1Q15 Earnings

May 6, 2015

Caution on Forward-Looking Statements

This presentation and our comments today contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts, and often include words such as "believes," "expects," "anticipates," "estimates," "intends," "plans," "seeks" or words of similar meaning, or future-looking or conditional verbs, such as "will," "should," "could," "may," “might,” "aims," "intends," or "projects." These statements may relate to: our revised business strategy; projections related to bookings, Adjusted EBITDA, and other measures of future economic performance; the contributions and performance of our businesses including acquired businesses and international operations; projections for future capital expenditures; and other projections, plans, objectives, and related estimates and assumptions. A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances might not occur. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our present expectations or projections. Some important factors that could cause actual results to differ materially from what we say in our forward-looking statements include: the risk that we are unable to execute our business strategy; declining demand for our language learning solutions; the risk that we are not able to manage and grow our business; the impact of any revisions to our pricing strategy; the risk that we might not succeed in introducing and producing new products and services; the impact of foreign exchange fluctuations; the adequacy of internally generated funds and existing sources of liquidity, such as bank financing, as well as our ability to raise additional funds; the risk that we cannot effectively adapt to and manage complex and numerous technologies; the risk that businesses acquired by us might not perform as expected; and the risk that we are not able to successfully expand internationally. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. These and other risks and uncertainties are more fully described in the Company's filings with the U.S. Securities and Exchange Commission (SEC). We encourage you to review those documents before making any investment decision.

Non-GAAP Financial Measures

Today’s presentation and discussion also contain references to non-GAAP financial measures. The full definition, GAAP comparisons, and reconciliation of those measures are available in our press release which is posted on our website at www.rosettastone.com. Our non-GAAP measures may not be comparable to those used by other companies, and we encourage you to review and understand all our financial reporting before making any investment decision.

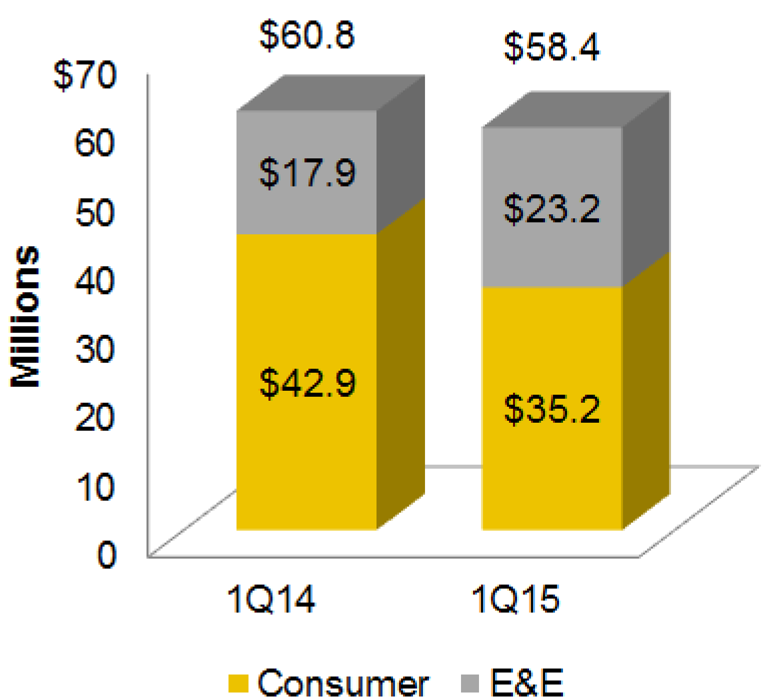
Q1 2015 Overview

- Total revenue decreased 4% year-over-year (“Y/Y”) to $58.4MM
  - Includes unfavorable currency effects of $1.5MM, or 3%
- Total bookings decreased 18% Y/Y to $50.5MM
  - Includes unfavorable currency effects of $3.0MM, or 5%
- Implemented a 15% reduction to our non-Enterprise & Education (“E&E”) headcount, which resulted in a restructuring charge of $6.3MM in the quarter, primarily related to severance. The Company expects to reduce annualized costs by approximately $50MM in part through this restructuring plan.
- Net loss totaled $19.9MM, or $0.95 per diluted share
  - GAAP net loss included other EBITDA adjustments and impairments, including restructuring charges and other related costs totaling $6.7 million (pre-tax)
- Adjusted EBITDA loss of $14.5MM
- Ended the quarter with $45.9MM in cash with no debt outstanding

Q1 2015 Total Revenue

Revenue

Total Revenue ⬇ 4% Y/Y
Constant Currency Basis ⬇ 1% Y/Y



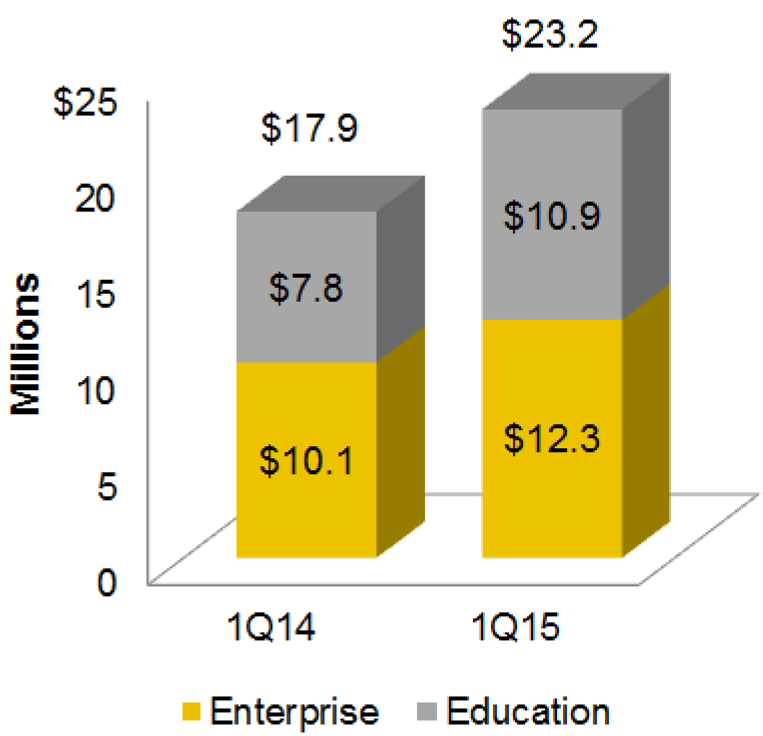
Drivers

- Total revenue declined $2.4MM or 4% Y/Y
- E&E segment revenue increased $5.3MM or 30% Y/Y
  - Growth reflects lower Q1 2014 resulting from purchase accounting impacts on deferred revenue
- Consumer segment revenue decreased 18% Y/Y, driven by lower promotional pricing and strategic decision to manage this segment for positive Adjusted EBITDA

Q1 2015 E&E Revenue

Revenue

E&E Revenue ⬆ 30% Y/Y



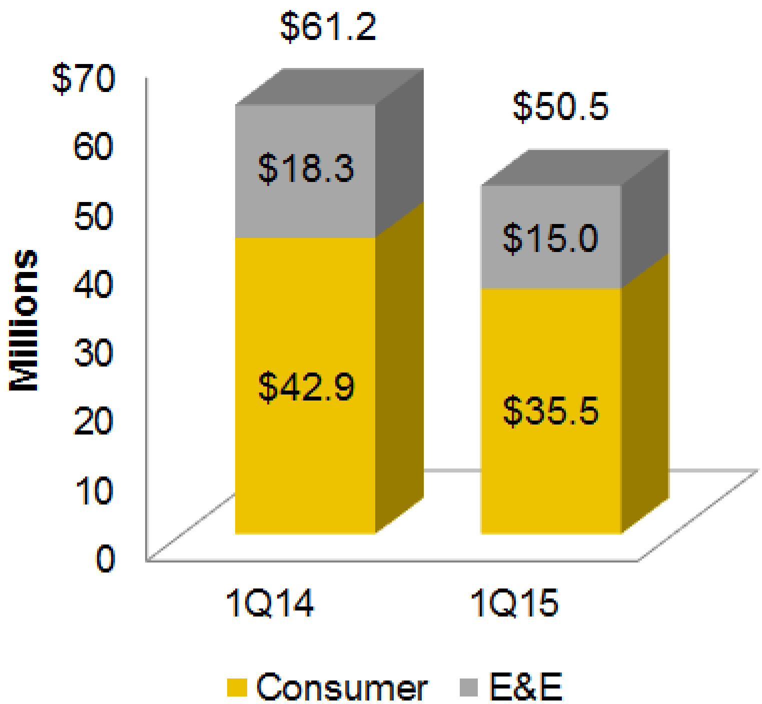
Drivers

- Total E&E revenue increased $5.3MM or 30% Y/Y
- E&E Enterprise revenue increased $2.2MM or 22% Y/Y
  - Europe, Brazil, and China all increased Y/Y
- E&E Education revenue increased $3.1MM or 39% Y/Y
  - Growth reflects lower Q1 2014 resulting from purchase accounting impacts on deferred revenue; we expect growth rates will slow as we lap the purchase accounting impact

Q1 2015 Total Bookings

Bookings[1]

Total Bookings ⬇ 18% Y/Y
Constant Currency Basis ⬇ 13% Y/Y



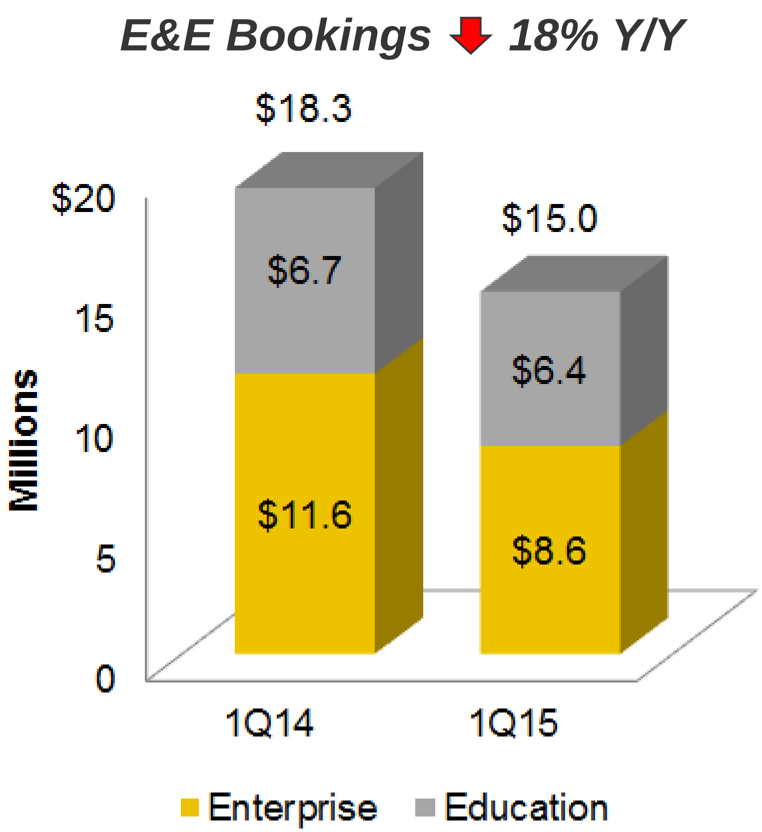
1. *Please see the Appendix for definitions of non-GAAP metrics*

Drivers

- Total bookings declined $10.7MM or 18% Y/Y
  - Unfavorable currency effects of $3.0MM, or 5%
- E&E bookings decreased $3.3MM or 18% Y/Y
  - Unfavorable currency effects of $2.0MM, or 11%
- Consumer bookings decreased $7.4MM or 17% Y/Y
  - Unfavorable currency effects of $1.0MM, or 2%

Q1 2015 E&E Bookings

Bookings[1]



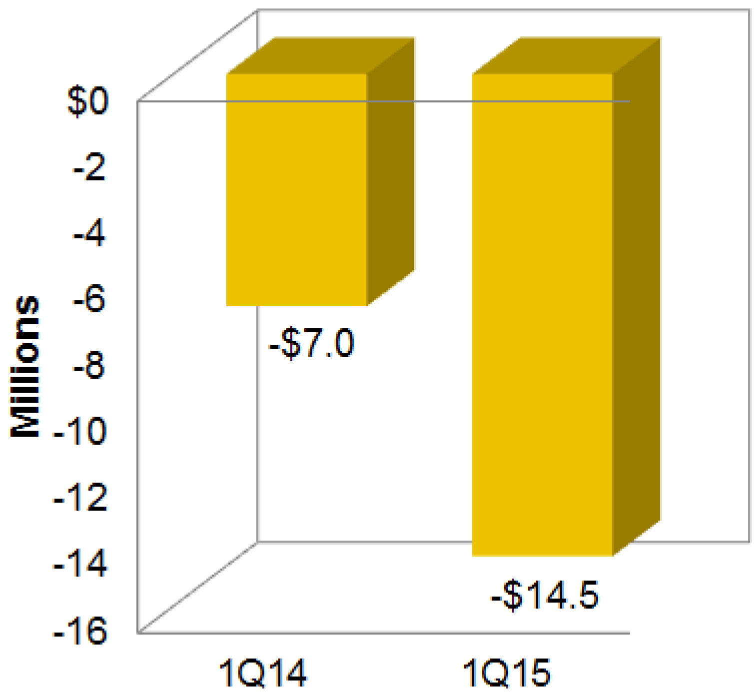
1. *Please see the Appendix for definitions of non-GAAP metrics*

Drivers

- Total E&E bookings down $3.3MM or 18% Y/Y
  - Includes unfavorable currency effects of $2.0MM, or 11%
- Enterprise decreased $3.0MM or 26% Y/Y
  - Europe, Brazil and Asia, excluding China, accounted for most of the decline
  - China was flat Y/Y
- Education decreased $0.3MM or 4% despite continued Y/Y improvement in Lexia

Adjusted EBITDA

Adjusted EBITDA[1]



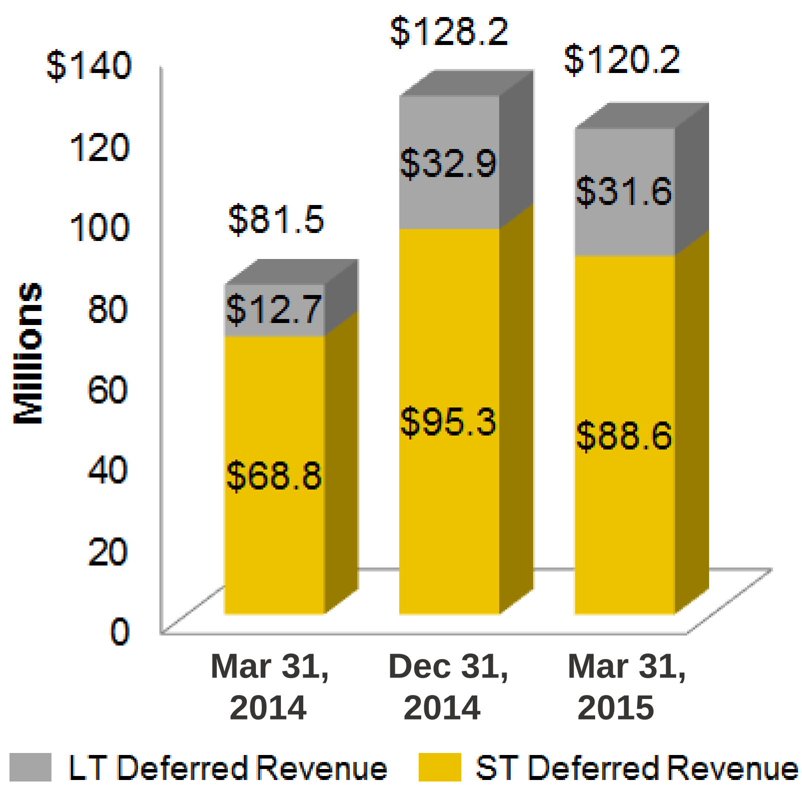
- Q1 2015 Adjusted EBITDA was negative $14.5MM
  - E&E direct segment contribution declined $5.5MM Y/Y
  - Consumer direct segment contribution declined $2.4MM Y/Y
  - Unfavorable currency effects totaled $1.3MM Y/Y
  - Shared Services G&A expense decreased $1.1 MM Y/Y

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

Balance Sheet Deferred Revenue

Deferred Revenue

-6% Seq.   +47% Y/Y

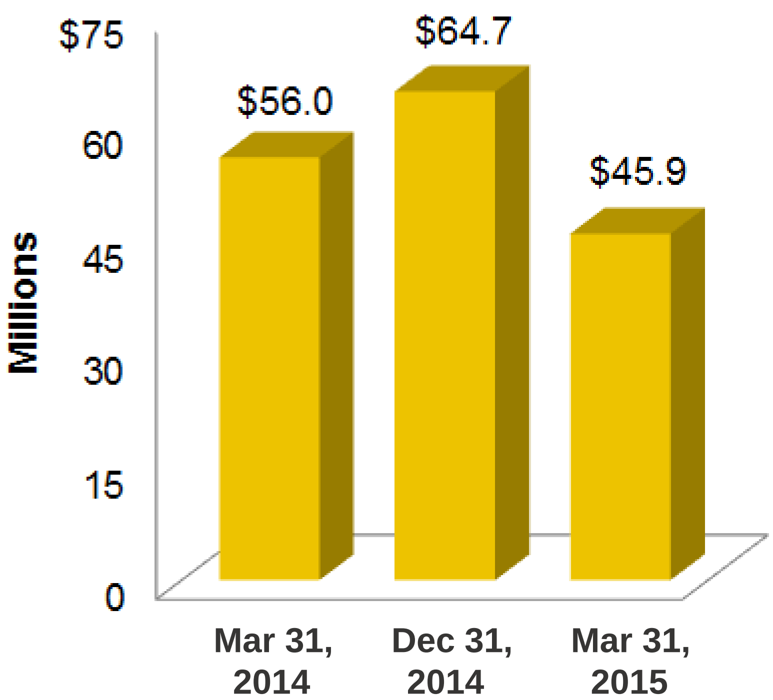


Drivers

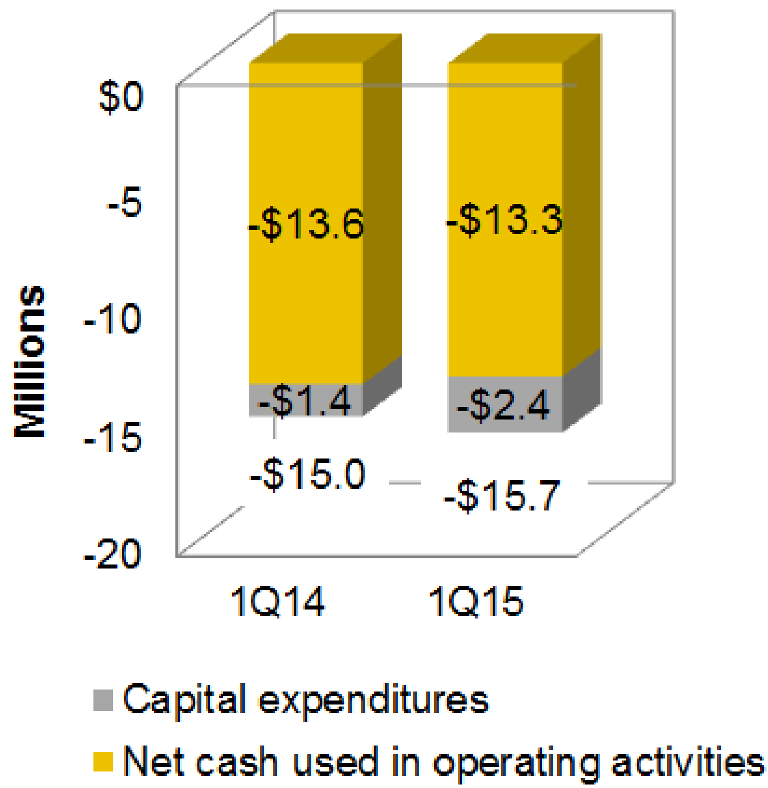
- Seq. decrease of $8.0MM
- Y/Y increase of $38.7MM
- Y/Y increase driven by impact of purchase accounting and growth in E&E bookings
- Increased mix of long-term (“LT”) deferred revenue
  - 74% ST in Q1 2015 vs. 84% in Q1 2014
  - LT portion increasing due to growth in Consumer sales of 3-year online products and, to a lesser extent, multi-year E&E agreements

Cash and Free Cash Flow

Total Cash Balance



Free Cash Flow[1]



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

Appendix

Economic Income Statement[1]

$MM	1Q14		2Q14		3Q14		4Q14		FY14		1Q15	
Bookings	$ 61.2	*100%*	$ 69.0	*100%*	$ 82.1	*100%*	$ 96.6	*100%*	$309.0	*100%*	$ 50.5	*100%*
Cost of Goods Sold	11.3	*18%*	11.6	*17%*	12.1	*15%*	15.3	*16%*	50.2	*16%*	10.6	*21%*
Gross Profit	49.9	*82%*	57.4	*83%*	70.1	*85%*	81.3	*84%*	258.7	*84%*	39.9	*79%*
Operating Expenses:												
Sales & Marketing	37.3	*61%*	38.9	*56%*	44.1	*54%*	51.9	*54%*	172.3	*56%*	36.0	*71%*
Research & Development	7.8	*13%*	7.4	*11%*	7.8	*10%*	6.8	*7%*	29.8	*10%*	7.8	*15%*
General & Administrative	11.7	*19%*	10.9	*16%*	11.9	*14%*	9.4	*10%*	43.9	*14%*	10.6	*21%*
Total Operating Expenses	56.8	*93%*	57.3	*83%*	63.7	*78%*	68.1	*70%*	246.0	*80%*	54.4	*108%*
Adjusted EBITDA	**$ (7.0)**	***-11%***	**0.1**	***0%***	**$ 6.3**	***8%***	**$ 13.2**	***14%***	**$ 12.7**	***4%***	**$(14.5)**	***-29%***

1. *Please see the Appendix for definitions of non-GAAP metrics. Immaterial rounding differences may be present in this data in order to conform to reported totals.*

Fully Allocated Q1 2015[1]

	Enterprise & Education		Consumer		Total	
Enterprise & Education	$MM	%	$MM	%	$MM	%
E&E Education	$ 6.4	*43%*			$ 6.4	*13%*
E&E Enterprise	8.6	*57%*			8.6	*17%*
Total E&E Bookings	15.0	*100%*			15.0	*30%*
Consumer			$ 35.5	*100%*	35.5	*70%*
Total Bookings	15.0	*100%*	35.5	*100%*	50.5	*100%*
COGS	3.9	*26%*	6.7	*19%*	10.6	*21%*
Gross Margin (Bookings)	11.1	*74%*	28.8	*81%*	39.9	*79%*
Operating Expenses:						
S&M	15.4	*103%*	20.6	*58%*	36.0	*71%*
R&D	6.1	*41%*	1.7	*5%*	7.8	*15%*
Total Operating Expenses	21.5	*144%*	22.3	*63%*	43.8	*87%*
Adjusted EBITDA (Before G&A)	**(10.4)**	*(69%)*	**6.5**	*18%*	**(3.9)**	*(8%)*
Total Shared Services G&A [2]	8.1	*54%*	2.5	*7%*	10.6	*21%*
Fully Allocated Adjusted EBITDA	**$ (18.5)**	*(124%)*	**$ 4.0**	*11%*	**$ (14.5)**	*(29%)*

1. *Please see the Appendix for definitions of non-GAAP metrics. Immaterial rounding differences may be present in this data in order to conform to reported totals.*
2. *Total Shared Services G&A – the allocation methodology varies by function and expense type (e.g., Legal, Human Resources, Accounting, Tax, costs to support enterprise business systems etc.). Costs to support a publically traded company and compliance were assigned to E&E. Additionally, the G&A expenses to support international operations were assigned to E&E.*

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, other income/expense, income tax benefit and expense, depreciation, amortization and stock-based compensation expense, 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., consulting and other related costs associated with the development and implementation of the accelerated strategy and cost reductions, 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.*
- ***Economic Income Statement*** *reflects income statement based on bookings and expense lines adjusted for one-time items.*
- ***Free cash flow*** *is cash flow from operating activities, less capital expenditures; capital expenditures is captioned "cash used in purchases of property and equipment" on the Consolidated Statements of Cash Flows*

Non-GAAP Metric Definitions

Fully-Allocated Earnings – New Format

- We are providing a fully-allocated economic statement for the E&E and Consumer segments. This is a new management report that we will provide going forward.
- The fully-allocated economic statement begins with the direct segment contribution and subtracts allocated R&D, G&A and some COGS inventory related expenses.
- R&D is allocated to each segment based on the estimated development costs for specific projects. Shared projects, as well as administrative costs (e.g., rent, travel, etc.) are allocated pro rata based upon pre-allocation project costs. For 2014, approximately, 60% of R&D was assigned to the E&E segment. We expect the percentage to increase to approximately 80% in 2015.
- Shared Services G&A allocation methodology varies by function and expense type (e.g., Legal, Human Resources, Accounting, Tax, costs to support enterprise business systems etc.). Costs to support a publically traded company and compliance were assigned to E&E. Additionally, the G&A expenses to support international operations were assigned to Global E&E.
- COGS inventory related costs (e.g., purchase price and labor variances to standard costs, inventory rework expense, etc.) are 100% allocated to the Consumer segment. These expenses are incurred as a results of selling a box product and Consumer is the only segment that sells our products in that form.
- As the E&E segment becomes a larger portion of the overall company results and the cost structure is optimized to support the Global E&E segment, the allocation methodologies may change.
- This supplemental presentation differs from the segment reporting in our December 31, 2014 Form 10-K, which reports the direct segment contribution for E&E, North America Consumer and ROW Consumer. This new format is a result of the strategic realignment announced in March 2015 to increase focus and investment around the E&E segment.

