4Q14 Earnings

March 11, 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, 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

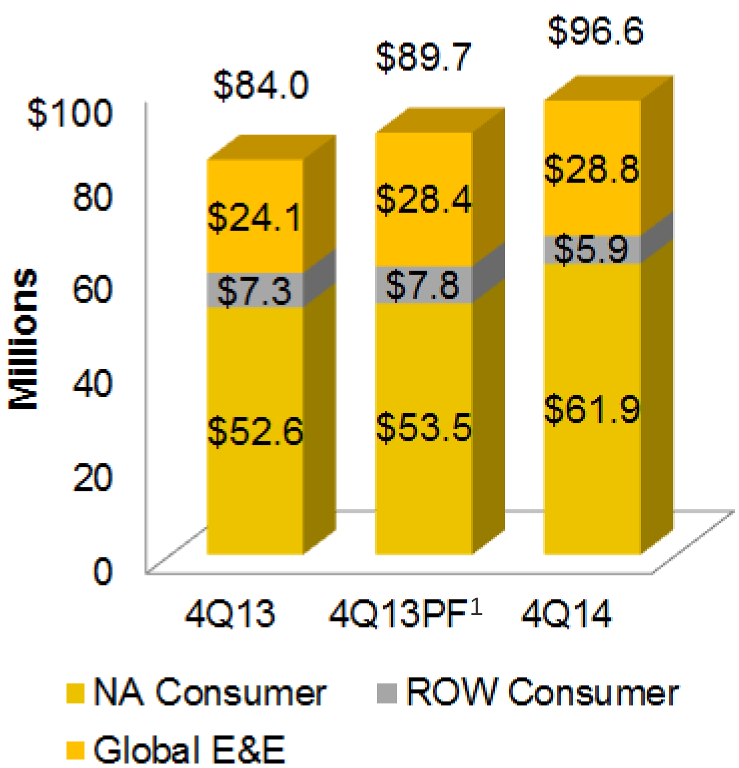
Today’s presentation and discussion also contain references to non-GAAP financial measures. The full definition, GAAP comparisons, and reconciliation of those measures are available in our press release which is posted on our website at www.rosettastone.com. Our non-GAAP measures may not be comparable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

Q4 2014 Highlights

- Increased total bookings by 15% to $96.6MM
- Posted adjusted EBITDA of $12.7MM, up 66% compared to $7.6MM a year ago
- Grew North America ("NA") Consumer bookings 18%, driven by 34% increase in web channel sales
  - Digital product mix increased to >60%, up from 40% last year
- Reported Global Enterprise & Education ("E&E") bookings growth of 20%
  - Organic Global E&E bookings growth was 2%
  - E&E Literacy bookings grew 24%
  - Organic E&E Language bookings declined 2%, reflecting unfavorable currency movements (estimated at approx. 3 percentage points) and lower NA Consumer prices (estimated at approx. 4 percentage points)
- Generated Free Cash Flow of $16.2MM, ending the year with $64.7MM in cash with no debt outstanding

Q4 2014 Total Bookings

Bookings[1]



Drivers

- ***Total Reported ⇧ 15% Y/Y***
- ***Total Pro forma[1] ⇧ 8% Y/Y***

➢ Global E&E increased 20% Y/Y, with Literacy up 24% Y/Y

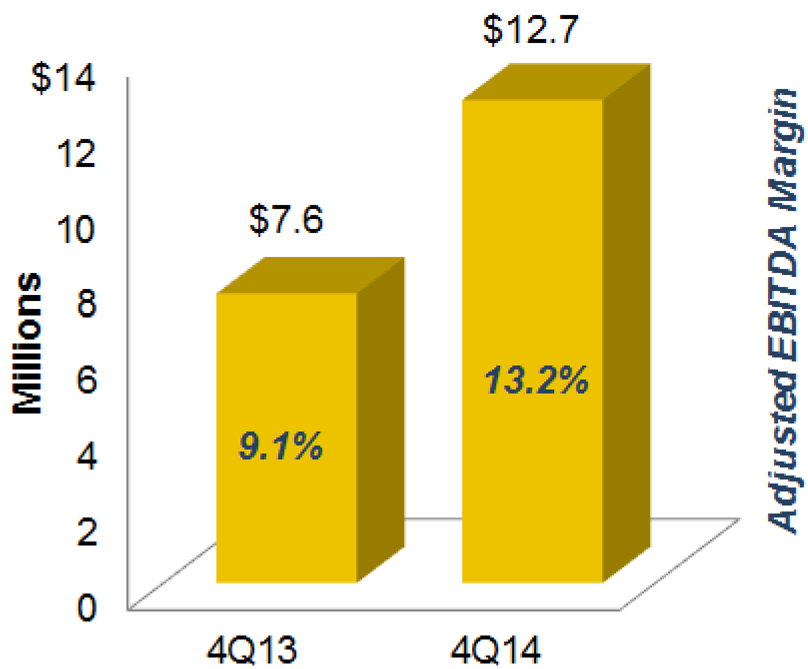
➢ ROW Consumer down 20% Y/Y primarily due to reorganization undertaken in Asia in Q1 2014

➢ NA Consumer increased 18% on record unit sales, with acceleration in Fit Brains

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

Adjusted EBITDA

Adjusted EBITDA[1]



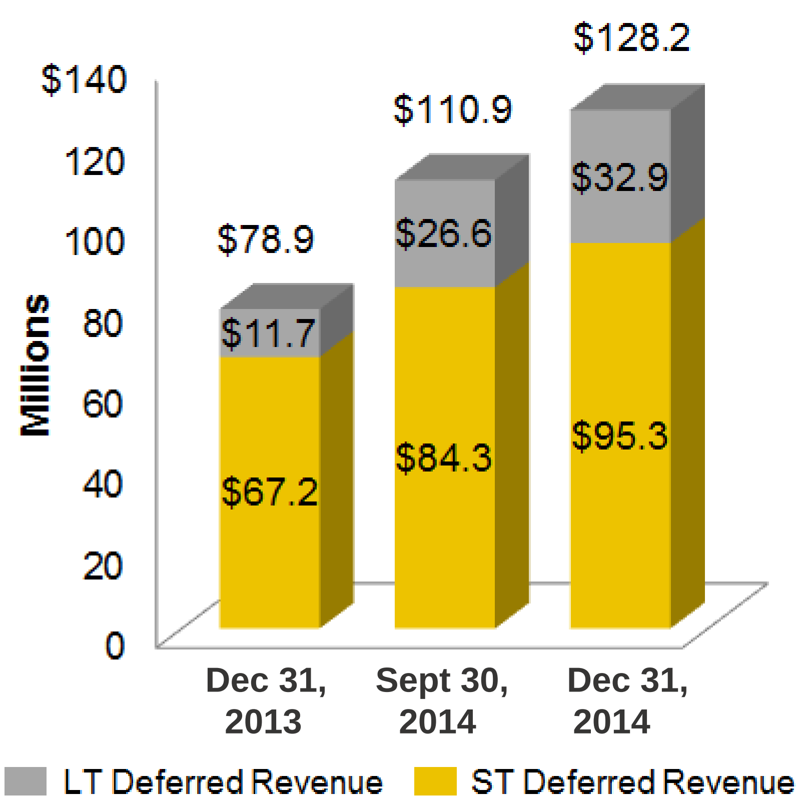
- Q4 2014 Adjusted EBITDA of $12.7MM, increased 66% Y/Y
- Highest quarterly Adjusted EBITDA since 4Q12, driven principally by lower R&D and G&A costs

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

Balance Sheet Deferred Revenue

Deferred Revenue

+ 16% Seq. +63% Y/Y

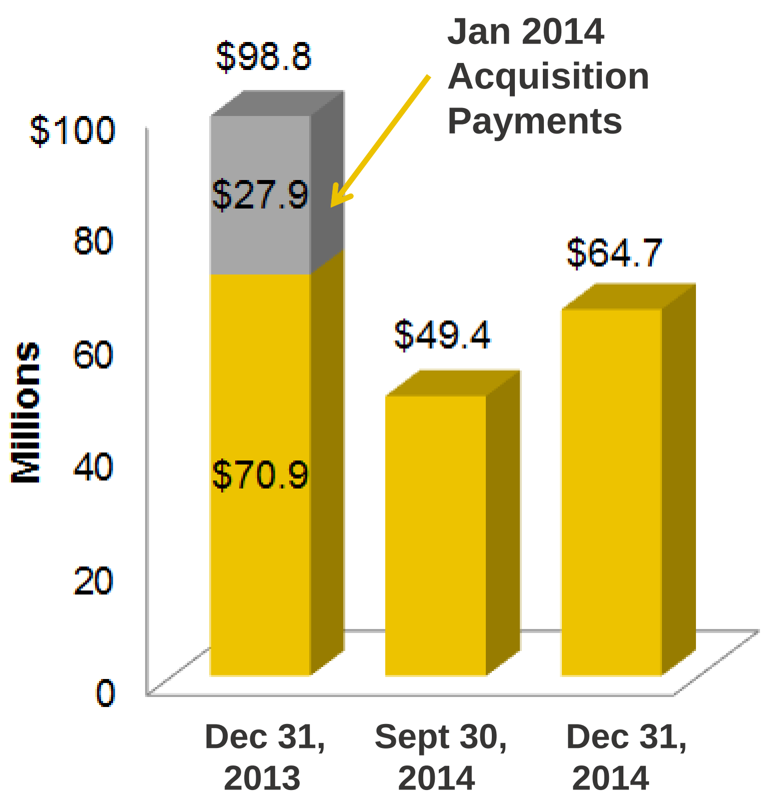


Drivers

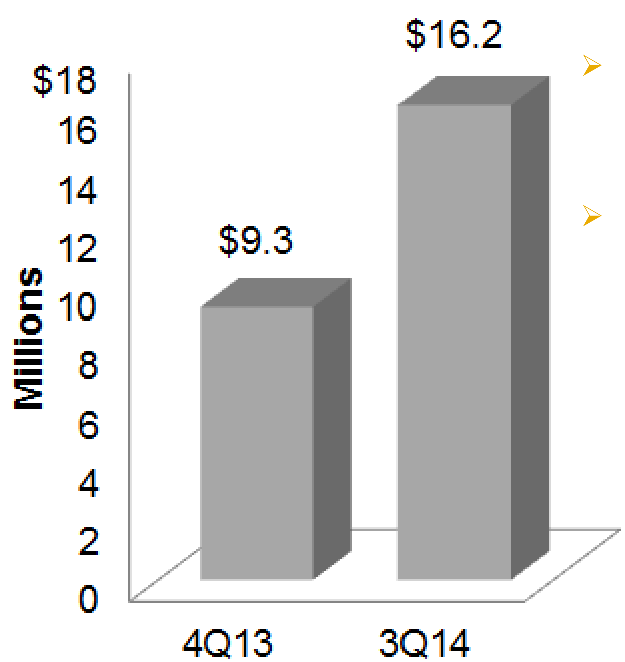
- Seq. increase of $17.3MM
- Y/Y increase of $49.3MM
- Y/Y increase driven by growth in E&E bookings coupled with purchase accounting impact
- Increased the mix of long-term ("LT") deferred revenue
  - 74% ST in Q4 2014 vs. 85% in Q4 2013 and 76% in prior quarter
  - Growth in Consumer sales of 3-year online products and, to a lesser extent, multi-year E&E agreements

Cash and Free Cash Flow

Total Cash Balance



Free Cash Flow[1]



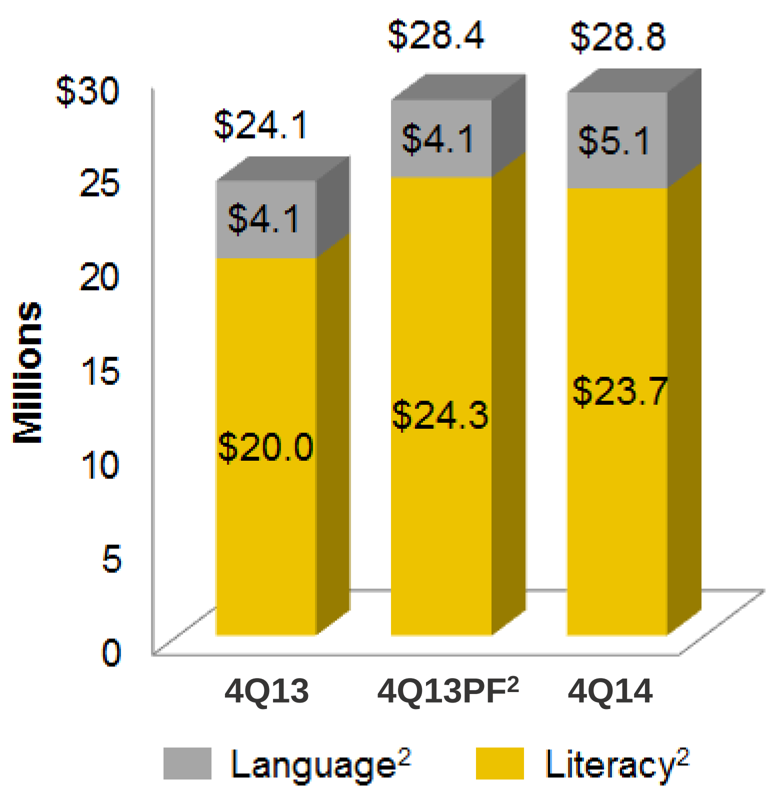
- **Higher Adjusted EBITDA**
- **Better working capital management**

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

Segment Performance

Q4 2014 Global E&E Bookings

Bookings[1]



Drivers

- ***Total Reported*** ⬆ ***20% Y/Y***
- ***Total Pro forma[2]*** ⬆ ***2% Y/Y***

➢ Literacy up 24% Y/Y, continuing strong growth trend, with high level of renewals and upsell

➢ Reported Language up 19% Y/Y, benefitting from Tell Me More acquisition

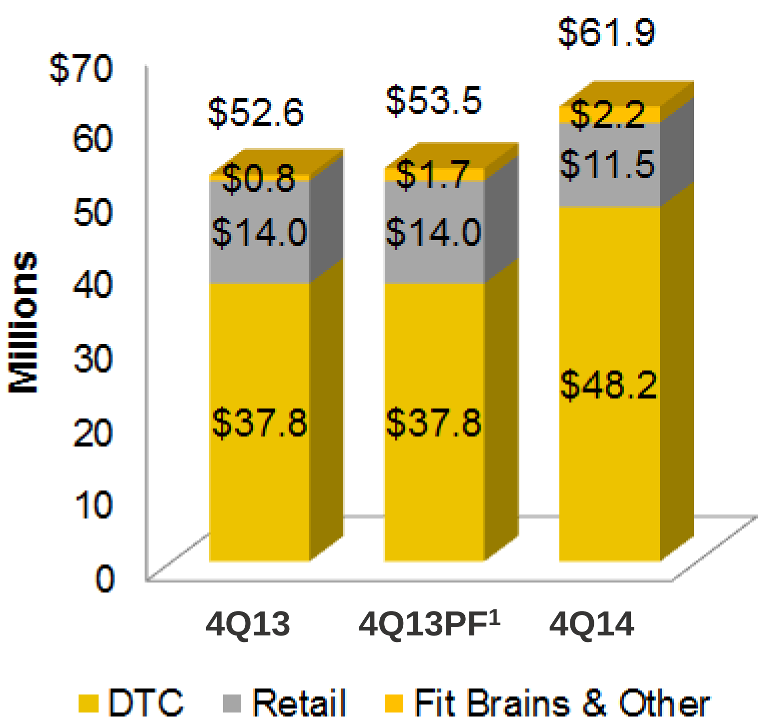
  ➢ Organic Language down 2%, after impact of FX and lower NA Consumer prices

1. *Please see the Appendix for definitions of non-GAAP metrics*
2. *Language includes legacy Rosetta Stone and acquired Tell Me More,; Literacy includes Lexia Learning*

Q4 2014 NA Consumer Bookings

Bookings[1]

Total Bookings ⬆ 18% Y/Y



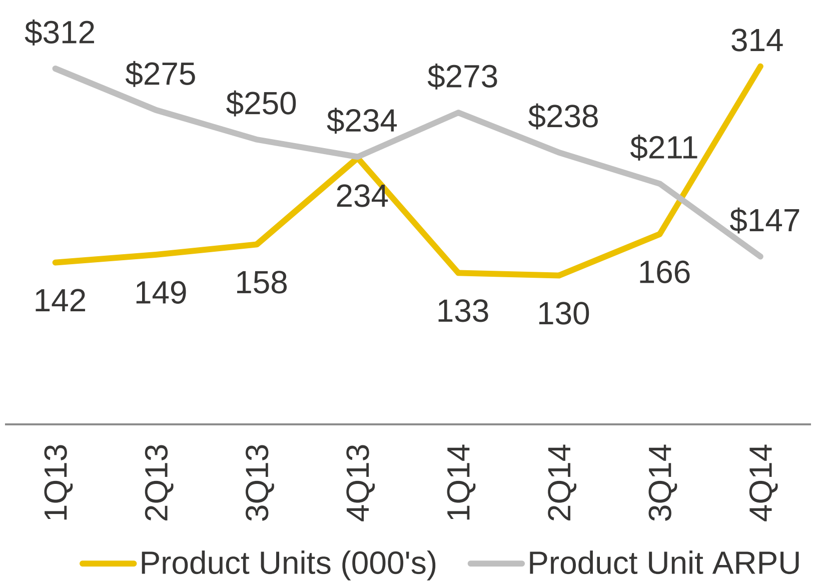
Drivers

- Record quarterly product unit sales, with 34% Y/Y growth
- DTC channel up 28% Y/Y overall, with web channel up 34% Y/Y
- Continued weakness in call center
- Retail down 18% Y/Y due to lower price and lower partner inventory management

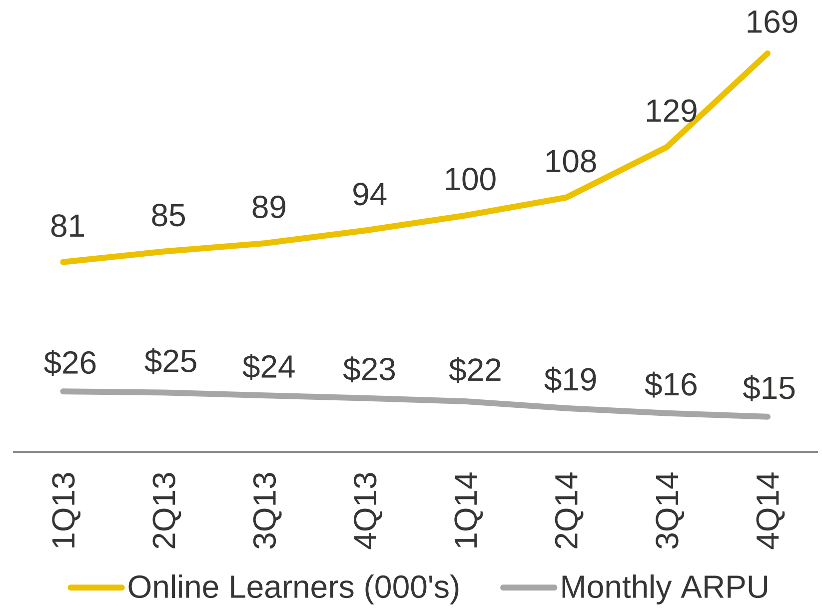
1. *Please see the Appendix for definitions of non-GAAP metrics*

Consumer Product Units & Paid Online Learners

Product Units & ARPU[1]



Paid Online Learners & Average Monthly Revenue[1]



- Product Units increased 34% WW Y/Y reflecting strong growth from web channel
- Lower selling price drove ARPU decline

- 80% growth in number of Online Learners
- Lower pricing and increased sales of paid upfront 3-year online product drove slight decrease in average monthly revenue

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

Strategic Realignment and 2015 Guidance

Overview of 2015 Plan

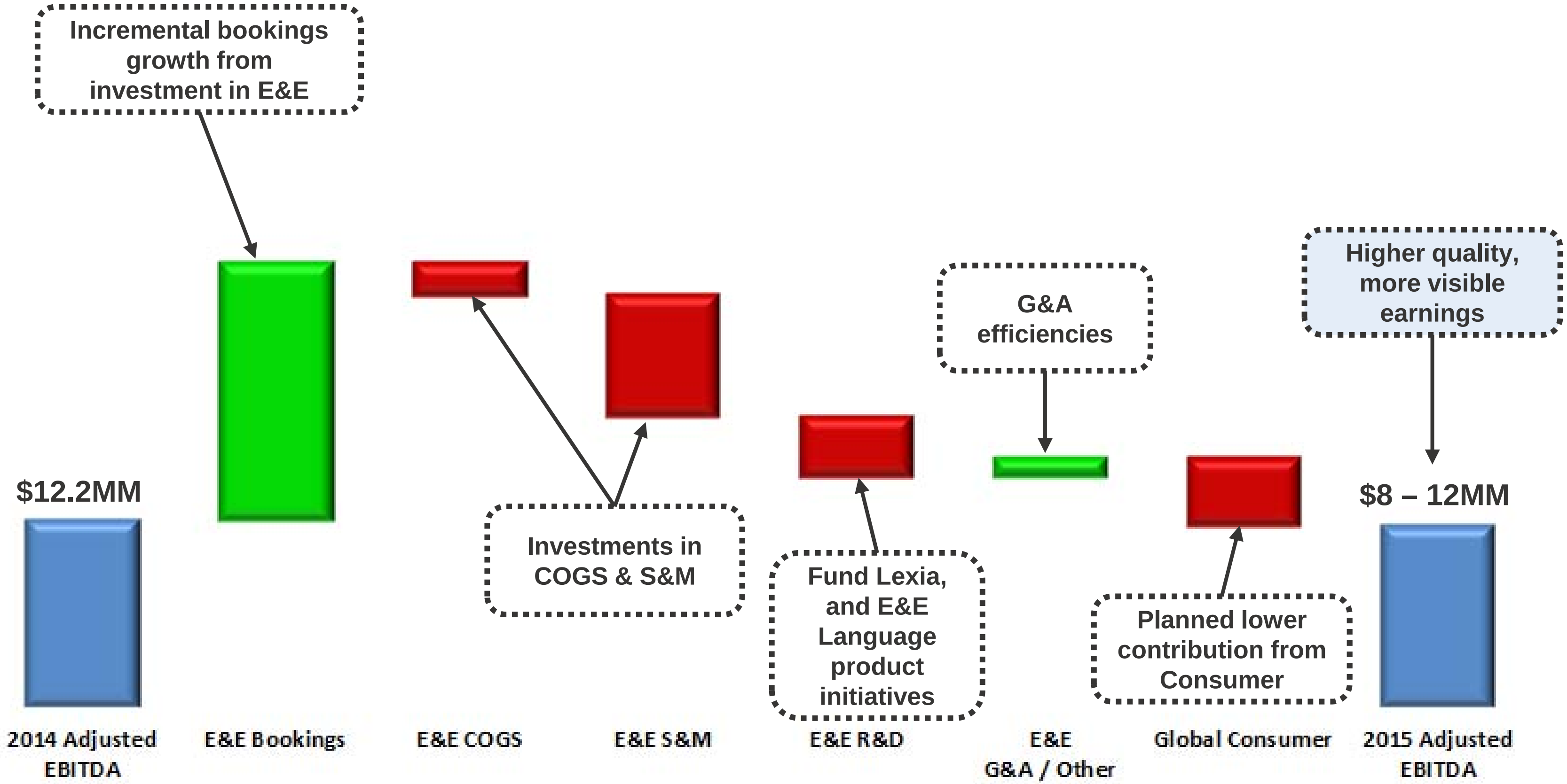
Four Key Initiatives	2015 Actions
Focus on Global Enterprise & Education segment	➢ Enterprise: complete product integration, optimize distribution and marketing in key geographies ➢ Education: progress on Literacy + Language integrated English offering, develop blended learning supplements for Language
Focus product investment on personalized language learning	➢ Integrate three major language products in portfolio, combining Foundations, Advantage, and Advanced English for Business onto a single platform ➢ Deeper penetration for Literacy products
Rightsize the cost base, targeted at Consumer S&M and G&A	➢ Approximately 15% reduction in global non-E&E workforce ➢ Expected annualized operating expense savings of $50MM ➢ Estimated Q1 2015 one-time charge of $7MM ➢ Target >80% of Consumer products sold digitally via web channel
Reduce number of noncore business activities to drive focus	➢ Reduce the number of marketing and promotional campaigns ➢ Reduce investments in Europe and in Kids Reading

Guidance – Full Year 2015 Outlook

	2015 Guidance[1,2] **Amount/Range**	***Commentary***
Global E&E Bookings	$122MM to $130MM	*8% to 15% growth*
Consolidated Adjusted EBITDA	$8MM to $12MM	*Investment in Global E&E segment*
Capital Expenditures	$10MM to $12MM	*Investment in Global E&E segment*
Shares / Tax Rate	~22MM / 39%	

1. *Please see the Appendix for definitions of non-GAAP metrics;*
2. *Bookings growth comments reflect run-rate growth assuming that acquisitions were included in Rosetta Stone's 2014 bookings*

FY2014 – FY2015 Adjusted EBITDA



Fully Allocated Year 2014[1]

	Global E&E		Global Consumer		Total	
Total Bookings	$MM	%	$MM	%	$MM	%
Global E&E						
E&E Education	$ 56.3	50%			$ 56.3	18%
E&E Enterprise	56.9	50%			56.9	18%
Total E&E Bookings	113.2	100%			113.2	37%
Global Consumer			$ 195.8	100%	195.8	63%
Total Bookings	113.2	100%	195.8	100%	309.0	100%
COGS	15.1	13%	35.1	18%	50.2	16%
Gross Margin (Bookings)	98.1	87%	160.7	82%	258.7	84%
Operating Expenses:						
S&M	62.3	55%	110.0	56%	172.3	56%
R&D	18.8	17%	11.0	6%	29.8	10%
Total Operating Expenses	81.1	72%	121.0	62%	202.1	65%
Adjusted EBITDA (Before Allocated G&A)	**17.0**	15%	**39.6**	20%	**56.6**	18%
Total Shared Services G&A	32.3	29%	12.1	6%	44.4	14%
Fully Allocated Adjusted EBITDA	**($15.3)**	(14%)	**$27.5**	14%	**$12.2**	4%

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 Global E&E. Additionally, the G&A expenses to support international operations were assigned to Global E&E. Approximately, 75% of G&A expenses were allocated to the Global E&E segment.

Guidance – Q1 2015 Outlook

	Q1 2015 Guidance[1,2]	
	Amount/Range	***Commentary***
Global E&E Bookings	Approximately $17MM	*7% decline*
Consolidated Adjusted EBITDA	Approximately $(10)MM	*Seasonally Lowest Quarter and Investing Behind E&E*
Capital Expenditures	Approximately $4MM	
Shares / Tax Rate	~22MM / 39%	

1. *Please see the Appendix for definitions of non-GAAP metrics;*
2. *Bookings growth comments reflect run-rate growth assuming that acquisitions were included in Rosetta Stone's 2014 bookings*

Appendix

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Non-GAAP Metric Definitions

- ***Bookings*** *represent executed sales contracts received by the Company that are either recorded immediately as revenue or as deferred revenue.*
- ***Pro Forma Bookings*** *assumes all acquisitions were completed January 1.*
- ***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, 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.*
- ***Adjusted EBITDA Margin*** *is Adjusted EBITDA divided by Bookings.*
- ***Economic Income Statement*** *reflects income statement based on bookings and expense lines adjusted for one-time items.*
- ***Segment Contribution*** *is based on Bookings.*
- ***Free cash flow*** *is cash flow from operating activities, less cash used in purchases of property and equipment.*
- ***Product Software Units*** *– a unit is a perpetual software license sold as either tangible packaged software or as a digital download.*
- ***ARPU*** *is defined as average revenue per product software unit - Consumer revenues derived from product software units, divided by the number of product software units sold in the same period.*
- ***Paid Online Learners*** *is the number of paid, active consumer language-learners derived from the sale of our web-based software subscription and purchasers of our product software who subsequently purchase renewals of their short-term online services - as of the end of a specified period.*
- ***Average Revenue per Paid Online Learner*** *is revenues derived from paid online learners for a specified period, divided by the average number of paid online learners during the same period, adjusted to a monthly rate.*

Non-GAAP Metric Definitions

Fully-Allocated Earnings – New Format

- We are providing a fully-allocated economic statement for the Global E&E and Global 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 Global E&E segment. We expect the percentage to increase to approximately 80% in 2015.
- 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 Global E&E. Additionally, the G&A expenses to support international operations were assigned to Global E&E. Approximately, 75% of G&A expenses were allocated to the Global E&E segment.
- 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 Global 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 Global 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 Global E&E segment.

Economic Income Statement[1]

$MM	1Q13		2Q13		3Q13		4Q13		FY13		1Q14		2Q14		3Q14		4Q14		FY14	
Bookings	$ 60.4	*100%*	$ 63.1	*100%*	$ 70.7	*100%*	$ 84.0	*100%*	$278.1	*100%*	$ 61.2	*100%*	$ 69.0	*100%*	$ 82.1	*100%*	$ 96.6	*100%*	$309.0	*100%*
Cost of Goods Sold	10.1	*17%*	10.0	*16%*	10.4	*15%*	14.1	*17%*	44.6	*16%*	11.3	*18%*	11.6	*17%*	12.1	*15%*	15.3	*16%*	50.2	*16%*
Gross Profit	50.3	*83%*	53.1	*84%*	60.3	*85%*	69.9	*83%*	233.5	*84%*	50.0	*82%*	57.4	*83%*	70.1	*85%*	81.3	*84%*	258.7	*84%*
Operating Expenses:																				
Sales & Marketing	36.0	*60%*	31.3	*50%*	35.8	*51%*	42.0	*50%*	145.0	*52%*	37.3	*61%*	38.9	*56%*	44.1	*54%*	51.9	*54%*	172.3	*56%*
Research & Development	6.1	*10%*	7.6	*12%*	8.2	*12%*	8.0	*10%*	29.9	*11%*	7.8	*13%*	7.4	*11%*	7.8	*10%*	6.8	*7%*	29.8	*10%*
General & Administrative	9.7	*16%*	10.4	*17%*	10.5	*15%*	12.3	*15%*	42.9	*15%*	11.7	*19%*	10.9	*16%*	11.9	*14%*	9.9	*10%*	44.4	*14%*
Total Operating Expenses	51.8	*86%*	49.3	*78%*	54.4	*77%*	62.3	*74%*	217.8	*78%*	56.8	*93%*	57.3	*83%*	63.7	*78%*	68.6	*71%*	246.5	*80%*
Adjusted EBITDA	**$ (1.6)**	*-3%*	**$ 3.7**	*6%*	**$ 5.9**	*8%*	**$ 7.6**	*9%*	**$ 15.7**	*6%*	**$ (6.9)**	*-11%*	**0.1**	*0%*	**$ 6.3**	*8%*	**$ 12.7**	*13%*	**$ 12.2**	*4%*

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.*

