



1Q14 Earnings Results

May 7, 2014

Safe Harbor

Certain information contained in this presentation and certain comments today constitute forward-looking statements for purposes of the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect the Company's current views with respect to future events and are subject to certain risks, uncertainties, and assumptions. A number of important factors could cause actual results or events to differ materially from those indicated by such forward-looking statements, including demand for our language learning solutions; the advantages of our products, services, technology, brand and business model as compared to others; our strategic focus; our ability to maintain effective internal controls or to remediate material weaknesses; our cash needs and expectations regarding cash flow from operations; our product development plans; our international operations and growth plans; our plans regarding our kiosks and retail relationships; our plans regarding our Enterprise and Education business; the impact of any revisions to our pricing strategy; our ability to manage and grow our business and execute our business strategy; our financial performance; our actions to realign our cost structure and revitalizing our go-to-market strategy; our plans to transition our distribution to more online in the consumer business; our ability to expand our product offerings beyond our core adult-focused language learning solutions, including the launch of Kids reading and brain fitness; our ability to introduce successfully Lexia's Core5 reading product to the consumer market; our ability to expand our offerings to more devices and apps, our ability to identify and successfully close and integrate additional acquisition targets; our plans with respect to and our ability to successfully integrate Lexia, Livemocha, Tell Me More and Vivity into our business; adverse trends in general economic conditions and the other factors including the "Risk Factors" more fully described in the Company's filings with the U.S. Securities and Exchange Commission (SEC), including the Company's annual report on Form 10-K for the year period ended December 31, 2013, which is on file with the SEC. We encourage you to review those factors before making any investment decision. 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.

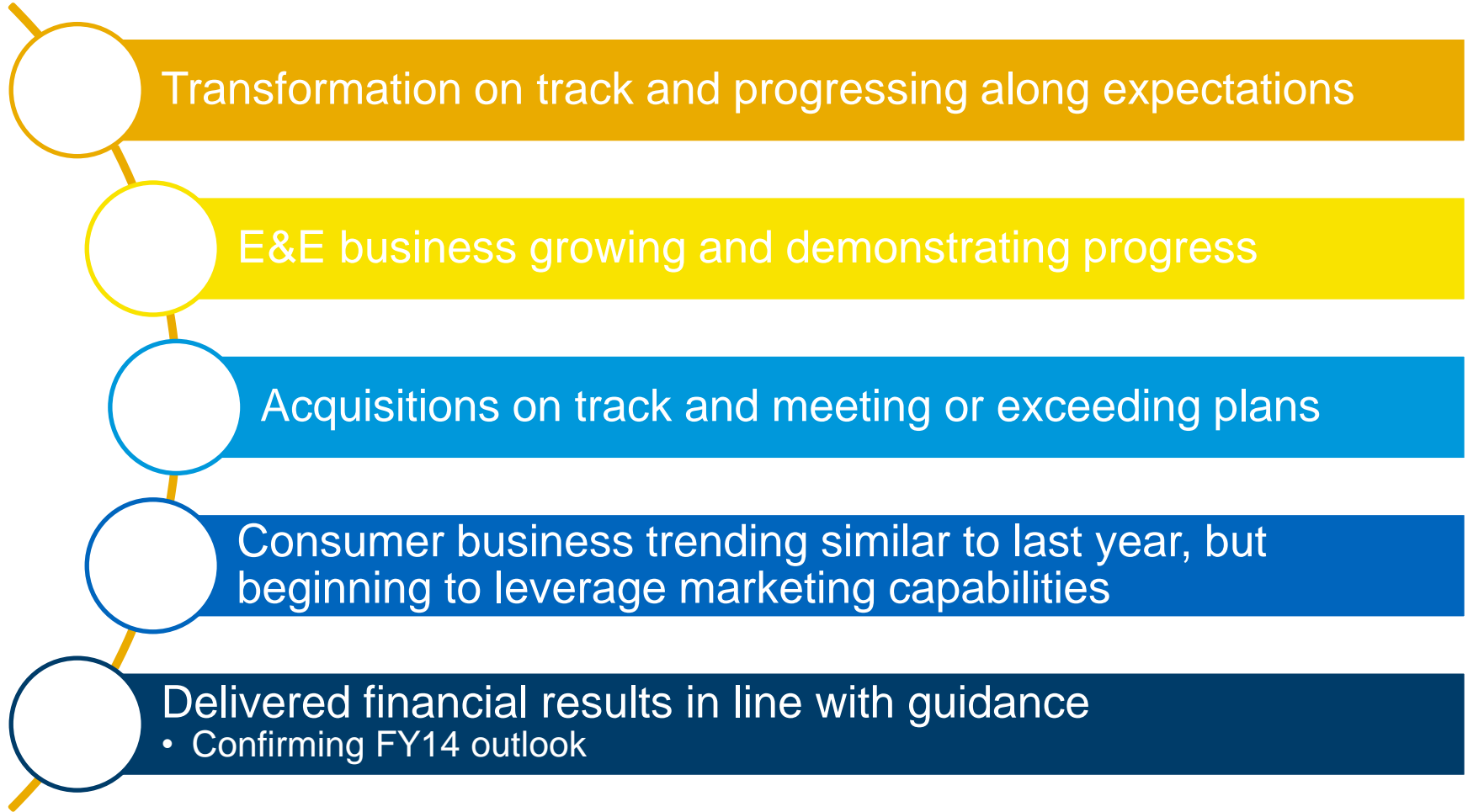
Today's presentation and discussion also contains references to non-GAAP financial measures. The full definition and reconciliation of those measures is available in our Form 8-K filed with the SEC on May 7, 2014. Management uses these non-GAAP measures to compare the Company's performance to that of 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.

1Q14 Business Review

Steve Swad, President & CEO



1Q14 Business Review



E&E Business Growing

- 70% bookings growth in 1Q14
 - Driven by acquisitions
- Lexia growing subscription sales and increasing penetration
- Encouraging cross-sell of Tell Me More product by RS sales force
- Good customer acceptance and increasing pipeline of business

1. Please see the Appendix for definitions of non-GAAP metrics

Acquisitions Performing Well

- Integration of Tell Me More proceeding well
 - Combined sales mgmt. and forces and merged CRMs
 - Rolled out new product positioning, pricing and branding forthcoming
 - Enhanced Tell Me More product with new UI/UX for cleaner interface and improved user experience
- Fit Brains delivered strong bookings
 - Accelerated downloads and rankings
- Lexia bookings growing at high double-digit rates

1. Please see the Appendix for definitions of non-GAAP metrics

N.A. Consumer

- Continue to manage channel shift
 - Growing web channel
 - Weak retail channel
 - Shifting away from call center activity towards web and mobile
- Growing digital user base
 - Online Learners + Digital downloads now almost 40% of Consumer revenue
- Continue to broaden customer base for multi-product sales opportunities

1Q14 Financial Review

Tom Pierno, CFO



1Q14 Key Themes

- Total bookings¹ of \$61MM in line with guidance
- Global E&E bookings¹ grew 70%
 - Lexia and Language businesses up ~35% each
- Core NA Consumer bookings² down 7%
 - Growing web channel
 - Weak retail channel
- ROW Consumer bookings down 18%
 - Due to downsizing of Asian operations
- Adjusted EBITDA (\$6.7MM) vs. (\$1.1MM) better than guidance of (\$8MM-\$10MM)
 - Reflects weak retail channel and impact of seasonal losses from acquisitions

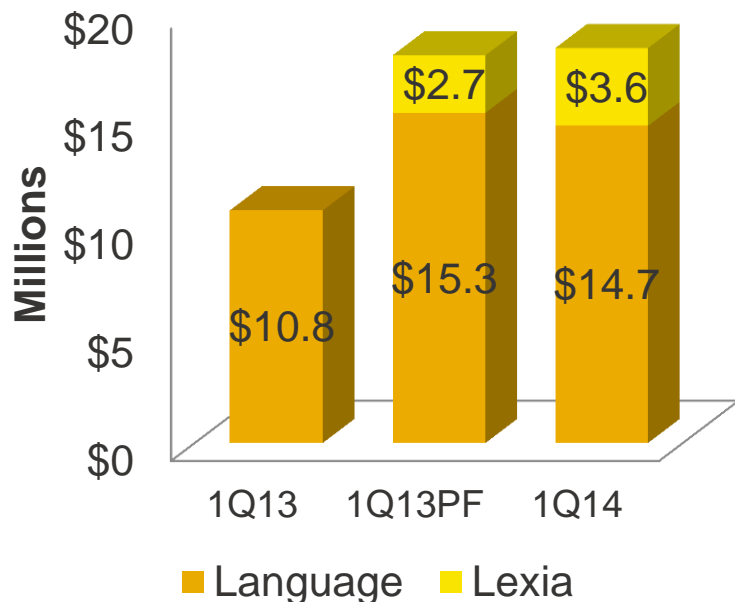
1. Please see the Appendix for definitions of non-GAAP metrics

2. Core Bookings are North American Consumer excluding Kiosk bookings

E&E Bookings

Bookings^{2,3}

- **Total** ↑ 70%
- **Language** ↑ 36%



Drivers

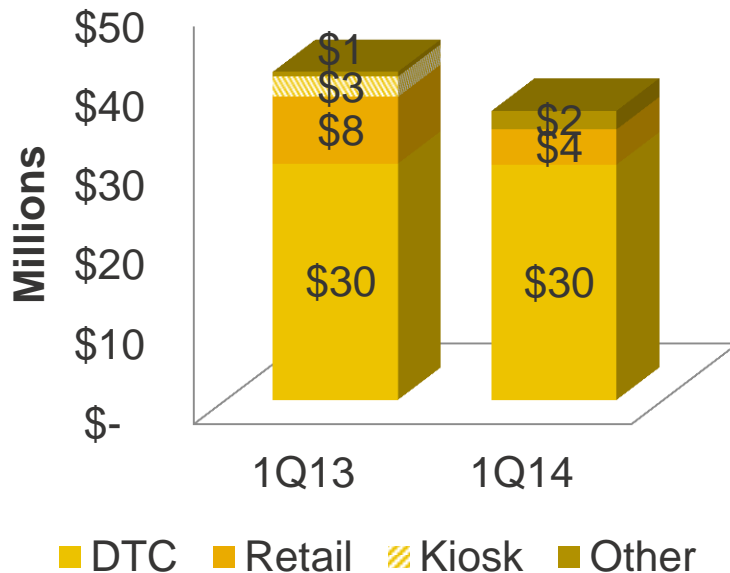
- Driven by acquisitions
 - PF Language ↓ -4%
 - PF Lexia ↑ +35%
- Cross-selling within Language
- Growing mix of Lexia subscriptions

1. Please see the Appendix for definitions of non-GAAP metrics
2. Language includes legacy Rosetta Stone plus Tell Me More bookings
3. Assumes Rosetta Stone acquired Lexia and Tell Me More at 1/1/13

N.A. Consumer Bookings

1Q14 Bookings¹

- **Total Core²** ↓ -7%
- **Retail** ↓ -47%



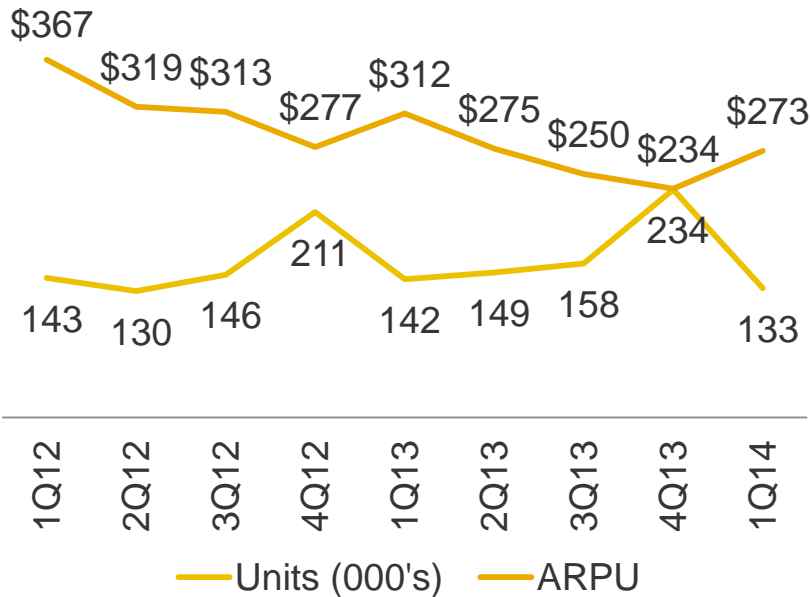
Drivers

- DTC Flat, but web growing
 - Web-channel growth >10%
 - Call center down 30%
- Absence of Kiosk bookings
- Weakness in retail channel
- Acquisition of Fit Brains added \$1.4MM

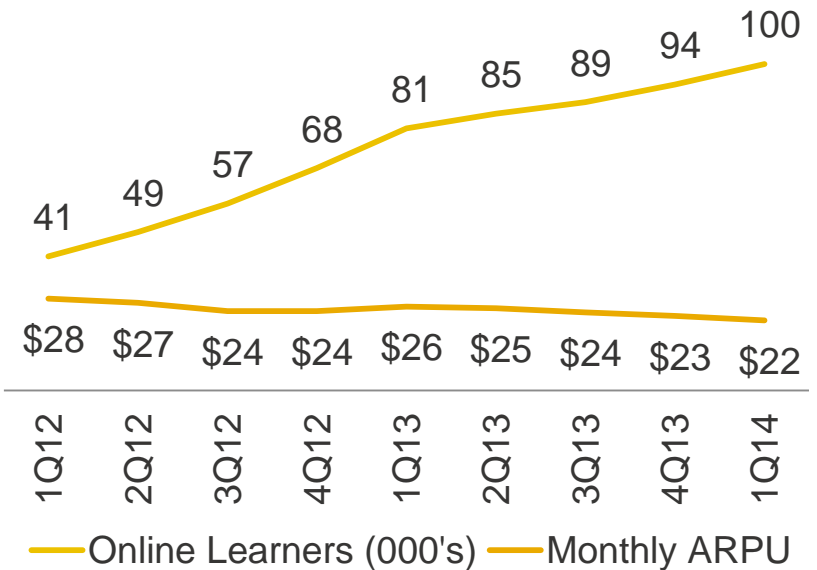
1. Please see the Appendix for definitions of non-GAAP metrics
 2. Core bookings are total N.A. Bookings excluding Kiosk

1Q14 Consumer Product Units and Paid Online Learners

Product Units & ARPU¹



Paid Online Learners & ARPU¹



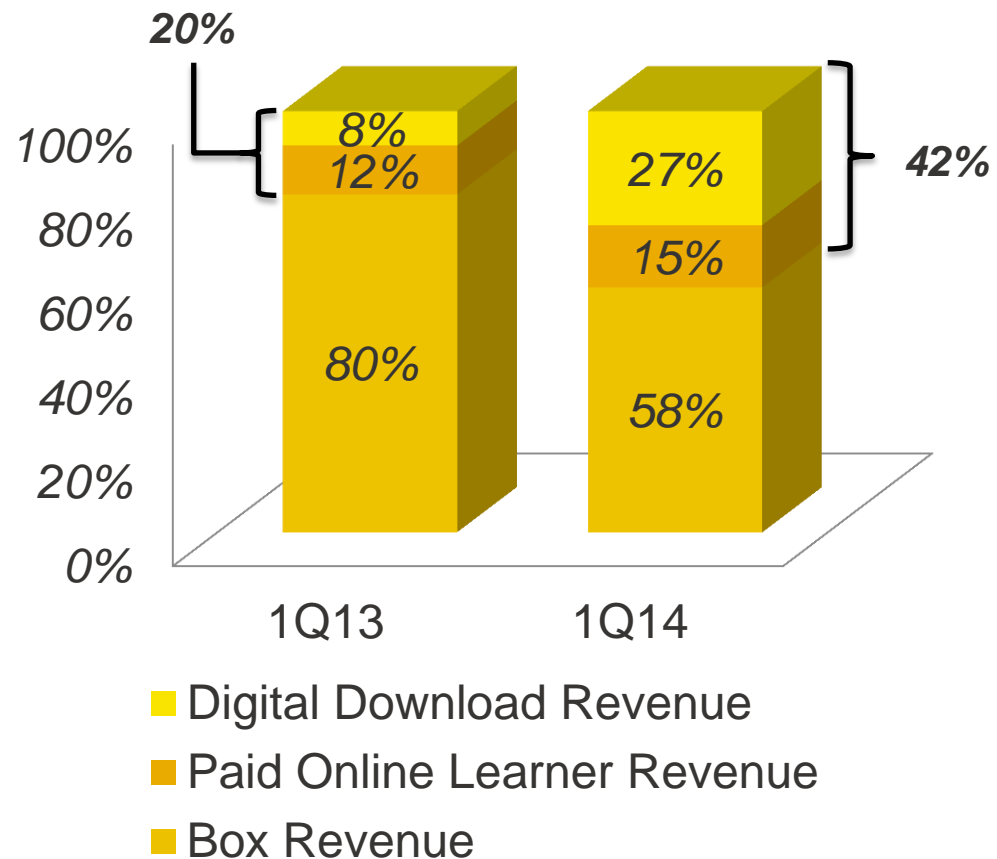
- Product Units decreased 6% year-over-year in 1Q, due to absence of kiosk

- 25% Growth in Online Learners
- ARPU declined slightly in 1Q14

1. ARPU is defined as average revenue per unit.

Online + Digital Download: Now >40% of Consumer Revenue

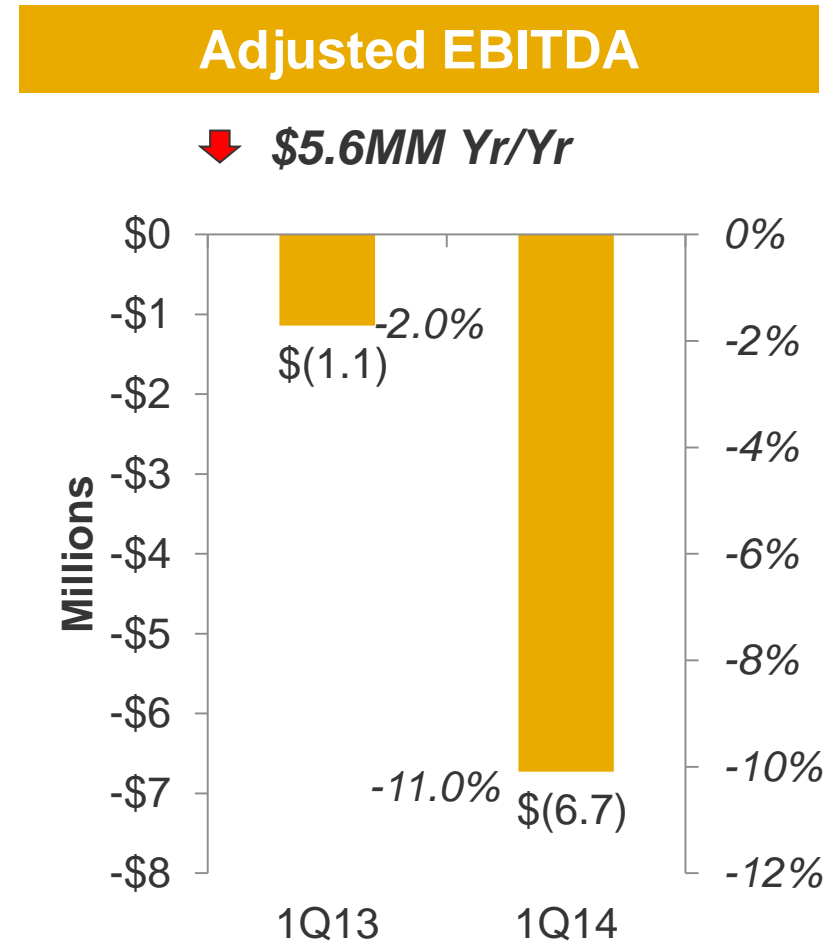
- 220% growth in digital downloads
- 25% growth in Online Learners
- Growth in digital driven primarily in Web channel



Percentages may not add to 100% due to rounding

1Q14 Adjusted EBITDA

- \$5.6MM Decline in Adjusted EBITDA driven by:
 - ~\$4MM decline in N.A. retail channel
 - Inclusion of results this quarter from acquisitions that operated at a seasonal loss



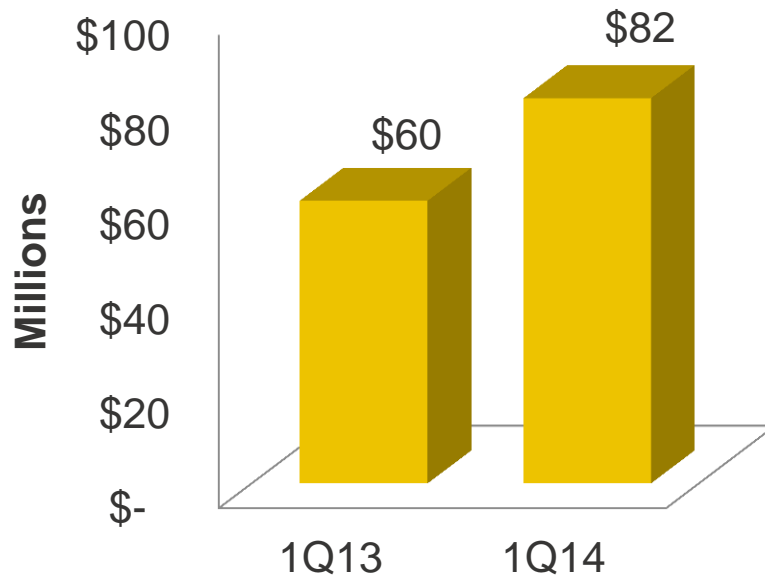
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Deferred Revenue Grew by ~\$22MM

Deferred Revenue

- **Total** ↑ 36%

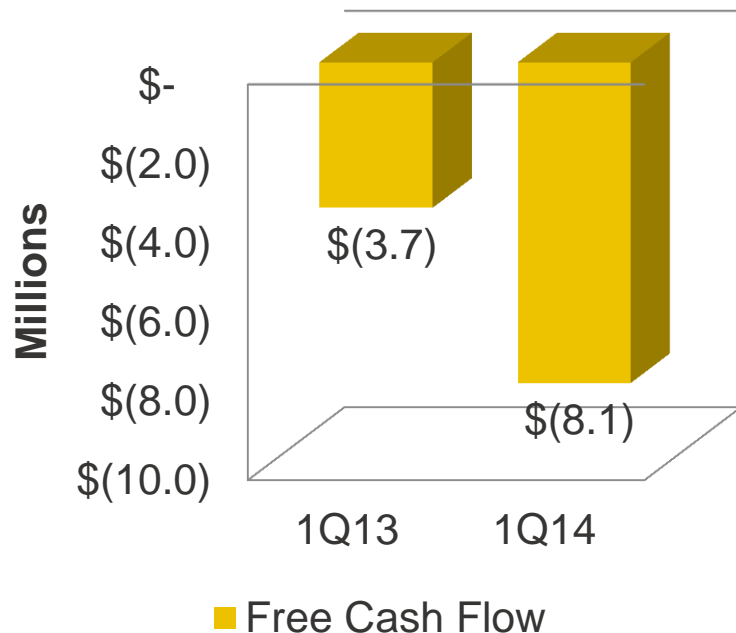
- Reflects growth in E&E bookings
- Modest acquired deferred revenue



Cash Generation Metrics

Adjusted EBITDA Less Capex¹

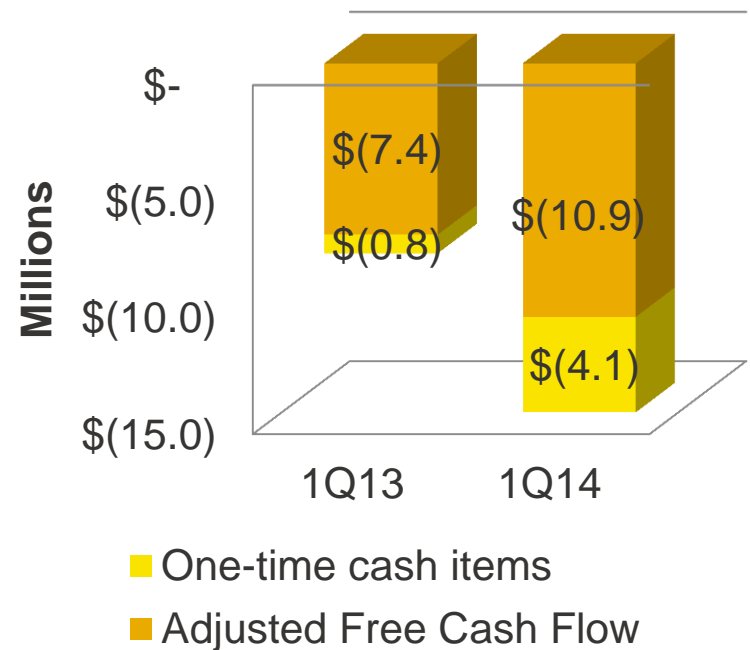
↓ -120% Yr/Yr



Free Cash Flow¹

↓ -84% Yr/Yr

↓ -48% Yr/Yr Adjusted FCF



1. Please see the Appendix for definitions of non-GAAP metrics.

Confirming 2014 Consolidated Financial Outlook

	FY 2014 Guidance^{1,2}	
	<u>Amount/Range</u>	<u>Commentary</u>
Consolidated Bookings	\$315MM to \$325MM	<i>Mid-single digit % growth</i>
Adjusted EBITDA	\$18MM to \$22MM	<i>~5% margin</i>
Shares outstanding	~22MM	
Capital Expenditures	\$10MM to \$14MM	<i>Increase due to Acquisitions & Integration</i>
Long-term effective tax rate	39%	

1. Please see the Appendix for definitions of non-GAAP metrics;

2. Bookings growth comment reflects run-rate growth assuming that acquisitions were included in Rosetta Stone's 2013 bookings

Key Themes



Appendix

Non-GAAP Metric Definitions

- **Bookings** represent executed sales contracts received by the Company that are either recorded immediately as revenue or as deferred revenue.
- **Adjusted EBITDA** is GAAP net income/(loss) plus interest income and expense, income tax benefit and expense, depreciation, amortization and stock-based compensation expense, goodwill impairment plus the change in deferred revenue (excluding acquired deferred revenue) less the change in deferred commissions. In addition, Adjusted EBITDA excludes any items related to the litigation with Google Inc., restructuring and related wind down costs, severance costs and transaction and other costs associated with mergers and acquisitions as well as all adjustments related to recording the non-cash tax valuation allowance for deferred tax assets. Adjusted EBITDA for prior periods has been revised to conform to current definition.
- **Free cash flow** is cash flow from operations less cash used in purchases of property and equipment.

Economic Income Statement^{1,2}

(\$ Millions)	1Q13		2Q13		3Q13		4Q13		FY13		1Q14	
Bookings	\$ 60.4	100%	\$ 63.1	100%	\$ 70.7	100%	\$ 84.0	100%	\$ 278.1	100%	\$ 61.2	100%
Cost of Goods Sold	\$ 10.1	17%	\$ 10.0	16%	\$ 10.4	15%	\$ 14.1	17%	\$ 44.6	16%	\$ 11.3	18%
Gross Profit	\$ 50.3	83%	\$ 53.1	84%	\$ 60.3	85%	\$ 69.9	83%	\$ 233.5	84%	\$ 50.0	82%
<u>Operating Expenses:</u>												
Sales & Marketing	\$ 36.0	60%	\$ 31.3	50%	\$ 35.8	51%	\$ 42.0	50%	\$ 145.0	52%	\$ 37.3	61%
Research & Development	\$ 6.1	10%	\$ 7.6	12%	\$ 8.2	12%	\$ 8.0	10%	\$ 29.9	11%	\$ 7.8	13%
General & Administrative	\$ 9.7	16%	\$ 10.4	17%	\$ 10.5	15%	\$ 12.3	15%	\$ 42.9	15%	\$ 11.7	19%
Total Operating Expenses	\$ 51.8	86%	\$ 49.3	78%	\$ 54.4	77%	\$ 62.3	74%	\$ 217.8	78%	\$ 56.8	93%
Operating Income	\$ (1.6)	-3%	\$ 3.7	6%	\$ 5.9	8%	\$ 7.6	9%	\$ 15.7	6%	\$ (6.8)	-11%
Other Income/(Expense)	\$ 0.4	1%	\$ (0.0)	0%	\$ (0.3)	0%	\$ 0.3	0%	\$ 0.4	0%	\$ 0.1	0%
Adjusted EBITDA	\$ (1.1)	-2%	\$ 3.7	6%	\$ 5.6	8%	\$ 7.9	9%	\$ 16.1	6%	\$ (6.7)	-11%

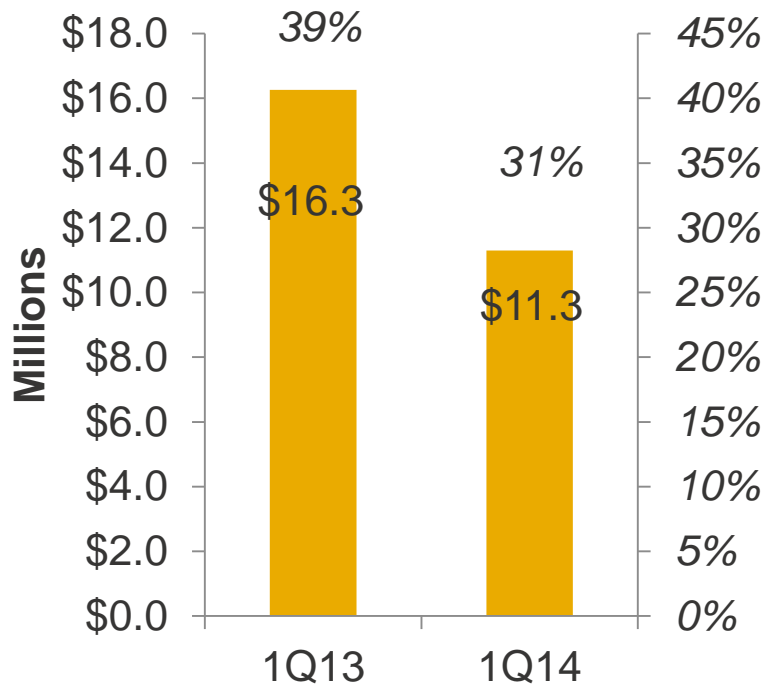
1. Please see the Appendix for definitions of non-GAAP metrics

2. Economic Income Statement reflects income statement based on bookings and expense lines adjusted for one-time items

1Q14 Segment Contribution¹

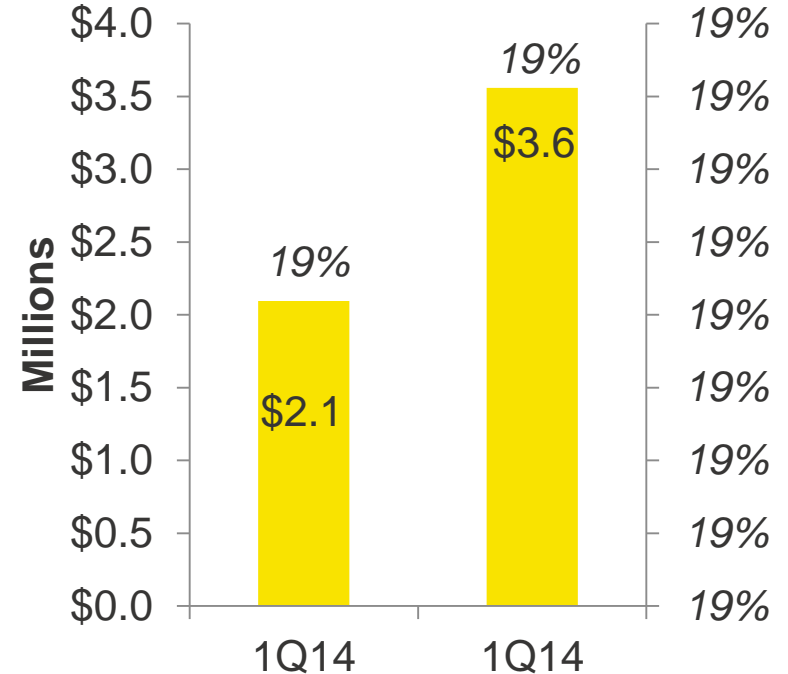
N.A. Consumer

- **Segment Contribution** ↓ -31%
- **Margin²** ↓ -800 bps



E&E

- **Segment Contribution** ↑ 70%
- **Margin** ↔ 0 bps



1. Segment Contribution is based on bookings
 2. Segment Contribution Margin is Segment Contribution as a percentage of Segment Bookings