637)	$(80,195)	$(18,018)

Geographic Information

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

The information below summarizes revenue from customers by geographic area as of December 31, 2015, 2014 and 2013, respectively (in thousands):

	Years Ended December 31,		
	2015	2014	2013
United States	$177,966	$212,070	$223,404
International	39,704	49,783	41,241
Total Revenue	$217,670	$261,853	$264,645

The information below summarizes long-lived assets by geographic area for the years ended December 31, 2015 and 2014, respectively (in thousands):

	As of December 31,	
	2015	2014
United States	$18,704	$20,451
International	3,828	4,826
Total	$22,532	$25,277

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ROSETTA STONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
17. SEGMENT INFORMATION (Continued)

Revenue by Product and Service
The Company earns revenue from the sale of language-learning, literacy and brain fitness products and services. The information below summarizes revenue by type for the years ended December 31, 2015, 2014 and 2013, respectively (in thousands):

	As of December 31,		
	2015	2014	2013
Language learning	$191,568	$249,340	$263,426
Literacy	21,928	9,912	1,219
Brain Fitness	4,174	2,601	—
Total	$217,670	$261,853	$264,645

18. RELATED PARTIES
As of December 31, 2015 and 2014, the Company had outstanding receivables from employees in the amount of $18,000 and $67,000, respectively.
19. VALUATION AND QUALIFYING ACCOUNTS
The following table includes the Company's valuation and qualifying accounts for the respective periods (in thousands):

	Years Ended December 31,		
	2015	2014	2013
Allowance for doubtful accounts:			
Beginning balance	$1,434	$1,000	$1,297
Charged to costs and expenses	1,657	2,405	1,420
Deductions—accounts written off	(1,895)	(1,971)	(1,717)
Ending balance	$1,196	$1,434	$1,000
Promotional rebate and coop advertising reserves:			
Beginning balance	$23,437	$13,025	$9,127
Charged to costs and expenses	40,563	39,249	22,881
Deductions - reserves utilized	(47,090)	(28,837)	(18,983)
Ending balance	$16,910	$23,437	$13,025
Sales return reserve:			
Beginning balance	$3,570	$4,834	$5,883
Charged against revenue	11,474	12,011	14,258
Deductions—reserves utilized	(11,316)	(13,275)	(15,307)
Ending balance	$3,728	$3,570	4,834
Deferred income tax asset valuation allowance:			
Beginning balance	$53,809	33,866	29,671
Charged to costs and expenses	16,655	19,943	9,566
Deductions	—	—	(5,371)
Ending balance	$70,464	$53,809	$33,866

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ROSETTA STONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. SUPPLEMENTAL QUARTERLY FINANCIAL INFORMATION (Unaudited)
Summarized quarterly supplemental consolidated financial information for 2015 and 2014 are as follows (in thousands, except per share amounts):

	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
2015				
Revenue	$58,442	$51,411	$49,802	$58,015
Gross profit	$47,140	$42,391	$41,136	$48,476
Net loss	$(19,884)	$(8,175)	$(7,301)	$(11,436)
Basic loss per share	$(0.95)	$(0.38)	$(0.34)	$(0.52)
Shares used in basic per share computation	21,018	21,689	21,771	21,801
Diluted loss per share	$(0.95)	$(0.38)	$(0.34)	$(0.52)
Shares used in diluted per share computation	21,018	21,689	21,771	21,801
2014				
Revenue	$60,765	$57,315	$64,515	$79,258
Gross profit	$48,594	$45,355	$51,528	$63,322
Net loss	$(20,241)	$(15,750)	$(16,178)	$(21,537)
Basic loss per share	$(0.96)	$(0.74)	$(0.76)	$(1.01)
Shares used in basic per share computation	21,125	21,252	21,305	21,327
Diluted loss per share	$(0.96)	$(0.74)	$(0.76)	$(1.01)
Shares used in diluted per share computation	21,125	21,252	21,305	21,327

21. SUBSEQUENT EVENTS
On March 14, 2016, the Company announced that it intends to exit the direct sales presence in almost all of its non-U.S. and non-northern European geographies related to the distribution of Enterprise & Education language offerings. Where appropriate, the Company will seek to operate through partners in those geographies being exited. The Company will also look to initiate processes to close its software development operations in France and China. In total, if the Company's intentions are realized, these actions will reduce headcount by approximately 17% of our full-time workforce and is expected to result in annual expense reductions of approximately $19.0 million. If fully realized, these actions will result in an estimated restructuring charge ranging between $5.0 million and $6.0 million, with approximately 50% accrued in the first quarter 2016, largely reflecting cash separation payments. These actions are additive to the plans discussed in Note 13 and further support a strategic shift in business focus to help address periods of losses.
On March 14, 2016, the Company executed the Fifth Amendment to its Loan and Security Agreement with Silicon Valley Bank. See Note 9 for more details.
In March 2016 the Board of Director's concluded the search for a chief executive officer and has appointed A. John Hass III as President, Chief Executive Officer, and Chairman of the Board effective April 1, 2016.

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EXHIBIT INDEX

		Index to exhibits
2.1		Agreement and Plan of Merger among Rosetta Stone Ltd., Liberty Merger Sub Inc., LiveMocha, Inc., and Shareholder Representative Services LLC., dated April 1, 2013 (incorporated herein by reference to Exhibit 2.1 filed with Rosetta Stone's Current Report on Form 8-K filed on April 2, 2013).
3.1		Second Amended and Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.2 to Amendment No. 3 to the Company’s Registration Statement on Form S-1 (No. 333-153632) filed on February 23, 2009).
3.2		Second Amended and Restated Bylaws (incorporated herein by reference to Exhibit 3.4 to Amendment No. 3 to the Company’s Registration Statement on Form S-1 (No. 333-153632) filed on February 23, 2009).
4.1		Specimen certificate evidencing shares of common stock (incorporated herein by reference to Exhibit 4.1 to Amendment No. 3 to the Company’s Registration Statement on Form S-1 (No. 333-153632) filed on February 23, 2009).
4.2		Registration Rights Agreement dated as of January 4, 2006 among Rosetta Stone Inc. and the Investor Shareholders and other Shareholders listed on Exhibit A thereto (incorporated herein by reference to Exhibit 4.3 to Amendment No. 1 to the Company’s Registration Statement on Form S-1 (No. 333-153632) filed on November 5, 2008).
10.1	+	2006 Incentive Option Plan (incorporated herein by reference to Exhibit 10.1 to the Company’s Registration Statement on Form S-1 (No. 333-153632) filed on September 23, 2008).
10.2	+	2009 Omnibus Incentive Plan, as amended and restated effective February 13, 2014 (incorporated herein by reference to Exhibit 99.1 filed with the Company’s Registration Statement on Form S-8 (No. 333-201025) filed on December 17, 2014).
10.3	+	Director Form of Option Award Agreement under the 2006 Plan (incorporated herein by reference to Exhibit 10.3 to the Company’s Registration Statement on Form S-1 (No. 333-153632) filed on September 23, 2008).
10.4	+	Director Form of Option Award Agreement under the 2009 Plan (incorporated herein by reference to Exhibit 10.6 to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014).
10.5	+	Executive Form of Option Award Agreement under the 2006 Plan (incorporated herein by reference to Exhibit 10.4 to the Company’s Registration Statement on Form S-1 (No. 333-153632) filed on September 23, 2008).
10.6	+	Executive Form of Option Award Agreement under the 2009 Plan (incorporated herein by reference to Exhibit 10.5 to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014).
10.7	+	Amended Executive Form of Option Award Agreement under 2009 Plan effective for awards after October 1, 2011 (incorporated herein by reference to Exhibit 10.25 in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2011).
10.8	+ *	Amended Executive Form of Option Award Agreement under 2009 Plan effective for awards after February 1, 2016.
10.9	+	Form of Restricted Stock Award Agreement under the 2009 Plan (incorporated herein by reference to Exhibit 10.13 to Amendment No. 4 to the Company’s Registration Statement on Form S-1 (No. 333-153632), filed on March 17, 2009).
10.10	+	Amended Executive Form of Restricted Stock Award Agreement under 2009 Plan effective for awards after October 1, 2011 (incorporated herein by reference to Exhibit 10.26 in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2011).
10.11	+ *	Amended Executive Form of Restricted Stock Award Agreement under 2009 Plan effective for awards after February 1, 2016.
10.12	+	Director Form of Restricted Stock Unit Award Agreement under the 2009 Plan (incorporated herein by reference to Exhibit 10.12 in the Company’s Annual Report on Form 10-K for the fiscal year ended

		December 31, 2014).
10.13	+	Director Form of Restricted Stock Unit Award Agreement under the 2009 Plan (for awards beginning June 2015) (incorporated herein by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2015)
10.14	+	2013 Rosetta Stone Inc. Long Term Incentive Program (pursuant to the Rosetta Stone Inc. 2009 Omnibus Incentive Plan) (incorporated herein by reference to Exhibit 10.24 in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014).
10.15	+	Form of Award Agreement under the 2013 Long Term Incentive Program (incorporated herein by reference to Exhibit 10.25 in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014).
10.16	+	2014 Executive Bonus Plan (incorporated herein by reference to Exhibit 10.23 in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014).

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		Index to exhibits
10.17	+	Policy on Recoupment of Performance Based Compensation (Clawback Policy) (incorporated herein by reference to Exhibit 10.26 in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014).
10.18	+ *	Rosetta Stone Inc. Change in Control Severance Plan.
10.19		Form of Indemnification Agreement entered into with each director and executive officer (incorporated herein by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-1 (No. 333-153632) filed on September 23, 2008).
10.20		Form of Indemnification Agreement to be entered into with each director and executive officer, revised as of August 2015 (incorporated herein by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2015).
10.21	+	Executive Employment Agreement between Rosetta Stone Ltd. and Stephen Swad effective as of November 9, 2010 (incorporated herein by reference to Exhibit 10.1 filed with the Company's Current Report on Form 8-K filed on October 13, 2010).
10.22	+	Amendment to Executive Employment Agreement between Rosetta Stone Ltd. and Stephen Swad effective as of December 22, 2011 (incorporated herein by reference to Exhibit 10.22 in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011).
10.23	+	Second Amendment to Executive Employment Agreement between Rosetta Stone Ltd. and Stephen Swad effective as of February 22, 2012 (incorporated herein by reference to Exhibit 10.23 in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011).
10.24	+	Executive Employment Agreement between Rosetta Stone Ltd. and Judy Verses effective as of October 5, 2011 (incorporated herein by reference to Exhibit 10.18 in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011).
10.25	+	Executive Employment Agreement between Rosetta Stone Ltd. and Thomas Pierno effective as of May 2, 2012 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 1, 2012).
10.26	+	Executive Employment Agreement between Rosetta Stone Ltd. and Christian Na effective as of June 2, 2014 (incorporated herein by reference to Exhibit 10.28 in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014).
10.27	+	Agreement and General Release between Rosetta Stone Ltd. and Christian Na effective as of December 2, 2014 (incorporated herein by reference to Exhibit 10.29 in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014).
10.28	+	Executive Employment Agreement between Rosetta Stone Ltd. and Eric Ludwig effective as of January 1, 2015 (incorporated herein by reference to Exhibit 10.30 in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014).
10.29	+	Director Agreement between Rosetta Stone Inc. and A. John Hass III effective as of November 18, 2014 (incorporated herein by reference to Exhibit 10.31 in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014).
10.30	+	Executive Employment Agreement between Rosetta Stone Ltd. and A. John Hass III effective as of April 1, 2015 (incorporated herein by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2015).
10.31	+	Executive Employment Agreement between the Company and Sonia Cudd, effective as of January 2, 2015 (incorporated herein by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2015).
10.32		Nomination and Support Agreement between John H. Lewis, Osmium Partners, LLC, Osmium Capital, LP, Osmium Capital II, LP, Osmium Spartan, LP, Osmium Diamond, LP, Osmium Special Opportunity Fund, LP, and Rosetta Stone Inc. effective as of November 18, 2014 (incorporated by reference to Exhibit 10.1 filed to the Company's Current Report on Form 8-K filed on November 19, 2014).
10.33		

	Lease Agreement dated as of February 20, 2006, by and between Premier Flex Condos, LLC and Fairfield Language Technologies, Inc., as amended (incorporated herein by reference to Exhibit 10.10 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (No. 333-153632), filed on November 5, 2008).
10.34	Sublease Agreement dated as of October 6, 2008, by and between The Corporate Executive Board Company and Rosetta Stone Ltd. (incorporated herein by reference to Exhibit 10.11 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (No. 333-153632), filed on November 5, 2008).
10.35	First Amendment to Sublease Agreement with The Corporate Executive Board, dated as of November 1, 2012 (incorporated herein by reference to Exhibit 10.23 filed with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012).
10.36	Sub-Sublease Agreement dated as of April 3, 2014, by and between Rosetta Stone Ltd. and The Corporate Executive Board Company (incorporated herein by reference to Exhibit 10.27 in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014).

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		Index to exhibits
10.37	+	Software License Agreement by and between The Regents of the University of Colorado and Fairfield & Sons Ltd. dated as of December 22, 2006 (incorporated herein by reference to Exhibit 10.12 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (No. 333-153632), filed on January 21, 2009).
10.38		Loan and Security Agreement between Rosetta Stone Ltd. and Silicon Valley Bank, executed on October 28, 2014 (incorporated herein by reference to Exhibit 99.3 filed to the Company's Current Report on Form 8-K filed on October 29, 2014).
10.39		First Amendment to Loan and Security Agreement between Rosetta Stone Ltd. and Silicon Valley Bank, effective as of March 31, 2015 (incorporated herein by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2015).
10.40		Second Amendment to Loan and Security Agreement between Rosetta Stone Ltd. and Silicon Valley Bank, effective as of May 1, 2015 (incorporated herein by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2015).
10.41		Third Amendment to Loan and Security Agreement dated as of June 29, 2015 between Silicon Valley Bank and Rosetta Stone Ltd. (incorporated herein by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2015).
10.42	*	Fourth Amendment to Loan and Security Agreement dated as of December 29, 2015 between Silicon Valley Bank and Rosetta Stone Ltd.
21.1		Rosetta Stone Inc. Subsidiaries.
23.1		Consent of Deloitte & Touche LLP, independent registered public accounting firm.
24.1		Power of Attorney.
31.1		Certifications of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2		Certifications of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1		Certifications of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2		Certifications of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101		Interactive Data Files.

* Filed herewith.

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

\+ Identifies management contracts and compensatory plans or arrangements.