

## **Rosetta Stone Inc.**

### **Audit Committee Charter**

*Last Updated and Approved on November 14, 2018*

#### **Purpose**

The primary purposes of the Audit Committee (the “*Audit Committee*”) of the Board of Directors (the “*Board*”) of Rosetta Stone Inc. (the “*Company*”) are to assist the Board in fulfilling its oversight responsibilities to the Company and its stockholders by overseeing (a) the quality and integrity of the Company’s financial statements and financial reporting processes, (b) those involved in the preparation and review of the Company’s financial statements, (c) the Company’s compliance with legal and regulatory requirements, (d) the qualifications and independence of the Independent Auditor (as defined below), and (e) the performance of the Company’s Independent Auditor and any internal audit function. The Audit Committee is also responsible for producing an audit committee report as required by the Securities and Exchange Commission (the “*SEC*”) for inclusion in the Company’s annual proxy statement.

#### **The Audit Committee’s primary duties and assigned roles are to:**

- (1) Serve as an independent and objective body to monitor and assess the Company’s compliance with financial, legal and regulatory requirements, the Company’s financial reporting processes and related systems of disclosure controls and internal quality-control procedures, and the performance, generally, of any internal audit function
- (2) Oversee and approve the annual audit, audit-related, tax and other services provided by the registered independent public accounting firm (the “*Independent Auditor*”) and be directly responsible for the appointment, independence, qualifications, compensation and oversight of the Independent Auditor, who shall report directly to the Audit Committee.
- (3) Provide an open avenue of communication among the Independent Auditor, accountants, financial and senior management, any internal auditing department and the Board, and resolve any disagreements between management and the Independent Auditor regarding financial reporting.

#### **Organization**

The Audit Committee shall be composed of three or more members of the Board. Each member of the Audit Committee must be financially literate, as interpreted by the Board in its business judgment, or must become financially literate within a reasonable period of time after such member’s appointment to the Audit Committee. Each member of the Audit Committee shall meet the independence and experience requirements of the New York Stock Exchange (“*NYSE*”), Section 10A(m)(3) of the Securities Exchange Act of 1934 (the “*Exchange Act*”), the rules and regulations of the SEC, including Rule 10A-3(b)(1) of the Exchange Act, and any additional requirements as the Board may deem appropriate. At all times, at least one member of the Audit Committee shall be an “audit committee financial expert” as defined in the Exchange Act, and as determined by the Board in its business judgment, and the Board may presume that such person also has accounting or related financial management expertise, as defined under the NYSE.

The members of the Audit Committee shall be appointed annually, and vacancies filled or members removed (with or without cause) and replaced, by the Board on the recommendation of the Corporate Governance and Nominating Committee, and the Board shall designate one of the members as the Chairperson. A member of the Audit Committee may resign by giving written notice to the Board, and may resign membership on the Audit Committee without resigning from the Board. To the extent permitted by applicable law, responsibilities of the Audit Committee may be delegated by the Audit Committee to the Chairperson or any other member or members as the Audit Committee deems appropriate; *provided*, that any delegate(s) shall report any actions taken by him, her, or them to the whole Audit Committee at its next regularly scheduled meeting.

If a member of the Audit Committee simultaneously serves on the audit committees of more than three public companies, including the Company, the Board must affirmatively determine that such simultaneous service does not impair the ability of such member to serve effectively on the Audit Committee and must disclose such determination either on the Company's website or in its annual proxy statement. Any action duly taken by the Audit Committee shall be valid and effective, whether or not the members of the Audit Committee at the time of such action are later determined not to have satisfied the requirements for membership herein. No member of the Audit Committee may accept, either directly or indirectly, consulting, advisory or other compensatory fees from the Company or any of its subsidiaries, other than the Company's or its subsidiaries' standard directors' fees (including additional amounts, if any, that may be paid for serving on the Audit Committee or other committees of the Board).

## **Meetings**

The Audit Committee shall meet as often as it determines to meet its objectives, but no less frequently than quarterly. In planning the annual schedule of meetings, the Audit Committee shall ensure that sufficient opportunities exist for its members: (i) to meet separately, periodically, with the Independent Auditor and any internal auditor, without management present; (ii) to meet separately with management, without the Independent Auditor and any internal auditor present; and (iii) to meet with only the Audit Committee members present. All meetings of the Audit Committee shall be governed by the same rules regarding notice, quorum, and voting requirements as are applicable to the full Board. Members of the Audit Committee may take action by unanimous written consent and may participate in a meeting by any communication by means of which all participating members can simultaneously hear each other during the meeting. A member of the Audit Committee participating in a meeting by this means is deemed to be present in person at the meeting.

The Chairperson shall be responsible for leadership of the Audit Committee, presiding over the meetings, preparing the agenda, making committee assignments and reporting for the Audit Committee to the Board. If the Chairperson is not present at a meeting of the Audit Committee, the members present at the meeting shall designate one such member as the acting Chairperson for the meeting. To the extent practical, prior to each meeting an agenda approved by the Chairperson should be distributed to the members. The Audit Committee may request any officer or employee of the Company or the Company's internal and outside legal counsel or Independent Auditor or any internal auditor to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee. The Audit Committee shall maintain regular and open communication among the constituent directors, the Independent Auditor, any internal auditor and management, and shall have direct access to management, internal staff, the Independent Auditor, any internal auditor and the Company's outside legal counsel and internal legal counsel, if any, both at meetings and otherwise. In addition, all groups will have direct and unrestricted access to the Audit Committee. Written minutes of the meetings of the Audit Committee in the form approved at the immediately following regular meeting shall be duly filed in the Company records.

## **Responsibilities and Duties**

The Audit Committee may adopt such procedures relating to the conduct of its proceedings as it deems appropriate. In furtherance of its responsibilities, the Audit Committee's policies and procedures should remain flexible to best react to changing conditions and to ensure to the Board and the stockholders that the corporate accounting and reporting practices of the Company are in accordance with all applicable requirements and standards and are of the highest quality.

In carrying out these responsibilities, the Audit Committee shall:

### ***General***

- Discuss with management and the Independent Auditors major issues regarding accounting principles, financial statement presentations, and other reporting issues, including recent professional and regulatory pronouncements and significant changes in the Company's selection or application of accounting principles, and understand their effect on the Company's financial statements.
- Inquire of and discuss with management (including the chief financial officer and chief accounting officer), other internal staff, and/or the Independent Auditor about (i) the Company's guidelines and policies that govern the process by which risk assessment and risk management is undertaken, (ii) the guidelines and policies that govern the process by which the Company's risk exposure is assessed and handled, and (iii) the Company's major financial risk exposures and the steps management has taken to monitor, control, and minimize such exposures to the Company. The Audit Committee is not required to be the sole body responsible for risk assessment and management, but the committee must discuss guidelines and policies to govern the process. The Audit Committee may delegate oversight or risk assessment and risk management. The Audit Committee shall periodically report its findings to the Board.
- Meet with each of management, any "Internal Auditor" (or other personnel responsible for the internal audit function), and the Independent Auditor in separate executive sessions at least quarterly.
- Obtain at the Company's expense and without further authorization, at such times and on such terms as the Audit Committee determines appropriate, advice and assistance for the Audit Committee from independent legal, accounting and other advisors. In selecting any such advisors, the Audit Committee shall consider the independence of such advisor, as determined by it in its business judgment. The Company shall also provide for appropriate funding, as determined by the Audit Committee, for payment of compensation to the Independent Auditor for the purpose of rendering or issuing an audit report and performing other audit, review, or attest services for the Company, as well as ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

### ***Internal Control***

- Discuss with management, the Independent Auditor and any internal audit function, the internal audit department's responsibilities, budget, and staffing and any recommended changes in the planned scope of any internal audit.

- Evaluate whether management (i) is setting the appropriate tone for all employees by communicating the importance of internal control and (ii) is taking appropriate steps designed to ensure that employees possess an appropriate understanding of their roles and responsibilities.
- Focus on the extent to which internal and Independent Auditors review computer systems and applications, the security of such systems and applications, and the contingency plan for processing financial information in the event of a systems breakdown.
- Gain an understanding of whether internal control recommendations made by internal and Independent Auditors have been implemented by management.
- Review and discuss with management and the Independent Auditor any significant deficiencies as to the design, operation or adequacy of the Company’s internal controls, material weaknesses in internal controls, any remedial special steps contemplated or adopted in light of significant deficiencies or material weaknesses identified, and the adequacy of disclosures about changes in internal control over financial reporting.
- Review and discuss with management and the Independent Auditor any significant changes in internal controls implemented by management during the most recent reporting period of the Company.
- Discuss with the Independent Auditors and legal counsel instances of fraud (regardless of materiality), illegal acts, deficiencies in internal control, and related matters that have come to their attention.
- Prior to filing the Form 10-K (the “**Form 10-K**”) with the SEC, the Audit Committee shall also review with the Chief Executive Officer and the Chief Financial Officer (i) the Company’s internal controls report, (ii) the Company’s proposed disclosures regarding internal control over financial reporting and (iii) the certification process and the content of the certifications of the Chief Executive Officer and the Chief Financial Officer, each to be included in the Form 10-K.

***Financial Statements***

- Review with management, and obtain explanations as to whether:
  - (a) actual financial results vary significantly from budgeted or projected results;
  - (b) changes in financial ratios and relationships are consistent with changes in the operations and financing practices;
  - (c) there are any significant or unusual events or transactions; and
  - (d) the Company has complied with the terms of loan agreements or security indentures.
- Meet to review with management and the Independent Auditor (and where appropriate any internal auditor) at the completion of the annual and, where applicable, each quarterly examination:
  - (a) the Company’s annual audited and quarterly financial statements, and in the case of quarterly financial statements, the results of the Independent Auditor’s reviews of the quarterly financial statements, including reviewing the Company’s specific disclosures

under “Management’s Discussion and Analysis of Financial Condition and Results of Operations”;

- (b) analyses prepared by management and/or the Independent Auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements and their impact on the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements;
  - (c) management’s and the Independent Auditor’s assessments of the adequacy of the Company’s internal control structure and procedures of the Company for financial reporting and the resolution of any identified material weaknesses in such internal control structure and procedures;
  - (d) the effect of new or proposed regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company and other public disclosures;
  - (e) any major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company’s selection or application of accounting principles;
  - (f) changes in accounting methods, off-balance sheet transactions and related party transactions;
  - (g) any material correcting adjustments that have been identified by the Independent Auditor in accordance with generally accepted accounting principles and applicable laws, rules and regulations, and management’s handling of them; and
  - (h) other matters related to the conduct of the audit that would be required to be communicated to the Audit Committee under generally accepted auditing standards, including under Auditing Standard No. 1301, Communications with Audit Committees.
- Consider judgmental areas such as those involving valuation of assets and liabilities, including, but not limited to, the accounting for and disclosure of obsolete or slow-moving inventory, litigation reserves, and other commitments or contingencies.
  - Review regularly with the Independent Auditor the scope of the annual audit and any audit problems or difficulties the auditor encountered in the course of the audit work, including (i) the cooperation received by the Independent Auditor during the examination, including any restrictions on the scope of the Independent Auditor’s activities or on access to requested information and (ii) any significant disagreements with management, and management’s response. The review may include any accounting adjustments that were noted or proposed by the Independent Auditor but were “passed” (as immaterial or otherwise), any communications between the audit team and the audit firm’s national office respecting auditing or accounting issues presented by the engagement, and any “management” or “internal control” letter issued or proposed to be issued by the Independent Auditor. The Audit Committee shall have the lead responsibility for resolving any disagreements between management and the Independent Auditor.
  - Consider the Independent Auditor’s reports and judgments brought to the attention of the Audit Committee about the quality and appropriateness of the Company’s accounting principles as

applied in its financial reporting, significant accounting policies, audit conclusions regarding the reasonableness of significant accounting estimates and any audit adjustments.

- Review and consider information received from the Independent Auditor regarding all critical accounting policies and practices to be used by the Company, all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management of the Company, ramifications of the use of such alternative disclosures and treatments, the treatment preferred by the Independent Auditor, and other material written communications between the Independent Auditor and management, including any management letter or schedule of unadjusted differences.

### ***Independent Auditor***

- Approve the (i) appointment, retention, and termination of the Independent Auditor (subject, if applicable to stockholder ratification), who shall report directly to the Audit Committee, and (ii) all audit engagement fees and terms and any audit, audit-related, tax or other services with the Independent Auditor after giving consideration to their effect on the independence of the Independent Auditors. The Audit Committee shall be directly responsible for the compensation and oversight of the work of the Independent Auditor (including resolution of disagreements between management and the Independent Auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review, or attest services for the Company.
- Approve in advance, in accordance with any pre-approval policy that may be approved by the Audit Committee or the Board from time to time, the provision by the Independent Auditor of all services to be performed by the Independent Auditor.
- Approve the payment of (i) compensation to the Independent Auditor; (ii) compensation to any independent counsel or external advisors for the Audit Committee; and (iii) other administrative expenses of the Audit Committee that are necessary or appropriate in carrying out the Audit Committee's duties.
- Review with the Independent Auditor its plans for, and the scope of, its audit and other examinations of the Company's financial information and the audit procedures to be utilized.
- Take appropriate action to oversee the independence of the Independent Auditor, including:
  - (a) evaluating the qualifications, performance and independence of the Independent Auditor, including the review and evaluation of senior members of the Independent Auditor team and the lead partner of the Independent Auditor, and whether the auditor's quality controls are adequate and the provision of permitted non-audit services is in compliance with applicable law and compatible with maintaining the auditor's independence, taking into account the opinions of management and any internal auditor (or other personnel responsible for any internal audit function) of the Company; and presenting its conclusions with respect thereto to the full Board;
  - (b) periodically reviewing any transactional or other relationships between the Company and the Independent Auditor;
  - (c) ensuring its receipt at least annually from the Independent Auditor, and reviewing, a formal report from the independent auditor delineating (i) the Independent Auditor's

internal quality-control procedures, (ii) any material issues raised by the most recent internal quality-control reviews, or by peer reviews, of the Independent Auditor, or by any inquiry or investigation by any governmental or professional authorities, within the preceding five years, respecting any one or more independent audits conducted by the Independent Auditor, and any steps taken to deal with any such issues, and (iii) (to assess the auditor's independence) all relationships between the Independent Auditor and the Company;

- (d) reviewing an annual written statement from the Independent Auditor delineating all relationships with the Company and actively engaging in a dialogue with the Independent Auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the Independent Auditor;
- (e) taking appropriate action or recommending to the Board such appropriate action, as necessary, on any disclosed relationships to satisfy itself of the Independent Auditor's independence;
- (f) establishing clear policies for the hiring and retention by the Company of employees or former employees of the Company's Independent Auditors;
- (g) ensuring the regular rotation of the lead audit partner of the Independent Auditor, as required by law (at least every five years); and
- (h) consider other factors relating to the independence of the Independent Auditor, including but not limited to (i) rotation of the Independent Auditor or outside audit personnel (other than the lead audit partner) on a regular basis, in order to assure continuing auditor independence, and (ii) the performance of services by an outside audit firm when a former employee of that firm currently serves as chief executive officer, chief financial officer, chief accounting officer or equivalent officer of the Company.

### ***Internal Audit***

- Review the internal audit function, including the independence and authority of its reporting obligations, the proposed scope and audit plans for the coming year, and the coordination of such plans with the Independent Auditor.
- Review the qualifications of the internal audit function and concur in the appointment, replacement, reassignment or dismissal of the director of internal audit or outsourced internal auditor, as the case may be.
- Receive, as necessary, notification of material adverse findings from internal audits and a progress report on the proposed internal audit plan, as appropriate, with explanations for changes from the original plan.

### ***Compliance***

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) on any fraudulent acts or accounting irregularities.

- Annually review compliance with any Code of Ethics and Business Conduct enacted by the Company. The Audit Committee shall review with the Company’s counsel legal and regulatory matters brought to the attention of the Audit Committee that may have a material impact on the financial statements or compliance policies. The Audit Committee shall respond appropriately to any matters reported to the Audit Committee by counsel, including recommending to the Board any appropriate remedial measures or sanctions.
- Review and maintain the Company’s procedures, whether established in a Code of Ethics and Business Conduct or otherwise enacted by the Company, for (i) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters. Review periodically with management and any internal auditors these procedures and any significant complaints received.

***Ongoing and Other Responsibilities***

- Prepare the report required by Item 407(d)(3)(i) of Regulation S-K to be included in the Company’s annual proxy statement.
- Discuss with management the Company’s earnings press releases, including the use of “pro forma” or “adjusted” non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies. Such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations made).
- Report regularly to the full Board, including a report to the Board at the next regularly scheduled meeting following a meeting of the Audit Committee, and review with the Board any issues that arise within the scope of the oversight responsibility of the Audit Committee, including with respect to the quality or integrity of the Company’s financial statements, the Company’s compliance with legal or regulatory requirements, the performance and independence of the Company’s Independent Auditor, or the performance of any internal audit function. The Audit Committee shall also report to the Board actions taken at each meeting of the Audit Committee and make appropriate recommendations for actions by the Board.
- Evaluate annually the performance of the Audit Committee, including an assessment of its performance in light of the duties and responsibilities set forth in this Charter and such other matters as the Audit Committee may deem necessary or appropriate in its discretion.
- Review this Charter at least annually and recommend updates to this Charter to the Board to the extent the Audit Committee determines it to be necessary or advisable.
- Conduct or authorize investigations into any matters within the Audit Committee’s scope of responsibilities, with full access to all books, records, facilities and personnel of the Company.
- Consider and review with management, the Independent Auditor, outside counsel, as appropriate, and any special counsel, separate accounting firm or other consultants and advisors as the Committee deems appropriate, any correspondence with, or other action by, regulators or governmental agencies and complaints, employee submissions or any published reports that raise material issues regarding the Company’s financial statements, accounting policies or auditing

matters. The Committee shall also review periodically material legal affairs of the Company and the Company's compliance with applicable law and rules of the NYSE.

- The Committee should obtain information it deems appropriate, through discussion with management and from written reports, and make recommendations to the Board, if the Committee determines such action is appropriate, on the following:
  - (a) the legal environment, including the status of any pending lawsuits or administrative proceedings that would have a significant effect on the Company's financial statements and related accruals;
  - (b) controls over treasury activities, including cash management, hedging, and use of new or unusual financial instruments; and
  - (c) the effect new tax laws and other regulations may have on the Company.
- Ensure that significant findings and recommendations made by the internal and Independent Auditors are received and discussed on a timely basis.
- Discuss with management the Company's policies and procedures to prevent unauthorized use of Company funds or property.
- Review any questionable payments or transactions and any significant conflicts of interest that may arise. The Audit Committee shall also consider possible conflicts of interests of directors and officers and shall conduct an appropriate review of all related party transactions in accordance with the Company's Related Party Transactions Policy.
- Perform such other functions and have such other authority and responsibilities as may be required by applicable laws, rules and regulations, as may be assigned from time to time by the Board and as may be consistent with this Charter, the Company's Second Amended and Restated Certificate of Incorporation or Third Amended and Restated Bylaws, as each may be amended, and the New York Stock Exchange Listed Company Manual.

### **Limitation of Audit Committee's Role**

The Independent Auditor and any internal auditing department are or shall be ultimately accountable to the Audit Committee, in its capacity as a committee of the Board, and to the full Board. While the Audit Committee has the oversight, supervisory and other powers and responsibilities set forth in this Charter, it is not the responsibility of the Audit Committee to plan or conduct audits, to implement internal controls, or to determine or certify that the Company's financial statements are complete and accurate or are in compliance with generally accepted accounting principles, other applicable accounting standards and applicable laws and regulations. These matters and tasks are the responsibility of the Company's management, any internal auditor and the Independent Auditor. Likewise, it is the responsibility of the Company's management and/or the Independent Auditor to bring appropriate matters to the attention of the Audit Committee, and to keep the Audit Committee informed of matters that the Company's management or the Independent Auditor believe require attention, guidance, resolution or other actions, the bases therefore and other relevant considerations. While it is not the duty of the Audit Committee to conduct investigations or to assure compliance with applicable laws, rules and regulations, the Audit Committee may take such actions with respect to such matters, as it deems necessary or advisable in fulfilling its duties identified above.

To the fullest extent permissible under applicable law, each member of the Audit Committee is entitled to rely in good faith upon the records of the Company and upon such information, opinions, reports or statements presented to the Audit Committee is entitled to rely in good faith upon the records of the Company and upon such information, opinions, reports or statements presented to the Audit Committee by any of the Company's officers, employees, or committees, the Independent Auditor, any internal auditing department or any other person as to matters the member reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Company.

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As the above listed tasks and focus areas may not be relevant to all of the matters and tasks that the Audit Committee may consider and act upon from time to time, the members of the Audit Committee in their judgment and within the bounds of any applicable law, rule or regulation may determine the relevance of and attention that those items should receive in any particular context.

This Charter, as may be amended from time to time, shall be posted on the Company's website. The Company shall state in its annual proxy statement that this charter is available on the Company's website and provide the website address.