Q3 2015
Investor Presentation

November 5, 2015

Caution on Forward-Looking Statements

This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by non-historical statements and often include words such as “outlook,” “potential,” "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 include, but are not limited to, statements relating to: our revised business strategy; guidance or projections related to revenue, Adjusted EBITDA, bookings, 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 guidance, projections, plans, objectives, and related estimates and assumptions. A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances. In addition, forward-looking statements are based on the Company’s current assumptions, expectations and beliefs and 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, performance or achievement to differ materially from those expressed or implied by these forward-looking statements include, but are not limited to: 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 developments or otherwise, except as required by law. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements, risks and uncertainties that are more fully described in the Company's filings with the U.S. Securities and Exchange Commission (SEC), including those described under the section entitled “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014, as such factors may be updated from time to time.

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 this presentation or 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.

Company Overview

Company Highlights

- **Leading learning company with well-known brands focused on key growth segments of the marketplace: Language learning and Literacy education**

- **Large addressable marketplaces with significant growth opportunity**
  - Transition to digital and blended learning
  - Strong secular trends (i.e. – need to learn English, focus on early childhood education and literacy)

- **Building recurring revenue business**
  - Subscription and service revenue was 72% of total revenues in 3Q15
  - $139.4MM of deferred revenue at 9/30/15 of which $102.7MM was short-term
  - E&E business characterized by ongoing relationships, led by Lexia with 90%+ renewal rates

- **Best-in-class K-12 digital language and literacy solutions**
  - E&E K-12 Language and Lexia Literacy offer a unique suite of products to school districts
  - Combined K-12 business generating ~$60MM in annual bookings

- **Pioneer of technology enabled learning solutions**
  - Rosetta Stone Language – Massive language content library and unique product features
  - Lexia Literacy – Market leading/award winning literacy products and assessment tools

- **Strong liquidity position**
  - Zero debt; expect to grow ~$35MM cash balance to mid-$40MM range at year-end 2015
  - Unused $25MM revolving credit facility

Transformation Nearing Completion

2012	2015

2012

- Primarily Consumer (B2C)
- Language only
- Language for Beginners to Early Intermediate
- One-time sale
- Primarily physical product
  - Product revenue was 66% of revenue mix in 3Q12

2015

- Strategic focus and investment on E&E (B2B), especially Lexia
- Language Arts (Language and Literacy)
- End-to-end language suite with demonstrated learning outcomes
- E&E end markets characterized by recurring revenue, lifetime value of a customer
- Primarily digital & mobile
  - Subscription and service revenue was 72% of revenue mix in 3Q15

Priorities for 2015

- Maximize growth of Lexia's literacy education and assessment businesses
- Optimize Consumer segment contribution margin percentage
- Develop a more focused product portfolio that provides positive learning outcomes
- Simplify and focus attention and capital on best opportunities
- Reduce costs to drive more profit to the bottom line

Maximize Growth of Lexia's Literacy Education and Assessment Businesses

Opportunity:

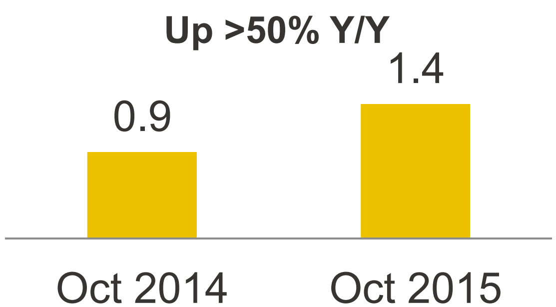
- K-12 reading market is $1.7B and growing[1]
- Literacy instruction is undergoing a secular shift from print to digital
- Proven efficacy with Lexia Reading Core5 as 64% of high-risk students substantially reduced their risk for reading failure[2]
- Sticky relationships with 90%+ renewals

Management actions:

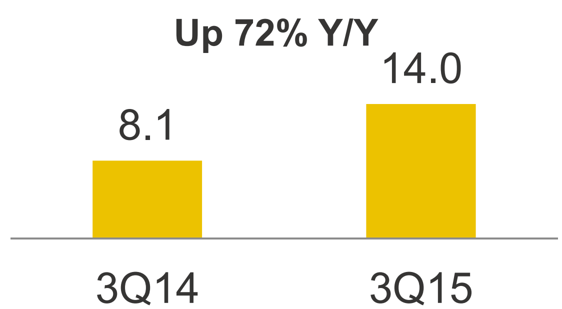
- Significantly upgraded core products (Core5, myLexia)
- Entered the literacy assessment marketplace with RAPID Assessment
- Growing the direct sales channel to tighten customer relationships

Results:

Active Students (MM)



Bookings[3] ($MM)



- ***Expect ~ 35% bookings growth in 2015 and momentum headed into 2016***

1. *Company commissioned research;The Complete K-12 Report: Market Facts & Segment Analyses 2013.*
2. *Lexia Reading Core5 National Report for school year 2014-2015.*
3. *Please see the Appendix for definitions of non-GAAP financial measures..*

Optimize Consumer Segment Contribution Margin Percentage

Opportunity:

- Focus on passionate learners who are motivated, results focused and willing to pay for quality learning experience
- Prioritize North America with tactical international marketing spend to capitalize on existing brand awareness
- Develop highly focused e-commerce team (web, mobile, app store) supplemented by select retail partners

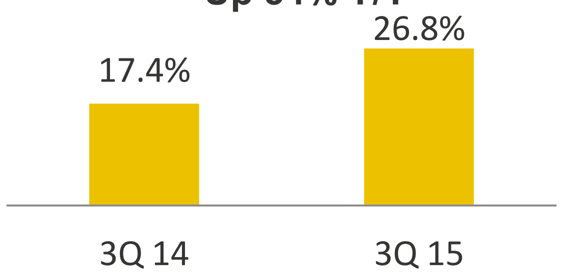
Management actions:

- Reduced number of third-party retailers approximately 50%
- Reduced direct headcount by approximately 40%
- Focused media and increased ROM 9% from 3Q14 to 3Q15
- Stable average selling price per unit for S5 product, down 2% sequentially ("seq.")
- Opportunistically investing in product to optimize business

Results:

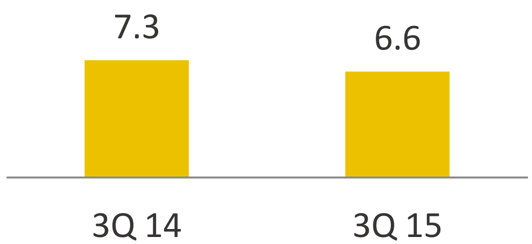
Contribution Margin[1] (%)

Up 54% Y/Y



Contribution Margin[1] ($MM)

Down $0.7 Y/Y



- ***Consumer generating strong contribution despite 42% Y/Y decline in revenue***

1. Please see the Appendix for definitions of non-GAAP financial measures.
Contribution Margin $MM amount for 3Q15 has been corrected from what accompanied the webcast.

Develop a More Focused Product Portfolio that Drives Learning Outcomes

Lexia Literacy	Language

Lexia Literacy

Opportunity:

- Literacy is the foundation of all learning, yet 64% of 4th grade students reading below grade level[1]
- Literacy K-12 curriculum marketing is $1.7B and the assement market is $3.1B[2]

Management Actions:

- Updated Lexia Reading Core5
  - Provides explicit, systematic, personalized learning and delivers norm-referenced performance data and analysis
- Launched RAPID Assessment
  - Screening and diagnostic tool that identifies and monitors reading and language skills to provide actionable data for instructional planning

Language

Opportunity:

- Face-to-face learning shifting to blended and digital learning
- Global language learning market is $60B growing to $106B by 2018[3]
- Currently over 1B people are learning English worldwide and this will double in five years[4]

Management Actions:

- Completing the alignment of our three E&E Language platforms; beta in 1H 2016
  - Single sign-on for access to all English content with assessment, placement and reporting tools
- Launching work on improved Consumer mobile experience

Result: Enhanced product portfolio focused on improving learning outcomes

1. *National Assessment of Educational Progress Report Card; "2015 Mathematics & Reading Assessments".*
2. *Company commissioned research; The Complete K-12 Report: Market Facts & Segment Analyses 2013.*
3. *Company commissioned research.*
4. *British Council article " Number of English Language Learners Keeps on Growing"; May 30, 2014.*

Drive Simplicity and Sharpen Focus

Opportunity:

- Improve cash flow and allocation of resources to drive more value for shareholders
- Improve customer experience and increase engagement
- Improve execution within the company and drive down costs

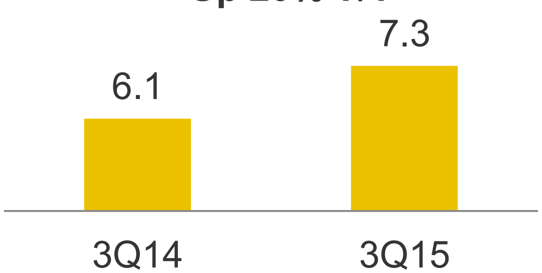
Management actions:

- Focused and simplified Consumer
- Sold Korean business and entered into partnership for Rosetta Stone branded learning centers in Japan
- Ceased marketing Kids Reading and seeking license partners
- Managing Fit Brains to optimize NPV within a close to break-even contribution

Results:

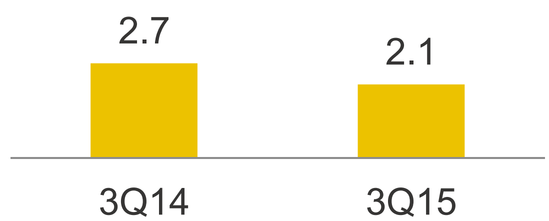
Cash Flow from Operations ($MM)

Up 20% Y/Y



Capital Expenditures ($MM)

Down 24% Y/Y



- ***Increased focus and capital allocation to best opportunities***

Reduce Costs and Drive More Profit to Bottom Line

Opportunity:

- Reduce run-rate costs to improve bottom line result for shareholders
  - $50MM reduction announced in March 2015
  - Additional $15MM of cost reductions recently identified
    - Expected to be non-revenue impacting
    - Reductions will be primarily realized during 2016

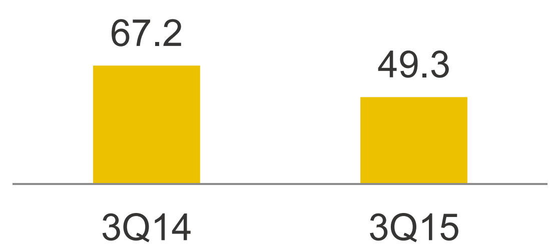
Management actions:

- Restructured Consumer, consolidated European operations in the US
- Optimized media spend and other costs in Consumer sales and marketing
- Reduced global non-E&E workforce by approximately 15%
- Reduced office space, production and shipping costs, consulting, and contract related expenses

Results:

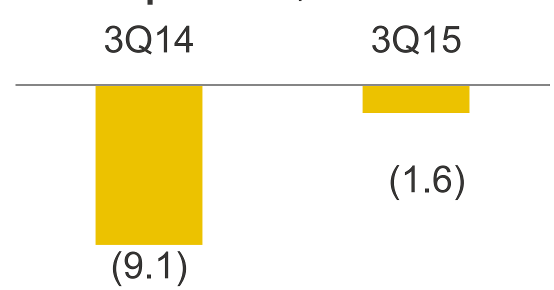
Operating Expense[2] ($MM)

Down $17.9 Y/Y



Adjusted EBITDA[1] ($MM)

Improved $7.5 Y/Y



- ***Adjusted EBITDA increased 82% Y/Y in 3Q15, even with planned $14.7MM reduction in total revenues***

1. *Please see the Appendix for definitions of non-GAAP financial measures.*
2. *Graphic only depicts the Sales & Marketing (“S&M), Research & Development (“R&D”) and General & Administrative (“G&A”) expense categories and does not fully reflect the Company’s income statement in periods when other expenses were incurred.*

Improved Outlook for Net Income and Adjusted EBITDA[1]

Guidance – Full Year 2015 Outlook

$MM	**Previous**	**Current**
Total Revenues	Approx. 220	Approx. 220
E&E Segment Revenues	94 to 100	Approx. 100
Lexia Revenues (included in E&E)	Approx. 21	Approx. 21
Consumer Segment Revenues	120 to 125	Approx. 120
GAAP Net Loss	Approx. 52	Approx. 50
Restructuring and Other Related Costs (included in GAAP Net Loss)[1]	Approx. 9	Approx. 10.6
Capital Expenditures	Approx. 11	Approx. 11
Adjusted EBITDA[1]	Approx. (20)	Approx. (17)
Year-end Cash Balance	Mid-40 range	Mid-40 range

- *The Company is guiding to GAAP revenue, not Bookings (a non-GAAP financial measure). Disregard all prior Bookings guidance – the Company is not updating previous statements made with respect to Bookings*
- *Similarly, disregard all prior bookings-based Adjusted EBITDA guidance – the Company has adopted a revenue-based Adjusted EBITDA metric. This change is consistent with the fact that we will no longer communicate Bookings guidance*

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

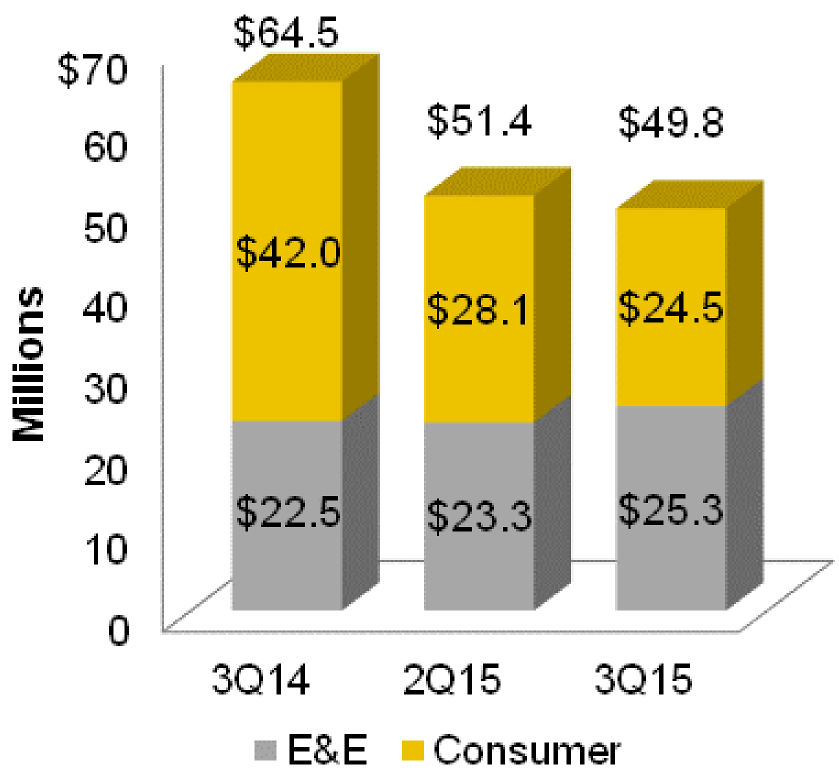
Rosetta Stone

3Q 2015 Financial Summary

Q3 2015 Total Revenue

Revenue

Total Revenue ↓ 23% Y/Y
Constant Currency Basis ↓ 21% Y/Y



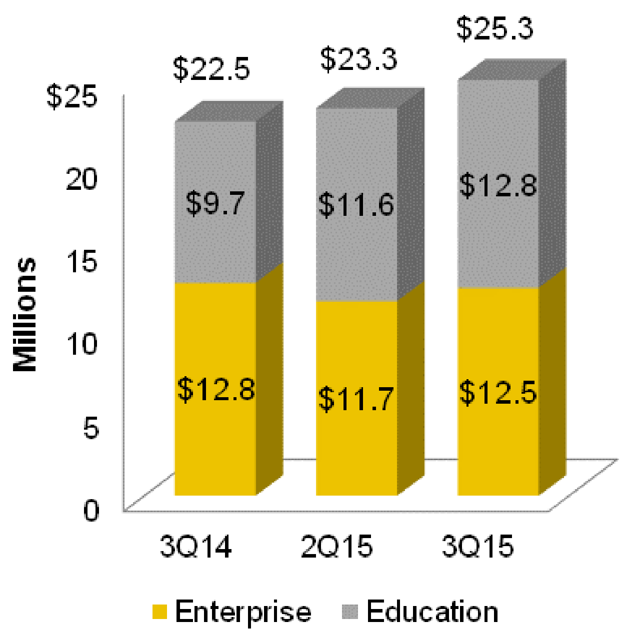
Drivers

- Total revenue declined $1.6 MM seq. and $14.7MM Y/Y as growth in E&E segment was more than offset by the decline in Consumer segment
  - E&E segment was majority of total revenue mix for the first time, driven by strong growth in Lexia
  - Consumer segment decline was consistent with expectations as management's focus is now on optimizing profitability, not growing the size of that business
  - On a constant currency basis, total revenue would have been down $13.3MM

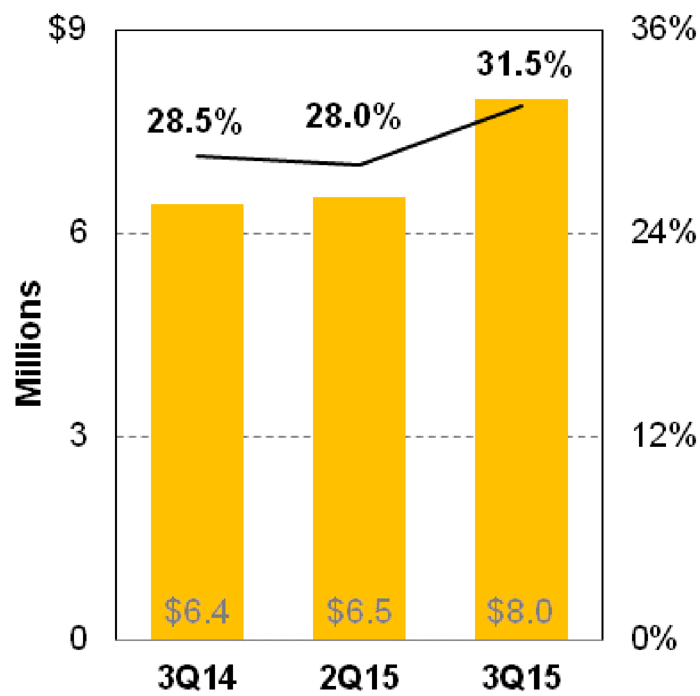
E&E Segment

Revenue

E&E Revenue ⬆ 12% Y/Y
Constant Currency Basis ⬆ 17% Y/Y



Segment Contribution[1]

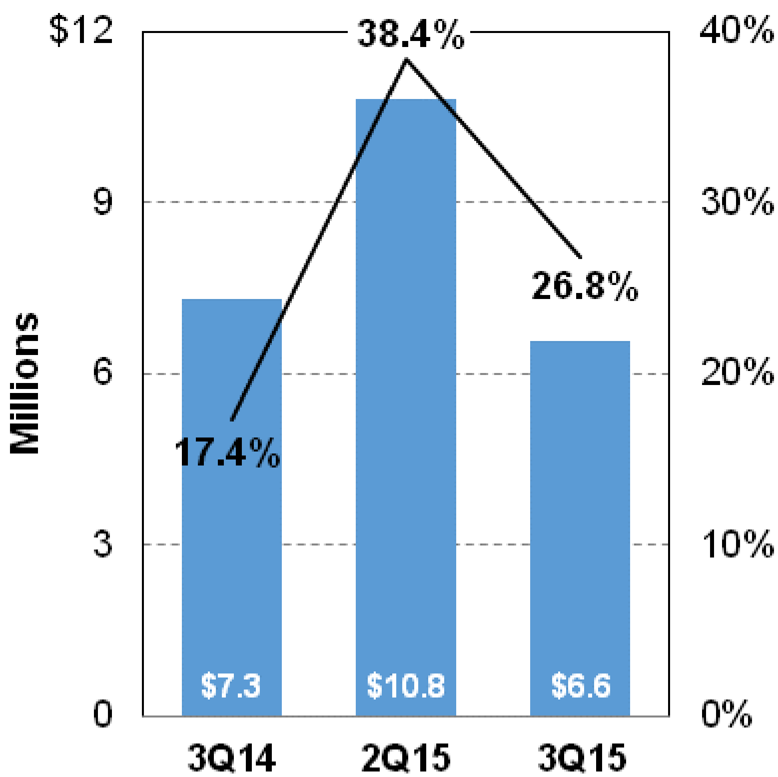


- "Invest to grow" strategy for E&E segment generated record revenue in 3Q15, fueled by Lexia
- Contribution dollars in 3Q15 grew 24% Y/Y to $8.0MM
- Contribution percentage in 3Q15 grew 11% Y/Y to 31.5% of revenue in seasonally strongest quarter for Education marketplace

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

Consumer Segment

Segment Contribution[1]



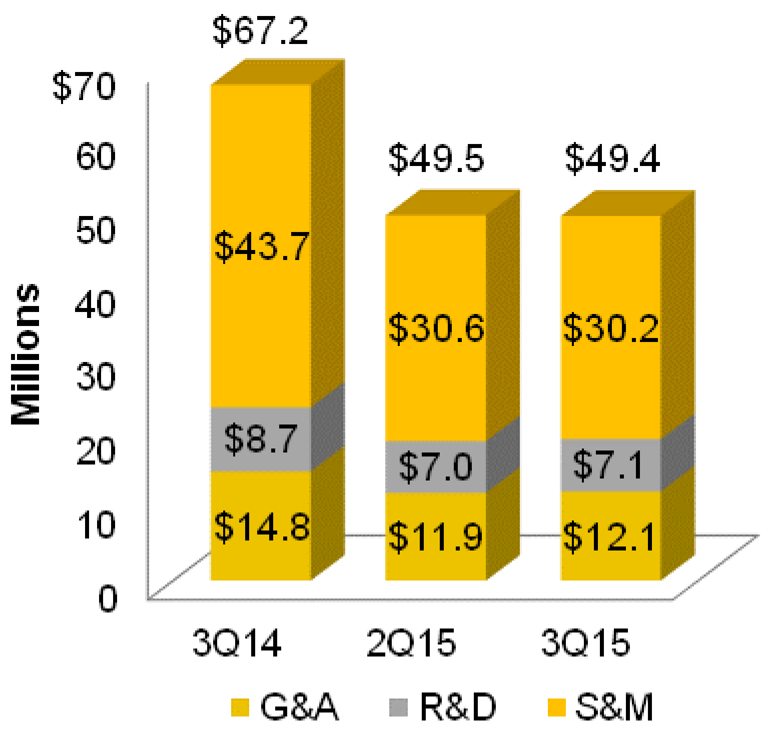
Drivers

- Optimizing Consumer segment for profitabilty is already showing meaningful results
- Contribution dollars in 3Q15 were down $0.7MM, or (10)% Y/Y
- Contribution percentage in 3Q15 grew 940 bps (54% Y/Y)
  - This was the second consecutive quarter of 54% Y/Y growth
- Average selling price per unit was $212, down $5 (2%) seq. as we continued to restrict promotional activity

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

Significant Operating Expense Reductions

OPEX[1]



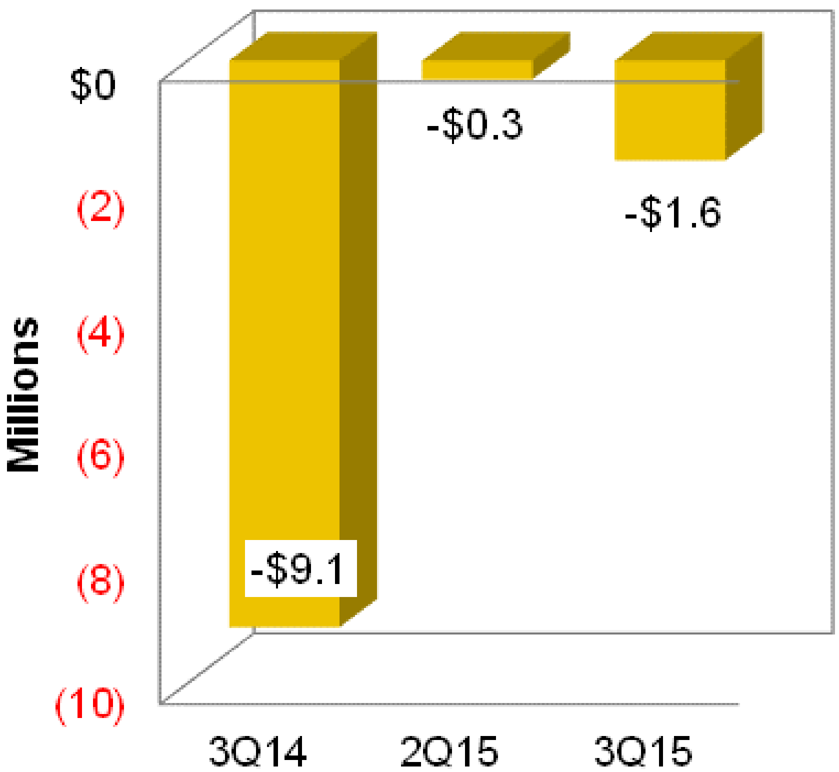
Drivers

- Delivered $28.6MM in Y/Y expense savings since March announcement
  - On track to achieve/exceed the original $50MM annualized cost savings initiative
  - Incremental $15MM of cost savings identified, expected to be realized in 2016

1. *Graphic only depicts the Sales & Marketing ("S&M), Research & Development ("R&D") and General & Administrative ("G&A") expense categories and does not fully reflect the Company's income statement in periods when other expenses were incurred.*

Adjusted EBITDA

Adjusted EBITDA[1]



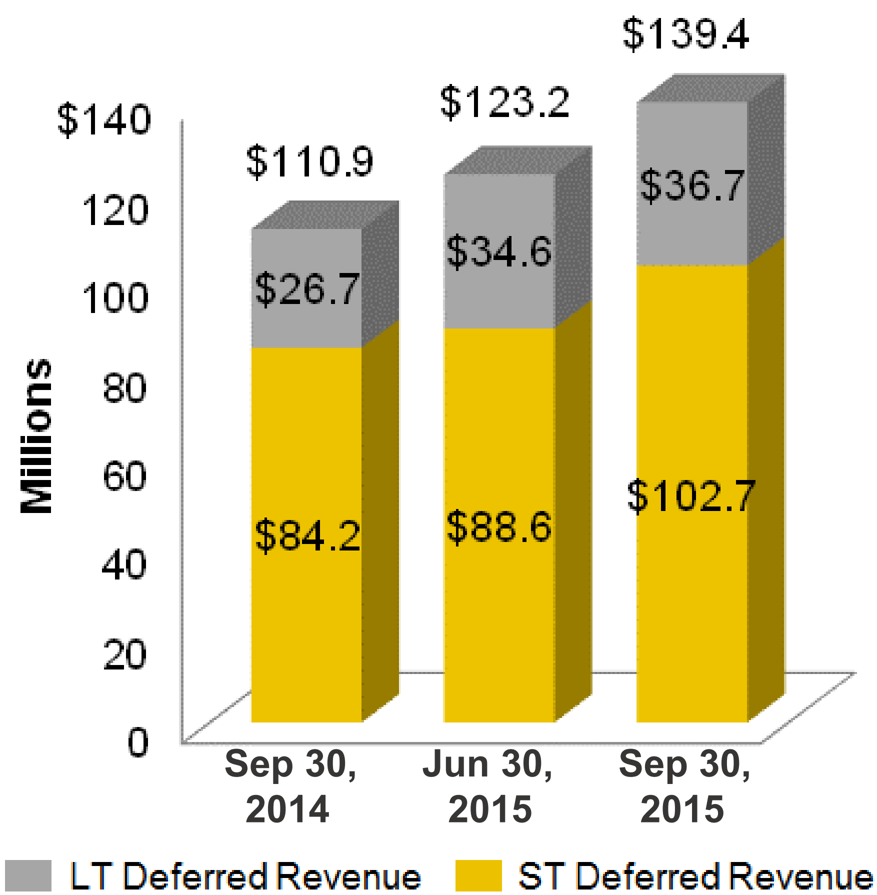
- Adjusted EBITDA improved to $(1.6)MM from $(9.1)MM a year ago
  - Increase primarily reflects 55% improvement in quarterly net loss
  - Net loss included $17.5MM (26%) reduction in operating expenses (“OPEX”)
    - Largest OPEX reduction was a $13.5MM (31%) Y/Y decrease in sales and marketing expense

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

Balance Sheet Deferred Revenue

Deferred Revenue

+13% Seq.   +26% Y/Y

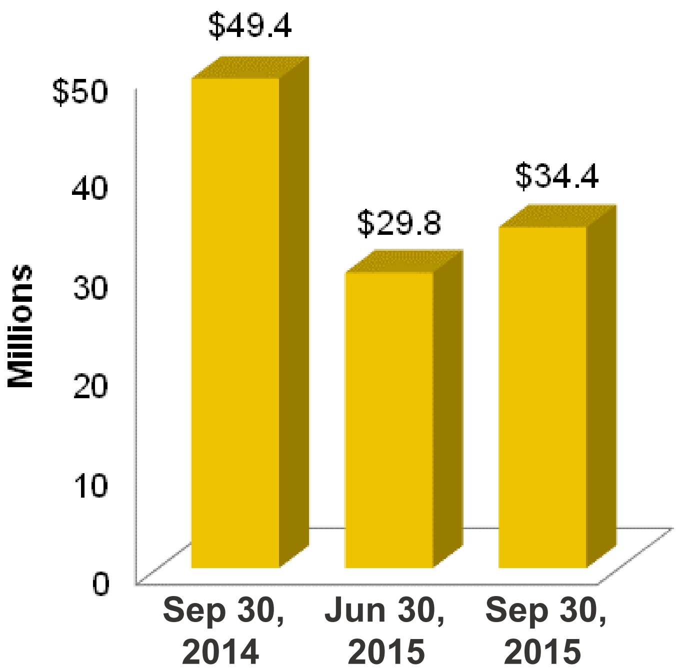


Drivers

- Total deferred revenue balance increased $16.2MM seq. and $28.5MM Y/Y
- Short-term (“ST”) portion increased to $102.7 MM, exceeding $100MM level for the first time

Cash and Free Cash Flow

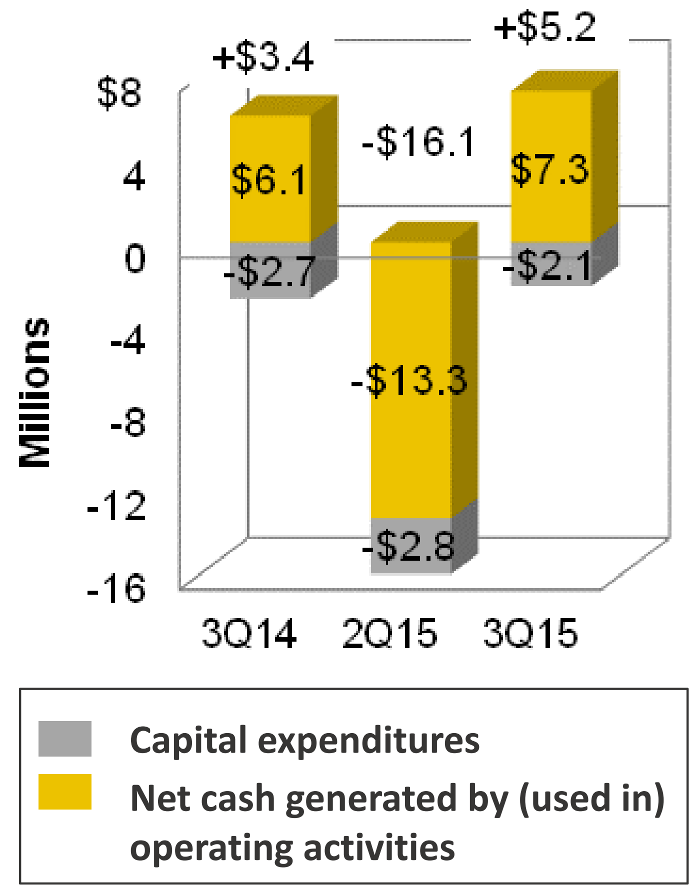
Total Cash Balance



Drivers

- Net loss improved 55% Y/Y
- Management remains focused on improving balance sheet liquidity and lowering working capital
- Free cash flow increased as a result of improved cash flow from operating activities (up $1.2MM) and lower capital spending (down $0.6MM)

Free Cash Flow[1]



NOTE: Cash flow is highly seasonal and the Company has historically experienced a use of cash in 1H and positive cash generation in 2H.

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

Appendix

Adjusted EBITDA[1]

Data in $(000) format	Quarterly						
	1Q14	**2Q14**	**3Q14**	**4Q14**	**1Q15**	**2Q15**	**3Q15**
GAAP net income (loss)	(20,241)	(15,750)	(16,178)	(21,537)	(19,884)	(8,175)	(7,301)
Total other non-operating (income) and expense	(175)	293	795	432	1,665	589	(730)
Income tax expense (benefit)	(683)	491	(244)	(6,053)	192	389	(534)
Impairment	2,199	0	0	18,134	291	160	358
Stock-based compensation	1,406	1,953	2,109	1,294	1,287	2,108	1,974
Depreciation and amortization	3,434	3,460	3,335	3,674	3,350	3,333	3,492
Other EBITDA adjustments	8,006	561	1,098	525	6,434	1,331	1,120
Adjusted EBITDA	**(6,054)**	**(8,992)**	**(9,085)**	**(3,531)**	**(6,665)**	**(265)**	**(1,621)**

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

Bookings[1] and Revenue

Data in $MM format	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15
	Quarterly						
Bookings							
Enterprise & Education							
E&E Education							
Literacy (Lexia)	3.6	6.3	8.1	5.1	3.9	9.2	14.0
NA K12 Language	3.1	9.6	13.5	7.0	2.5	7.0	11.8
Total Education	6.7	15.9	21.6	12.1	6.4	16.2	25.8
E&E Enterprise	11.6	13.3	15.3	16.7	8.6	11.5	13.9
Total E&E	18.3	29.2	36.9	28.8	15.0	27.7	39.7
Consumer	42.9	39.8	45.2	67.8	35.5	26.7	26.1
Total Bookings	**61.2**	**69.0**	**82.1**	**96.6**	**50.5**	**54.4**	**65.8**
Memo: Language (NA K12 + Enterprise)	*14.7*	*22.9*	*28.8*	*23.7*	*11.1*	*18.5*	*25.7*
Revenue							
Enterprise & Education							
E&E Education							
Literacy (Lexia)	1.4	1.9	2.8	3.7	4.2	4.7	5.8
NA K12 Language	6.4	6.5	6.9	6.9	6.7	6.9	7.0
Total Education	7.8	8.4	9.7	10.6	10.9	11.6	12.8
E&E Enterprise	10.1	11.0	12.8	14.3	12.3	11.7	12.5
Total E&E	17.9	19.4	22.5	24.9	23.2	23.3	25.3
Consumer	42.9	37.9	42.0	54.4	35.2	28.1	24.5
Total Revenue	**60.8**	**57.3**	**64.5**	**79.3**	**58.4**	**51.4**	**49.8**
Memo: Language (NA K12 + Enterprise)	*16.5*	*17.5*	*19.7*	*21.2*	*19.0*	*18.6*	*19.5*

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

Reconciliation of Revenue to Bookings[1]

	Quarterly						
Data in $MM format	**1Q14**	**2Q14**	**3Q14**	**4Q14**	**1Q15**	**2Q15**	**3Q15**
Enterprise & Education Segment							
Segment revenue	17.9	19.4	22.5	24.9	23.2	23.3	25.3
Segment change in deferred revenue	0.4	9.8	14.4	3.9	(8.2)	4.4	14.4
Bookings	18.3	29.2	36.9	28.8	15.0	27.7	39.7
Consumer Segment							
Segment revenue	42.9	37.9	42.0	54.4	35.2	28.1	24.5
Segment change in deferred revenue	-	1.9	3.2	13.4	0.3	(1.4)	1.6
Bookings	42.9	39.8	45.2	67.8	35.5	26.7	26.1
Total Revenue	**60.8**	**57.3**	**64.5**	**79.3**	**58.4**	**51.4**	**49.8**
Change in deferred revenue	**0.4**	**11.7**	**17.6**	**17.3**	**(7.9)**	**3.0**	**16.0**
Total Bookings	**61.2**	**69.0**	**82.1**	**96.6**	**50.5**	**54.4**	**65.8**

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

Non-GAAP Financial Measures – 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. In addition, Adjusted EBITDA excludes impairment, 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.*
- ***Free cash flow*** *is cash flow from operating activities minus cash used in purchases of property and equipment.*

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November 5, 2015