

Second Quarter Results

August 4, 2011

RosettaStone® 



Reminder

Our presentation today contains forward-looking statements about our plans for development and release of new products and for business expansion, as well as other subjects. These statements relate to future events and involve known and unknown risks and uncertainties that may cause our actual results to be materially different from those expressed or implied by these forward-looking statements. You should not place undue reliance on forward-looking statements because they involve factors that are, in some cases, beyond our control and that could materially affect actual results, levels of activity, performance, or achievements.

Factors that could materially affect actual results include those listed under the caption “Risk Factors” of Rosetta Stone’s Form 10-K for the year ended December 31, 2010. We encourage you to review those factors before making any investment decision. Today’s presentation and discussion reflect our views as of August 4, 2011, and Rosetta Stone assumes no duty to update the information.

Today’s presentation and discussion also contains references to non-GAAP financial measures. The full definition and reconciliation of those measures is available in our Form 8-K filed with the SEC on August 4, 2011. Management uses these non-GAAP measures to compare the company's performance to that of prior periods for trend analyses, for purposes of determining executive incentive compensation, and for budgeting and planning purposes. Management believes that the use of these non-GAAP financial measures provides an additional tool for investors to use in evaluating ongoing operating results and trends. Our definitions of non-GAAP measures may not be comparable to the definitions used by other companies, and we encourage you to review and understand all our financial reporting before making any investment decision.



Tom Adams
President and CEO

August 4, 2011

Rosetta Stone's Strategy for Growth

Build the best solution for beginning language learners

- Ensure established US market is profitable to fund expansion

Expand into new markets

- Establish a sustainable marketing platform for those markets

Expand the product portfolio

- Solutions for advanced learners of English

Second-quarter Overview

Financial results slightly ahead of our expectations

Strong international growth

Institutional stronger than expected

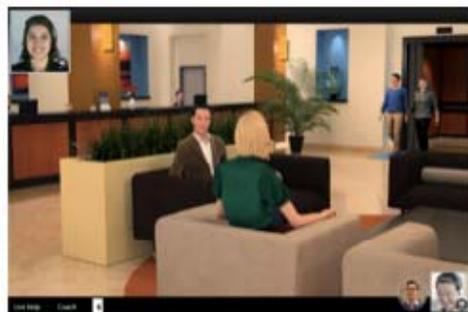
Headwinds from US government budget cuts

Progress in US consumer initiatives

Several new offerings in the market

Strong balance sheet

Rosetta Stone ReFLEX™



REFLEX™



Key Objectives for 2011

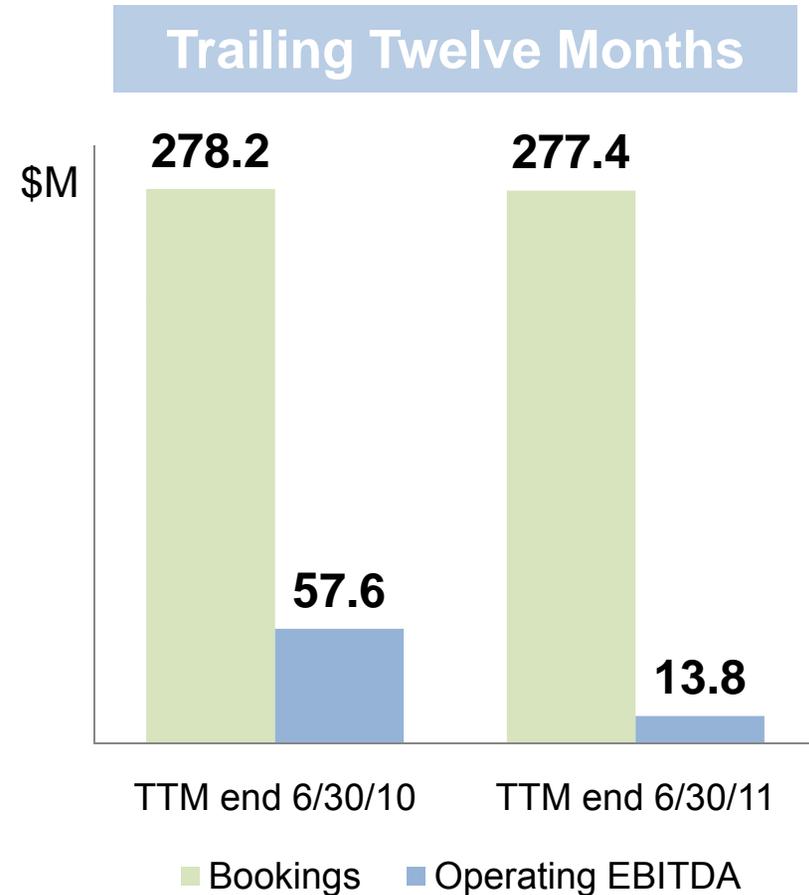
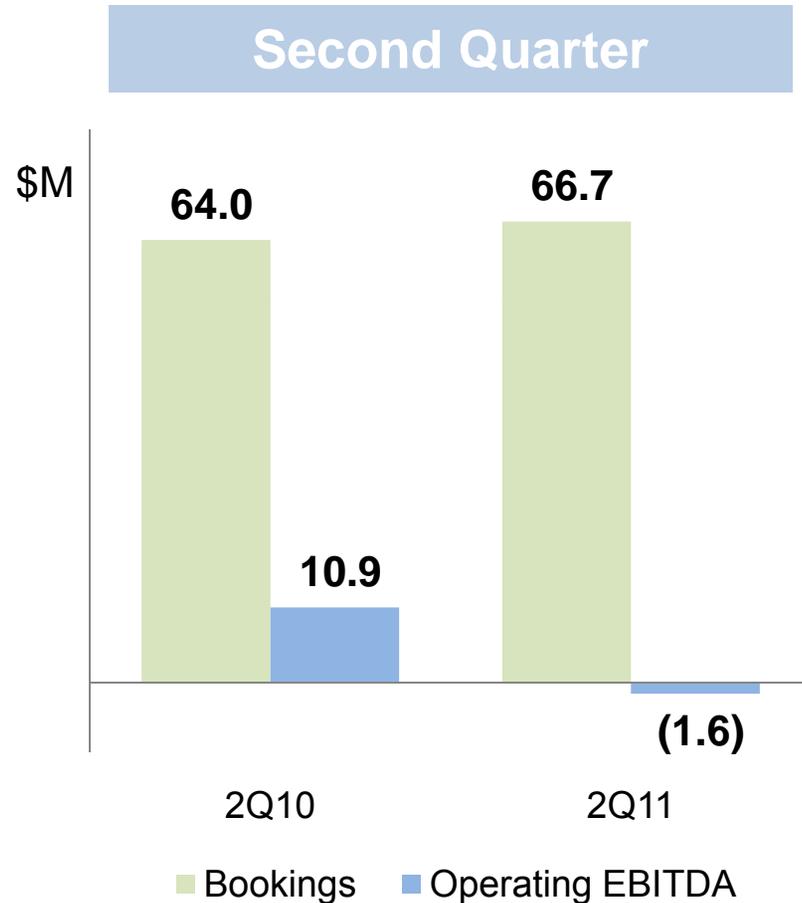
| Objective | Actions to Date | Next Steps |
|------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|
| US Consumer repositioning | | |
| Segment marketing and product | <input checked="" type="checkbox"/> New pricing <input checked="" type="checkbox"/> Hispanic advertising launched | <input type="checkbox"/> Further segmented marketing |
| Brand elevation and renewal | <input checked="" type="checkbox"/> "More than Words" ad running | <input type="checkbox"/> Developing new ad campaigns <input type="checkbox"/> Brand identity development |
| Rationalized distribution and new delivery platforms | <input checked="" type="checkbox"/> iPad app launched <input checked="" type="checkbox"/> Closed net 56 kiosks in H1 <input checked="" type="checkbox"/> Five new languages, online-only | <input type="checkbox"/> Negotiate retail relationships <input type="checkbox"/> Testing campaigns to drive greater online purchases |
| Rationalized cost structure | <input checked="" type="checkbox"/> Executed savings plan to hold G&A expenses level 2H11 vs. 1H11 | |
| Conversational English for Asia | <input checked="" type="checkbox"/> Soft launch Q3 | <input type="checkbox"/> Full marketing launch August 8 |
| New market entries | <input checked="" type="checkbox"/> Brazil office opened <input checked="" type="checkbox"/> China country manager hired | <input type="checkbox"/> China strategy development |
| Institutional expansion and development | <input checked="" type="checkbox"/> Brazil institutional wins <input checked="" type="checkbox"/> Signing more \$20k+ deals <input checked="" type="checkbox"/> Renew US Army contract | <input type="checkbox"/> Continue strategic selling <input type="checkbox"/> Leverage opportunities to do business with sections of US Army |



Steve Swad
Chief Financial Officer

August 4, 2011

Bookings⁽¹⁾ and Operating EBITDA⁽²⁾



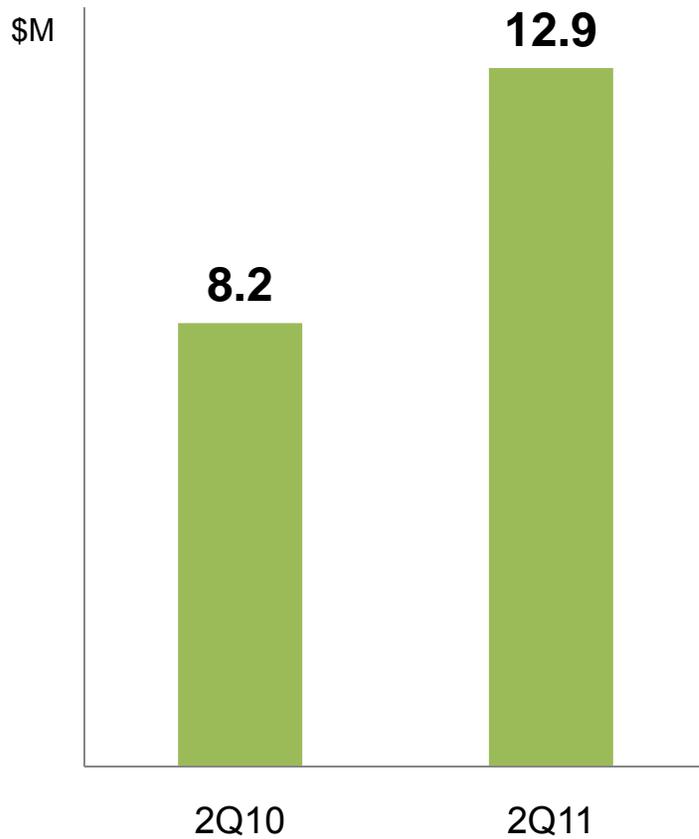
1. "Bookings" are defined as executed sales contracts received by company that are recorded immediately either as revenue or as deferred revenue.

2. "Operating EBITDA" equals GAAP net income or loss plus interest expense, income tax expense, depreciation, amortization, stock-based compensation expenses and change in deferred revenue.

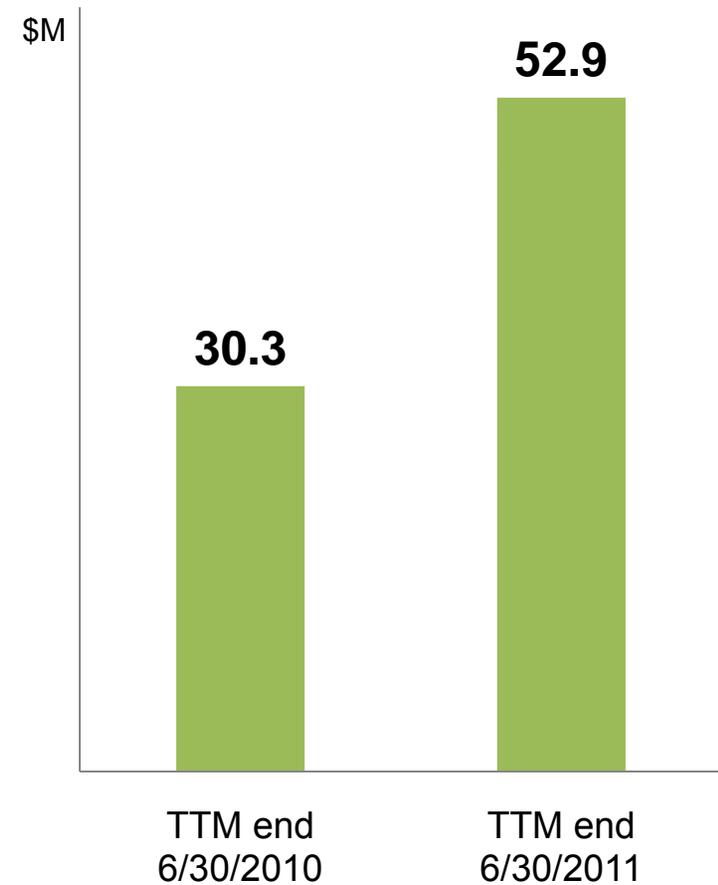
International represents significant opportunity

International Consumer Bookings

Second Quarter



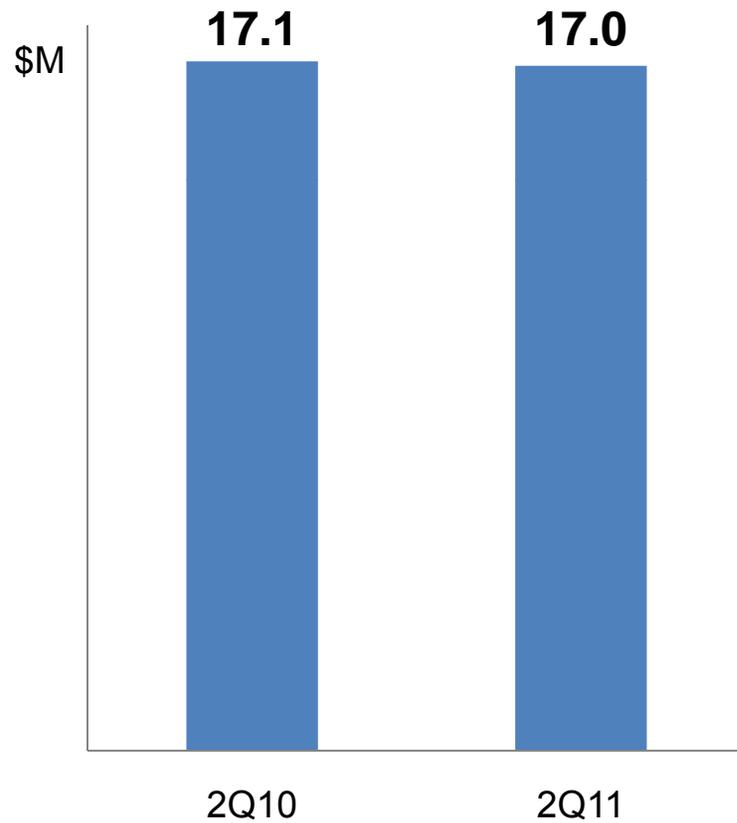
Trailing Twelve Months



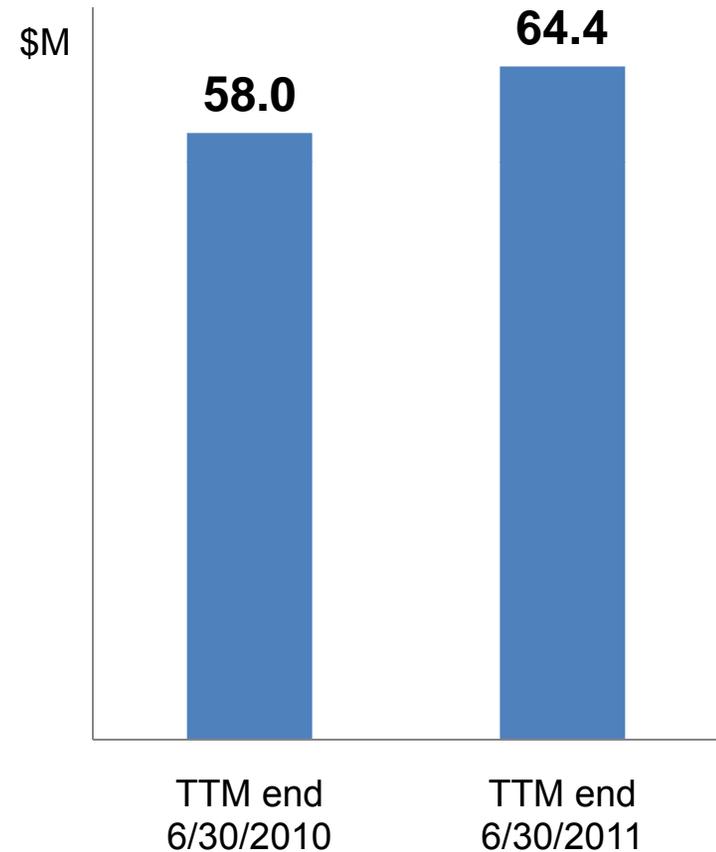
Growing institutional business

Worldwide Institutional Bookings

Second Quarter



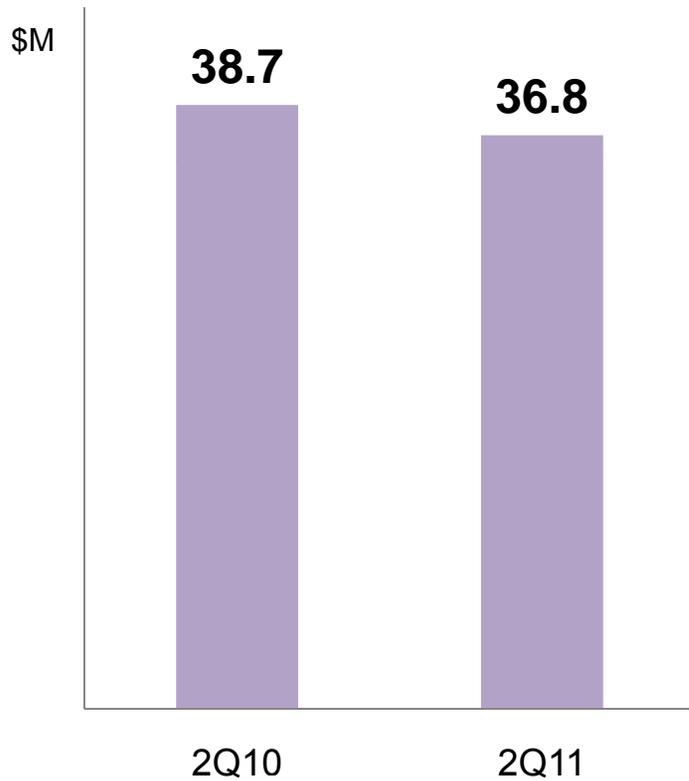
Trailing Twelve Months



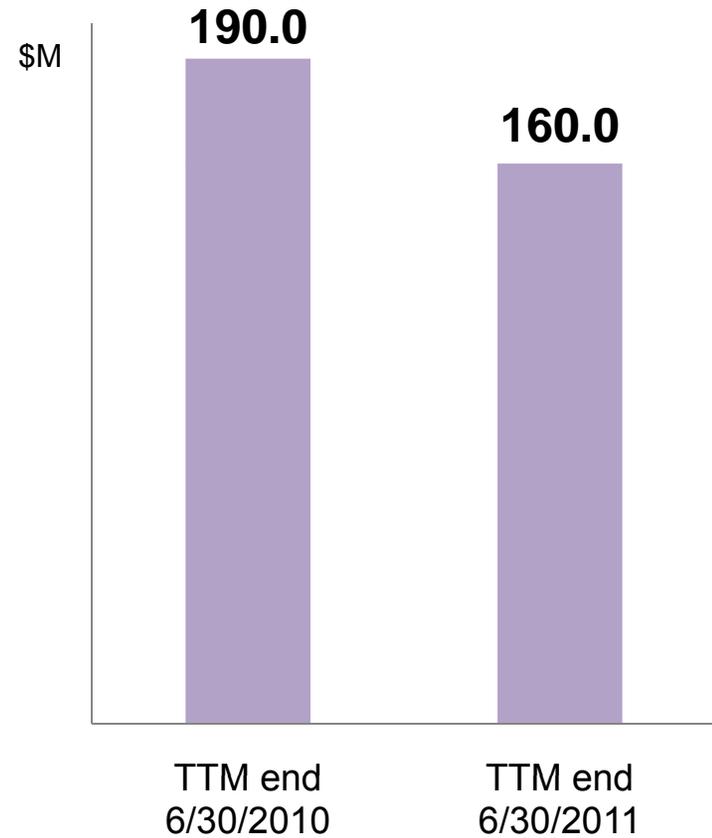
Reaching U.S. consumers

US Consumer Sales Bookings

Second Quarter

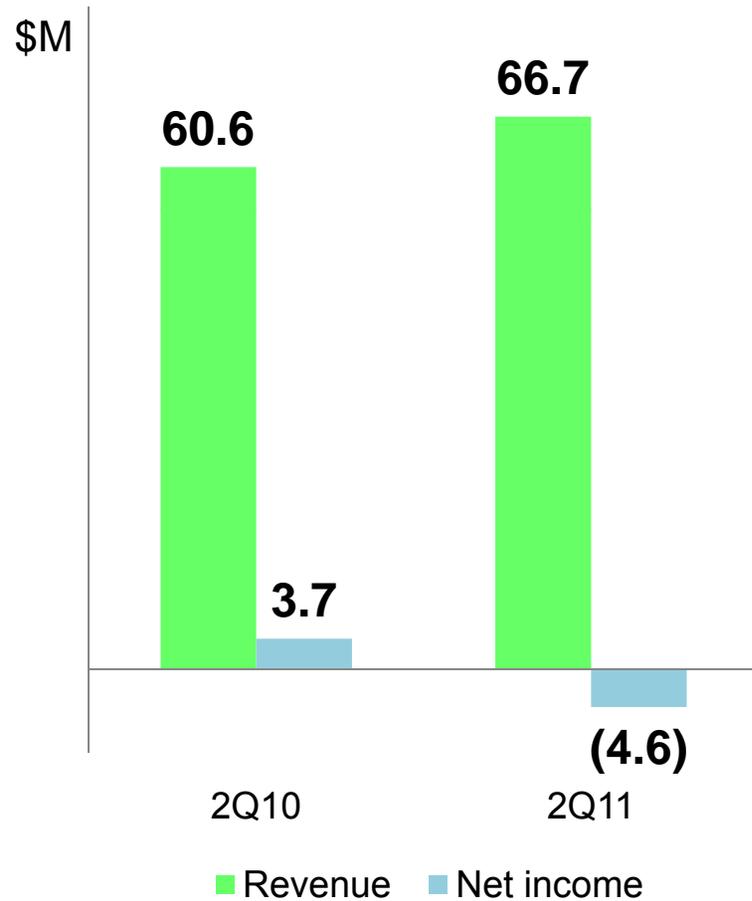


Trailing Twelve Months

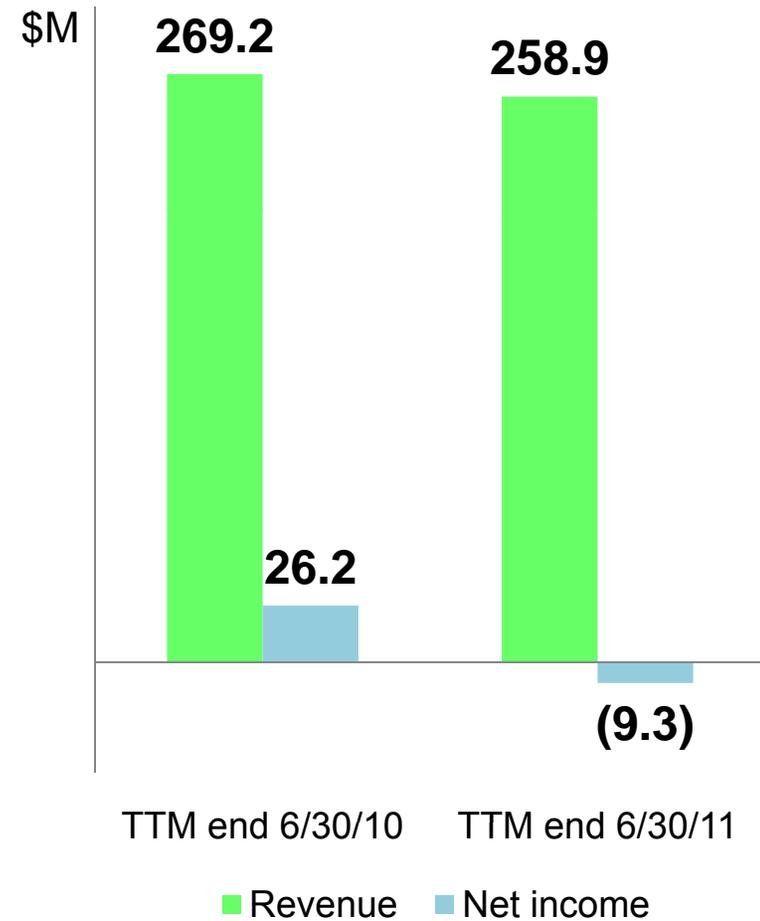


Revenue and Net Income

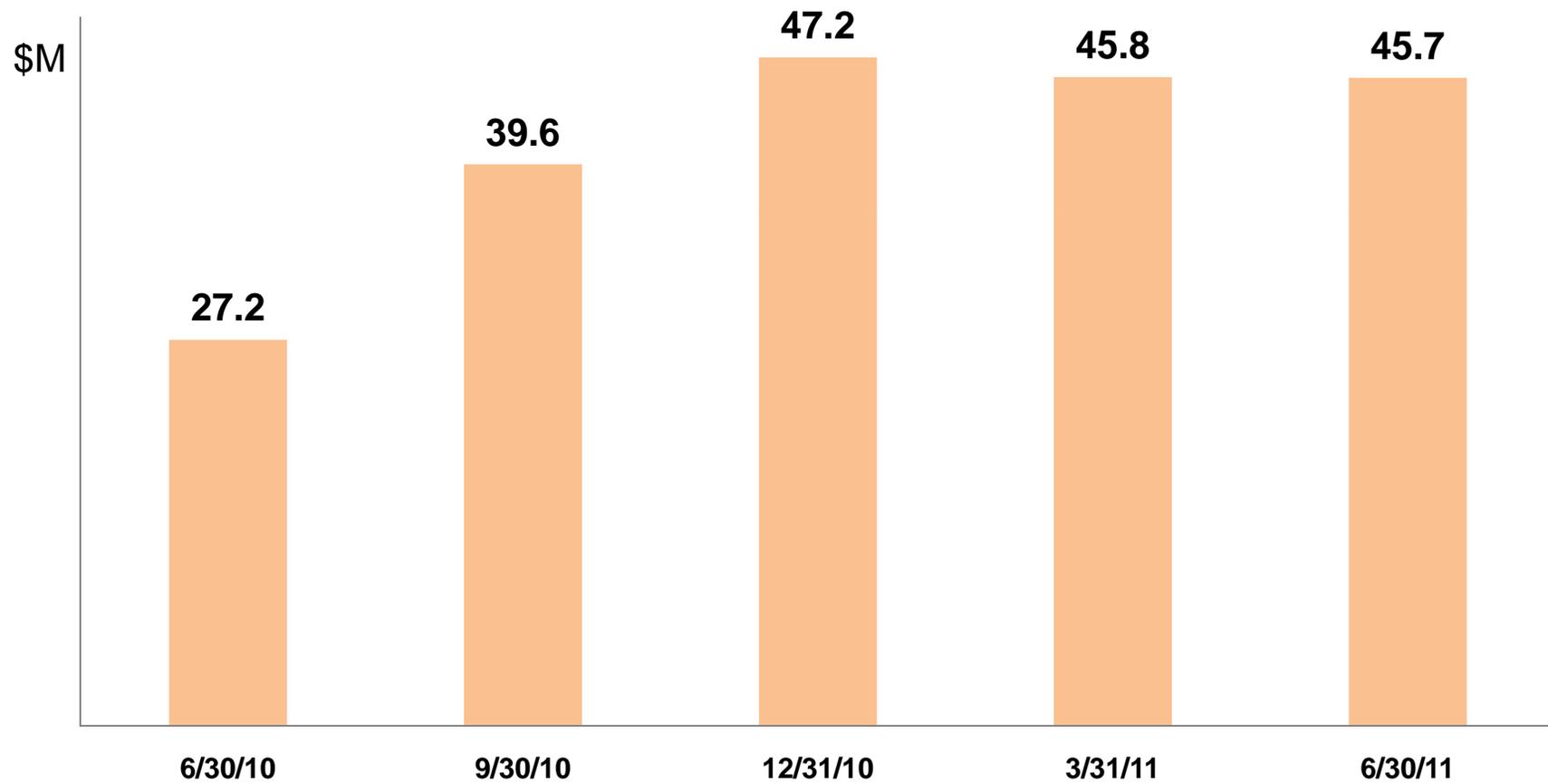
Second Quarter



Trailing Twelve Months



Deferred Revenue



Strong Balance Sheet and Cash Flow

| \$M | 3/31/2011 | 6/30/2011 |
|---------------------------------------------------|------------------------|------------------------|
| Cash, cash equivalents & short-term investments | \$ 120.8 | \$ 115.1 |
| Accounts receivable, net | 29.7 | 40.0 |
| Total assets | <u>262.8</u> | <u>268.3</u> |
| Deferred revenue | 45.8 | 45.7 |
| Total debt | - | - |
| Total liabilities | <u>92.1</u> | <u>100.2</u> |
| Total liabilities and stockholders' equity | <u>\$ 262.8</u> | <u>\$ 268.3</u> |
| Three-month free cash flow¹ | \$ (1.7) | \$ (5.8) |

(1) Free cash flow is defined as cash generated by operating activities less cash used for purchases of property and equipment (cap ex)

Financial Outlook – Q3 2011

| | 3Q11 Guidance |
|-------------------------------------|-------------------------|
| Sales bookings¹ | \$70M to \$75M |
| US Consumer | – 12 - 17% |
| Worldwide Institutional | – 10 - 0% |
| International Consumer | + 40 - 60% |
| Revenue | \$65M to \$70M |
| Net Loss | \$(5)M to \$(1)M |
| Loss per share | (24)¢ to (5)¢ |
| Operating EBITDA² | \$2M to \$7M |
| Free cash flow³ | positive |
| Basic shares outstanding | 20.7M |

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3. "Free cash flow" is defined as cash provided by operations less cash used for purchases of property and equipment.

Financial Outlook – FY2011

Consistent with prior expectations

- Growth in total sales bookings¹ versus 2010
 - Growth of 40 to 50% in combined sales bookings from international consumer and worldwide institutional consumers
 - Lower sales bookings from US consumers
- Growth in total revenue versus 2010
- Lower operating income and Operating EBITDA² versus 2010 attributable to lower contribution from US consumer sales and continued investment in international opportunities; with positive Operating EBITDA
- Positive free cash flow in 2011

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