Rosetta Stone Inc. – Supplemental Information
Fourth Quarter and Full Year 2017

Rosetta Stone has prepared the following supplemental information regarding the results for the fourth quarter and full year ended December 31, 2017, to provide shareholders and analysts more detail to help understand and analyze our results in conjunction with our earnings release, conference call and supplemental earnings slides. **This supplemental information will not be read on the conference call.**

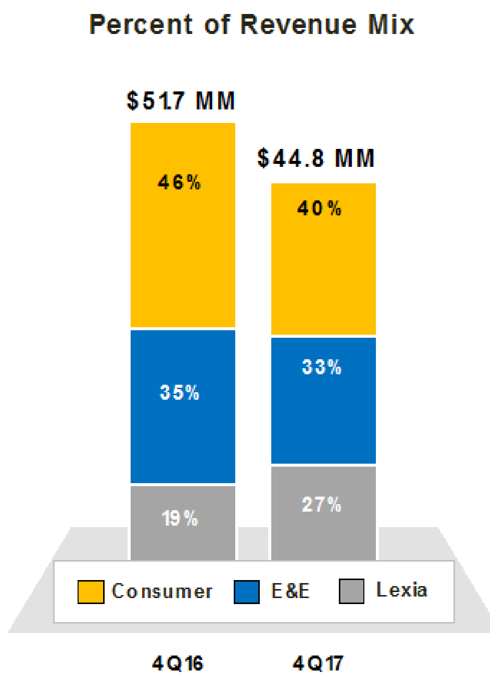
The conference call will begin at 5:00 p.m. ET on Wednesday, March 7, 2018, and will include brief opening comments followed by questions and answers. Investors may dial into the live conference call using 1-201-689-8470 (toll/international) or 1-877-407-9039 (toll-free). A live webcast will also be available in the investor relations section of the Company's website at http://investors.rosettastone.com. A replay will be made available soon after the live conference call is completed and will remain available until midnight on March 14. Investors may dial into the replay using 1-412-317-6671 and passcode 13676661.

Please see the section "Definition of Non-GAAP Financial Measures" at the end of this document for an explanation of what our non-GAAP financial measures are and how they are computed.

Q4 2017 Revenue

Total Q4 2017 revenue declined $6.9 million (13%) year-over-year, to $44.8 million. The decline primarily reflects the Consumer Language segment's ongoing transition toward a 100% SaaS-based revenue model, as subscription revenue (recognized ratably over the life of each subscription) increased and product revenue (primarily recognized at the time of sale) decreased. Product revenue declined $10.2 million (84%) to $1.9 million in Q4 2017 driven by the Consumer Language segment's SaaS transition across all channels which more than offset the $3.3 million (8%) increase in Subscription and Service revenue (to $42.9 million in Q4 2017, from $39.6 million in Q4 2016).

Subscription and Service revenue has increased sequentially for six consecutive quarters reflecting the sustained growth at Lexia and the continued migration toward subscription-based offerings in the Consumer Language segment over the course of 2017. The SaaS transition within the Consumer Language segment's direct-to-consumer ("DTC") channels was largely completed by the end of this year and the migration from CD-based product sales to subscriptions in the retail channel was initiated around mid-year 2017 and is expected to be completed in the first half of 2018.



- Consumer Language segment revenue declined $6.2 million (26%) year-over-year to $17.8 million, primarily reflecting the continued transition of the segment to subscription-based sales from the sale of perpetual products and, in part, due to a decline in marketing spend. In addition, revenues in our retail channel were adversely affected by approximately $[0.6] million for the return of inventory, as our terms-based retailers moved to consignment-based subscription sales in Q4.

- E&E Language revenue declined $2.9 million (16%) year-over-year to $15.0 million, reflecting declines of $2.5 million (24%) in the Enterprise category and $0.4 million (6%) in the Education category. E&E Language sales increased $1.0 million (6%), reflecting strong year-over-year performance from direct sales in the UK and Germany along with higher reseller sales in markets previously exited on a direct basis, partially offset by lower US Corporate and Higher Education sales, the latter of which included a large multi-year sale in Q4 2016 that was not available for renewal in the current quarter.
- Lexia revenue was a record high $12.0 million, up $2.2 million (23%) year-over-year, as sales increased $1.5 million (21%) year-over-year to $8.7 million in Q4 2017, reflecting strong year-over-year contributions from 94% retention rates and new business. Adjusting for the impact of purchase accounting on acquired deferred revenue, Lexia's pro forma Q4 2017 revenue was $12.3 million, up $1.8 million (17%) compared to $10.5 million Q4 2016.

Q4 2017 Net Income

The Company reported Q4 2017 net income of $2.4 million, or $0.10 per diluted share, compared to a net loss of $5.6 million or $(0.25) per diluted share in the year-ago period. Included in the fourth quarter 2017 net income was a one-time, non-cash $5.5 million tax benefit associated with the Tax Cuts and Jobs Act and the fourth quarter 2016 net loss included lease termination costs totaling $1.6 million. Fourth quarter 2017 pre-tax income before prior-year lease termination costs improved 9% year-over-year.

Annualized Recurring Revenue

Q4 2017 ARR Performance Metrics

	Q4 2017	Q4 2016
Literacy	$43.2MM	$37.2MM
E&E Language	$55.5MM	$57.8MM

Annualized Recurring Revenue – or "ARR" – which is computed using the annualized value of subscriptions at the end of the period, separate from services like training and implementation. ARR is a performance metric used to assess the health and trajectory of our E&E Language and Literacy segments, which we believe cuts through the differences in the types of licenses and deal sizes in our businesses and aids in understanding our segment results. We present ARR as a statistical measure rather than a non-GAAP financial measure. ARR should be viewed independently of revenue and deferred revenue – as ARR is a performance metric and is not intended to be combined with either of these items.

ARR for the Literacy segment at December 31, 2017, was $43.2 million, which was up 16% year-over-year, reflecting the continuing growth in this business driven by high retention and renewal rates and new sales from its direct salesforce. ARR in the E&E Language segment at December 31, 2017, was approximately $55.5 million, which was down 4% year-over-year. The E&E Language ARR reflects, in part, the continued impact from our strategic decision to exit direct sales in certain customer lines and geographies in 2016.

Q4 2017 Segment Contribution

The Q4 2017 Literacy segment contribution was $1.8 million (or 15% of segment revenue), compared to $1.4 million (or 14% of segment revenue) in the year-ago period. This improvement was due to higher revenue, driven by an increase in sales, which was partially offset by higher sales and marketing expense (up $0.7 million) and research and development expense (up $0.6 million) due to the Company's sustained investment to support Lexia's long-term growth.

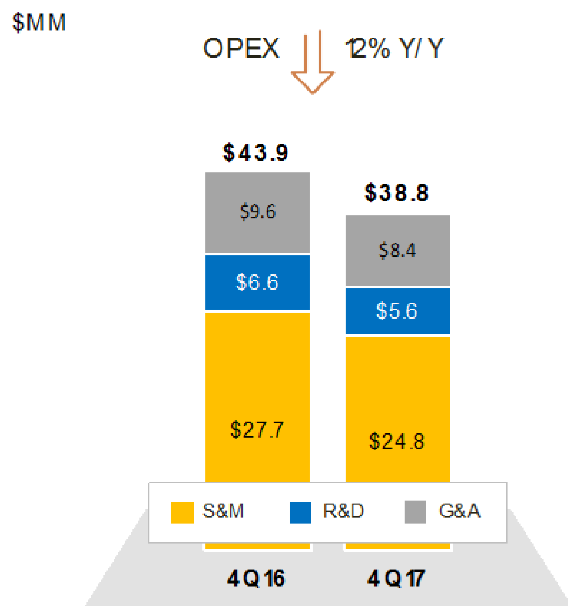
One note of clarification about the segment contribution data for the E&E Language segment, the Consumer Language segment and these two Language segments combined. Language Research & Development (R&D) expense is a shared service cost that is not allocated to either Language segment, but *is* included in combined Language – therefore, it is the combined Language view that is comparable to the Lexia segment contribution.

The combined Language segments contribution was $6.4 million (20% of total combined Language segments revenue) in Q4 2017, which was flat year-over-year on a percentage basis and down $2.1 million from Q4 2016. The dollar decrease was driven by lower revenue in the Language segments (down 22%), partially offset by decreases in cost of goods sold (down 26%), sales and marketing expense (down 16%) and research and development expense (down 36%).

The E&E Language segment contribution margin **before shared Language R&D expense** decreased by $2.6 million to $5.2 million (or 35% of segment revenue), from $7.8 million (or 44% of segment revenue) in the year-ago period. This performance was driven by the $2.9 million decline in revenue.

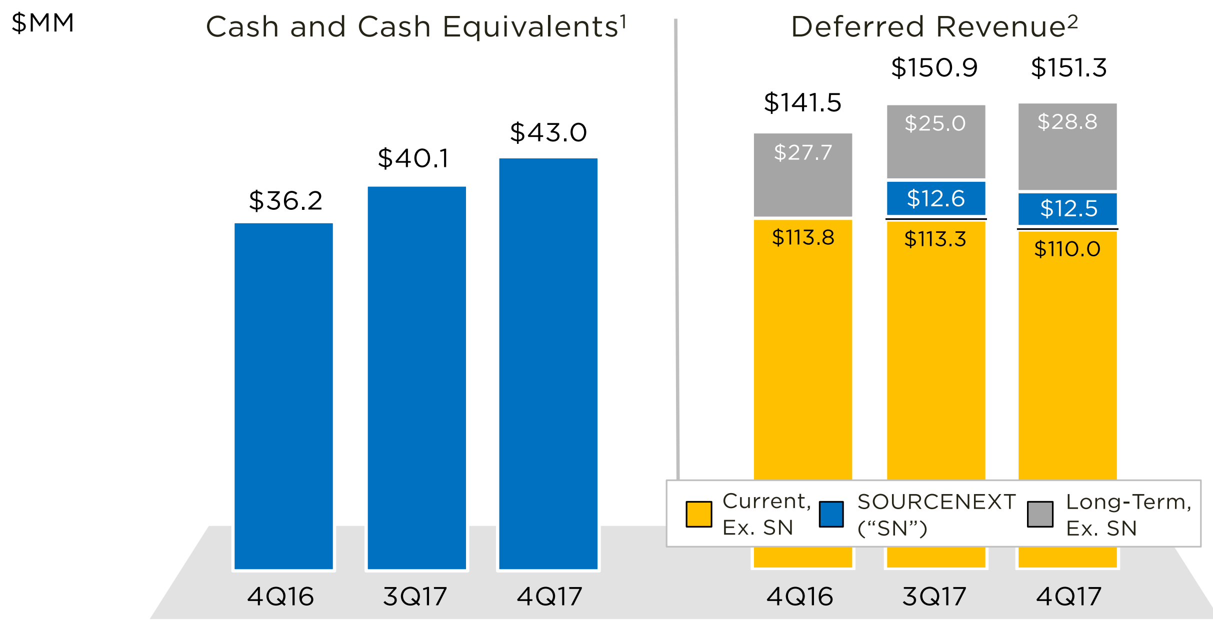
Consumer Language segment contribution margin **before shared Language R&D expense** was $4.7 million (or 27% of segment revenue), which was down $1.5 million year-over-year compared to $6.3 million (or 26% of segment revenue) in the year-ago period. This performance reflected the $6.2 million decline in revenue, which was only partially offset by a $3.2 million decline in sales and marketing expense. The lower media spending improved our marketing efficiency, as measured by lifetime value ("LTV")-to-cost to acquire ("CAC") to 2.1x in Q4 2017, which was up from 1.7x in the year-ago period. Note that Consumer LTV per unit in Q4 2017 increased to $183, up from $176 in Q4 2016. The Consumer Language segment's transition to nearly all SaaS sales in the DTC channel was largely complete by the end of Q4 2017, so more of the higher LTV generated by Q4 sales will be recognized as revenue in future periods relative to Q4 2016.

Q4 2017 Operating Expenses



Total operating expenses decreased $6.7 million or 15% year-over-year to $38.8 million in the fourth quarter 2017, reflecting the Company's 12th consecutive quarter of year-over-year expense reductions. Excluding the $1.6 million in lease termination costs included in the fourth quarter 2016, total selling, administrative and research expenses decreased $5.1 million or 12% year-over-year, reflecting reductions of $2.8 million or 10% in sales and marketing expense, $1.2 million or 13% in general and administrative expense, and $1.0 million or 15% in research and development expense. Lower media spend contributed to a $3.0 million year-over-year reduction in advertising costs in the fourth quarter.

Q4 2017 Selected Balance Sheet Data



[1] I3Q17 and 4Q17 include a total of $13.0MM YTD received from SOURCENEXT.
[2] 3Q17 includes $12.6MM from the SOURCENEXT transaction, of which $12.0MM is L-T and $0.6MM is S-T; 4Q17 includes $12.5MM from SOURCENEXT, of which $11.8MM is L-T and $0.7MM is S-T.

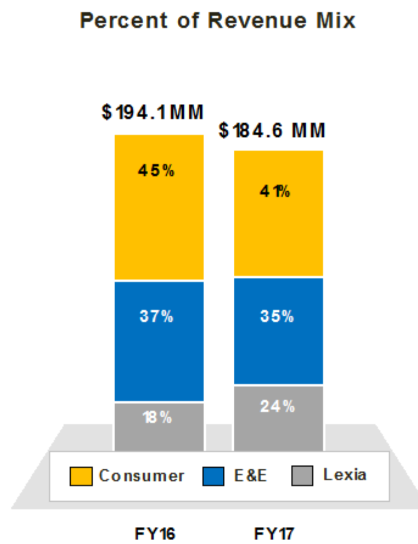
Deferred revenue totaled $151.3 million at December 31, 2017, an increase of $9.8 million compared to December 31, 2016. Of the December 31, 2017, total deferred revenue balance, $110.7 million (or approximately 73%), was short-term and will be recognized as revenue over the next 12 months. Note that the vast majority of the cash received from our 2017 long-term royalty agreement with SourceNext was recorded as deferred revenue, with nearly all of that classified as noncurrent and recognized over the next 20 years. The current portion of deferred revenue at December 31, 2017 normalized for SourceNext was approximately 80%.

As of December 31, 2017, the Company had zero debt and $43.0 million of cash and cash equivalents. The ending cash balance was up $6.8 million compared to year-end

2016, and up $2.8 million sequentially from September 30, 2017. The year-over-year increase benefitted from $13 million received over the first three quarters of 2017 from our long-term licensing agreement with SourceNext in Japan.

Full Year 2017 Revenue

Total full year 2017 revenue declined $9.5 million (5%) year-over-year, to $184.6 million. Consistent with Q4 2017, the full year decline primarily reflects the Company's ongoing transition toward a 100% SaaS-based revenue model. Subscription and service revenue increased $14.1 million (9%) year-over-year and product revenue declined $23.6 million (59%) to $16.2 million.



- Consumer Language segment revenue was down 14% to $75.7 million in 2017, compared to $87.9 million in 2016, largely reflecting the Company's progress toward a 100% SaaS-based revenue model in the direct-to-consumer ("DTC") channels, which was substantially complete at year-end. The shift toward a 100% SaaS-based revenue model and movement to consignment distribution in the Company's retail channel contributed to lower revenue as retailers managed down their inventories ahead of both transitions, which are expected to be complete in 2018.
- E&E Language revenue declined $6.8 million (9%) year-over-year to $65.3 million, reflecting a $6.2 million (14%) decline in the Enterprise category and a $0.7 million (2%) decline in the Education category. Nearly half of the year-over-year decline in Enterprise sales was from the geographies and customer

lines exited in 2016 as part of our strategic refocusing of the E&E Language business. E&E Language segment revenue, before the countries that were exited, decreased 6%.

- Lexia revenue was up $9.5 million (28%) year-over-year to $43.6 million and sales increased $9.1 million (24%) year-over-year to $47.5 million, reflecting continued strong renewal and retention rates and contributions from new accounts. Adjusting for the impact of purchase accounting on acquired deferred revenue, Lexia's pro forma full year 2017 revenue was $45.4 million, up $7.0 million (18%) compared to $38.4 million in 2016.

Full Year 2017 Net Loss

Full year 2017 net loss totaled $1.5 million, an improvement of $26.0 million or 94% compared to the net loss of $27.6 million in 2016. Earnings per diluted share in 2017 totaled $(0.07), an improvement of $1.18 or 94% compared to $(1.25) per diluted share in 2016. Included in the 2017 net loss was a one-time, non-cash $5.5 million tax benefit associated with the Tax Cuts and Jobs Act and the 2016 net loss included (pre-tax) impairment charges of $3.9 million and lease termination costs of $1.6 million.

Full Year 2017 Segment Contribution

The Literacy segment contribution was $5.0 million (or 11% of segment revenue) in 2017, compared to $1.5 million (or 4% of segment revenue) in 2016. This improvement was due to the increase in revenue, driven by the increase in sales, which was partially offset by an 8% increase in sales and marketing expense (up $1.7 million) and a 58% increase in research and development expense (up $2.4 million) as the Company continued to sustain a heightened level of investment to support Lexia's long-term growth.

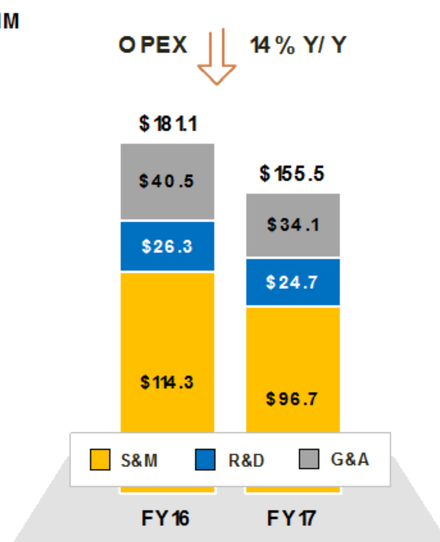
One note of clarification about the segment contribution data for the E&E Language segment, the Consumer Language segment and these two Language segments combined. Language Research & Development (R&D) expense is a shared service cost that is not allocated to either segment, but *is* included in combined Language – therefore, it is the combined Language view that is comparable to the Lexia segment contribution.

The combined Language segments contribution was $34.4 million (24% of total combined Language segments revenue) in full year 2017, which was up from $29.8 million (19% of combined Language segments revenue) in 2016. The increase was realized despite a $19.0 million (12%) decrease in revenue, as cost of goods sold declined 14% ($3.2 million), sales and marketing expense declined 20% ($16.9 million) and research and development expense decreased 16% ($3.0 million).

The E&E Language segment contribution margin **before shared Language R&D expense** decreased by $2.2 million (8%) to $26.9 million (or 41% of segment revenue), from $29.1 million (or 40% of segment revenue) in 2016. Sales and marketing expense declined by $2.4 million (7%), which was approximately half of the full year revenue decline.

Consumer Language segment contribution margin **before shared Language R&D expense** was $24.8 million (or 33% of segment revenue), which was up $3.3 million (16%) year-over-year compared to $21.5 million (or 24% of segment revenue) in 2016. This performance reflects the 27% decline in sales and marketing expense ($14.1 million), which more than offset the decline in revenue.

Full Year 2017 Operating Expenses



Selling, administrative and research expenses combined totaled $155.5 million in 2017, a decrease of $25.6 million or 14% compared to $181.1 million in 2016. The improvement reflects the combined effects of cost savings initiatives announced since March 2015. The majority of the operating expense decline was in sales and marketing expense, which declined $17.7 million or 15% to $96.7 million in 2017, compared to $114.3 million in 2016. In addition, general and administrative expense declined $6.4 million or 16% to $34.1 million in 2017, compared to $40.5 million in 2016; $3.3 million of the decline in general and administrative expense was due to lower severance, restructuring and other non-recurring expenses.

Non-GAAP Financial Measures

The reconciliation of the GAAP metrics to the non-GAAP financial measures can be found at the end of this document. Starting with Q4 2017 results, net income totaled $2.4 million, compared to the net loss of $5.6 million in the year-ago period. Adjusted EBITDA in Q4 2017 was positive $1.6 million, a decline of $1.9 million compared to $3.5 million in the year-ago period.

Net cash provided by operating activities was $6.6 million in Q4 2017, compared to $7.2 million in Q4 2016. Capital expenditures, which primarily relate to capitalized labor on product and IT projects, totaled $4.0 million, up from $2.9 million in Q4

2016. Lexia drove the majority of the increase in capital expenditures year-over-year, reflecting the heightened level of investment we are making to support their growth over the long-term. Free cash flow was positive $2.6 million in Q4 2017, down from $4.3 million in the year-ago period; the decline primarily reflected the increase in capital expenditures.

For full year 2017, the net loss totaled $1.5 million, compared to the net loss of $27.6 million in the year-ago period. Adjusted EBITDA in 2017 was positive $13.3 million, an improvement of approximately $9.0 million compared to $4.4 million in 2016.

Net cash provided by operating activities in full year 2017 was $19.3 million, compared to $1.2 million in 2016. Capital expenditures, which primarily relate to capitalized labor on product and IT projects, increased $0.4 million in 2017 to $12.9 million. Free cash flow was positive $6.4 million in 2017, compared to negative $11.3 million in 2016. The $17.6 million improvement reflected the Company's improved financial performance, which included the benefit of the SOURCENEXT transaction.

Financial Outlook - Full Year 2018

With respect to full year 2018 guidance, we expect total consolidated revenue will be approximately $173 million and consolidated sales will be approximately $195 - $198 million, broken down for the mix among the three segments as follows:

- Literacy revenue is expected to be approximately $50 million, on sales approaching $60 million (up 25%).
- We expect E&E Language revenue to be approximately $62 million, on sales of approximately $66 million (up 2% versus 2017).

- Consumer revenue is expected to be approximately $61 million, on sales of approximately $71 million (up 2% versus 2017).

The Consumer revenue outlook includes the impact of approximately $1.5 million for returns as we look to complete the move of our retail channel partners from terms to consignment in the first half of 2018, which will also affect the year-end cash forecast.

For the full year 2018, our outlook for the GAAP net loss is approximately $29 million, primarily driven by the lower year-over-year GAAP revenue in our Consumer Language segment - despite increasing sales before SOURCENEXT – due to the SaaS transition as well as less contribution from long-term subscriptions sold 2-3 years ago, as discussed on the Company's Q4 2017 conference call. Also contributing to our higher net loss in 2018 is a $3 million expected increase in Cost of Revenue, which is driven by an approximately $4 million non-cash increase in amortization primarily for Lexia's Power Up product costs that had been capitalized during development prior to it's launch in January 2018. In addition, we expect an increase of approximately $2 million driven by Lexia's implementation and training services costs in support of their sales growth noted above. These increases will be partially offset by approximately $3 million lower Cost of Revenue in Language, driven by the completion of Consumer's migration to a full SaaS sales model. Our outlook for negative Adjusted EBITDA is approximately $6 million, down from 2017 due to the Consumer Language revenue factors noted above.

We expect to end 2018 with approximately $48 million in cash and no debt, up from where we ended 2017, which had included approximately $13 million received from SOURCENEXT in 2017. Our 2018 ending cash estimate includes expected payments we will make of approximately $1.5 million for inventory returns related to our final transition from terms to consignment with our retail partners, more than offset by an expected $4 million cash receipt from SOURCENEXT related to an amendment to our previously announced license agreement.

Finally, we expect capital expenditures of approximately $14 million for the full year ended 2018.

Financial Outlook - Q1 2018

Given how close we are to the end of the first quarter, we are also providing first quarter 2018 guidance. As a reminder, the first quarter is far and away our lowest sales quarter across the company - less than 15% of the consolidated full-year sales guidance noted above. This is especially the case in Literacy where the first quarter is expected to be only 7% of total expected sales for the year. That being said, our Q1 outlook is consistent with the full-year guidance above. We expect total revenue of approximately $41.5 million (down 13% year-over-year), which reflects Lexia revenue of approximately $11.8 million (up 18%), E&E Language revenue of approximately $14.4 million (down 13%), and Consumer Language revenue of approximately $15.3 million (down 27%). Note that the year-over-year impact on Consumer Language revenue from the SaaS transition dynamics noted earlier is most pronounced in Q1, as Q1 2017 had the highest mix of perpetual sales units (58%) relative to the rest of 2017 and is therefore the toughest comparison to 2018, where nearly all sales will be SaaS. Also contributing to the lower Q1 revenue are lower anticipated sales across all three segments, primarily due to the expected timing of renewal sales in Literacy (down $1.3 million year-over-year) and E&E Language (down $1.9 million year-over-year) driven by lower expected early renewals and multi-year deals versus Q1 2017. Consumer sales are expected to be down in Q1 by

$2.5 million, primarily driven by $1 million of lower expected sales at Fit Brains, which has been deemphasized, as well as lower Retail channel sales of $0.7 million due to the conversion to SaaS and consignment.

In Q1 2018, we expect a GAAP net loss of approximately $9 million and negative Adjusted EBITDA of approximately $4 million. We expect to end the quarter with a cash balance of approximately $37 million, which anticipates the usual seasonality in our business and anticipates the receipt of $2 million of the $4 million from SOURCENEXT expected for the full year, as noted above.

Definitions

Statistical Measures

Annualized recurring revenue (or "ARR") is computed using the annualized value of active subscription arrangements at the end of the period. ARR is a performance metric used to assess the health and trajectory of our E&E Language and Literacy segments, which we believe aids investors in understanding our segment results. We present ARR as a statistical measure rather than a non-GAAP financial measure. ARR should be viewed independently of revenue and deferred revenue, as ARR is a performance metric and is not intended to be combined with either of these items.

Non-GAAP Financial Measures

- Sales represents executed contracts received by the Company that are either recorded immediately as revenue of deferred revenue. Therefore, sales is an operational metric and in any one period is equal to revenue plus the change in deferred revenue.
- Adjusted EBITDA is GAAP net income/ loss plus interest income and expense, other income/ expense, income tax benefit/ expense, impairment, lease abandonment and termination, depreciation, amortization, stock-based compensation, restructuring, and strategy and cost-reduction related consulting expenses. In addition, Adjusted EBITDA excludes "Other" items related to non-restructuring wind down and 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.
- Segment contribution is calculated as segment revenue less expenses directly incurred by or allocated to the segment. Direct segment expenses include costs and expenses that are directly incurred by or allocated to the segment and include materials costs, service costs, customer care and coaching costs, sales and marketing expenses, and bad debt expense. In addition to the previously referenced expenses, the Literacy segment includes direct research and development expenses and Combined Language includes shared research and development expenses, costs of revenue, sales and marketing, and general and administrative expenses applicable to the Consumer Language and Enterprise and Education Language segments.

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Adjusted EBITDA and Free Cash Flow[1]

Amounts ($000)

	Quarterly					Quarterly				
	1Q16	2Q16	3Q16	4Q16	FY16	1Q17	2Q17	3Q17	4Q17	FY17
GAAP net income (loss)	$ (7,507)	$ (8,978)	$ (5,452)	$ (5,613)	$ (27,550)	$ 454	$ (1,135)	$ (3,231)	$ 2,366	$ (1,546)
Total non-operating (income) expense, net	(1,129)	(816)	(524)	596	(1,873)	(209)	(312)	40	25	(456)
Income tax (benefit) expense	449	(992)	1,793	1,253	2,503	700	782	879	(4,860)	(2,499)
Impairment	0	2,902	1,028	0	3,930	0	0	0	0	0
Depreciation and amortization	3,408	3,178	3,226	3,510	13,322	3,075	2,987	3,015	2,932	12,009
Stock-based compensation expense	421	1,397	1,639	1,449	4,906	147	1,359	1,552	1,083	4,141
Restructuring expense	2,509	2,512	162	10	5,193	780	205	196	26	1,207
Lease abandonment and termination	0	30	0	1,614	1,644	0	0	0	0	0
Strategy consulting expense	402	519	458	577	1,956	169	0	0	0	169
Other EBITDA adjustments	(117)	304	85	56	328	39	16	248	(7)	296
Adjusted EBITDA	$ (1,564)	$ 56	$ 2,415	$ 3,452	$ 4,359	$ 5,155	$ 3,902	$ 2,699	$ 1,565	$ 13,321

Amounts ($000)

	Quarterly					Quarterly				
	1Q16	2Q16	3Q16	4Q16	FY16	1Q17	2Q17	3Q17	4Q17	FY17
Net cash provided by/(used in) operating activities	$ (2,546)	$ (9,879)	$ 6,479	$ 7,186	$ 1,240	$ 5,769	$ (10,397)	$ 17,305	$ 6,625	$ 19,302
Purchases of property and equipment	(2,586)	(3,348)	(3,694)	(2,886)	(12,514)	(2,313)	(3,080)	(3,510)	(4,041)	(12,944)
Free Cash Flow	$ (5,132)	$ (13,227)	$ 2,785	$ 4,300	$ (11,274)	$ 3,456	$ (13,477)	$ 13,795	$ 2,584	$ 6,358

[1]See Appendix for definitions and reconciliation of GAAP to non-GAAP Financial Measures.

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Revenue and Sales[1]

	Amounts ($000)									
	Quarterly					Quarterly				
	1Q16	2Q16	3Q16	4Q16	FY16	1Q17	2Q17	3Q17	4Q17	FY17
Revenue										
Literacy	$ 7,577	$ 7,950	$ 8,786	$ 9,810	$ 34,123	$ 10,170	$ 10,370	$ 11,028	$ 12,040	$ 43,608
Language										
E&E Language										
Enterprise	11,044	10,479	11,041	10,554	43,118	9,408	9,914	9,602	8,032	36,956
North America K-12	7,287	7,011	7,295	7,372	28,965	7,092	7,346	6,927	6,946	28,311
Subtotal E&E Language	18,331	17,490	18,336	17,926	72,083	16,500	17,260	16,529	14,978	65,267
Consumer Language	22,094	20,276	21,571	23,942	87,883	21,023	18,275	18,649	17,771	75,718
Subtotal Combined Language	40,425	37,766	39,907	41,868	159,966	37,523	35,535	35,178	32,749	140,985
Total Revenue	**$ 48,002**	**$ 45,716**	**$ 48,693**	**$ 51,678**	**$ 194,089**	**$ 47,693**	**$ 45,905**	**$ 46,206**	**$ 44,789**	**$ 184,593**
Sales										
Literacy	$ 3,817	$ 9,433	$ 17,923	$ 7,221	$ 38,394	$ 5,300	$ 8,628	$ 24,878	$ 8,705	$ 47,511
Language										
E&E Language										
Enterprise	7,906	8,972	12,553	11,071	40,502	6,034	10,203	9,610	12,095	37,942
North America K-12	2,877	9,184	11,643	5,438	29,142	2,890	8,354	10,224	5,391	26,859
Subtotal E&E Language	10,783	18,156	24,196	16,509	69,644	8,924	18,557	19,834	17,486	64,801
Consumer Language	22,911	18,234	19,203	24,413	84,761	18,495	27,299	17,840	18,968	82,602
Less: Adjustment for the SOURCENEXT transaction	0	0	0	0	0	0	11,374	1,497	53	12,924
Subtotal Consumer Language, before SOURCENEXT	22,911	18,234	19,203	24,413	84,761	18,495	15,925	16,343	18,915	69,678
Subtotal Combined Language, before SOURCENEXT	33,694	36,390	43,399	40,922	154,405	27,419	34,482	36,177	36,401	134,479
Total Sales, before SOURCENEXT	**$ 37,511**	**$ 45,823**	**$ 61,322**	**$ 48,143**	**$ 192,799**	**$ 32,719**	**$ 43,110**	**$ 61,055**	**$ 45,106**	**$ 181,990**

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[1]See Appendix for definitions and reconciliation of GAAP to non-GAAP Financial Measures.

Reconciliation of Revenue and Sales[1]

	Amounts ($000)									
	Quarterly					Quarterly				
	1Q16	2Q16	3Q16	4Q16	FY16	1Q17	2Q17	3Q17	4Q17	FY17
Reconciliation of Revenue to Sales										
Literacy										
Segment revenue	$ 7,577	$ 7,950	$ 8,786	$ 9,810	$ 34,123	$ 10,170	$ 10,370	$ 11,028	$ 12,040	$ 43,608
Segment change in deferred revenue	(3,760)	1,483	9,137	(2,589)	4,271	(4,870)	(1,742)	13,850	(3,335)	3,903
Sales	$ 3,817	$ 9,433	$ 17,923	$ 7,221	$ 38,394	$ 5,300	$ 8,628	$ 24,878	$ 8,705	$ 47,511
E&E Language										
Segment revenue	$ 18,331	$ 17,490	$ 18,336	$ 17,926	$ 72,083	$ 16,500	$ 17,260	$ 16,529	$ 14,978	$ 65,267
Segment change in deferred revenue	(7,548)	666	5,860	(1,417)	(2,439)	(7,576)	1,297	3,305	2,508	(466)
Sales	$ 10,783	$ 18,156	$ 24,196	$ 16,509	$ 69,644	$ 8,924	$ 18,557	$ 19,834	$ 17,486	$ 64,801
Consumer Language										
Segment revenue	$ 22,094	$ 20,276	$ 21,571	$ 23,942	$ 87,883	$ 21,023	$ 18,275	$ 18,649	$ 17,771	$ 75,718
Segment change in deferred revenue	817	(2,042)	(2,368)	471	(3,122)	(2,528)	9,024	(809)	1,197	6,884
Adjustment for the SOURCENEXT transaction	0	0	0	0	0	0	(11,374)	(1,497)	(53)	(12,924)
Sales, before SOURCENEXT	$ 22,911	$ 18,234	$ 19,203	$ 24,413	$ 84,761	$ 18,495	$ 15,925	$ 16,343	$ 18,915	$ 69,678
Total revenue	**$ 48,002**	**$ 45,716**	**$ 48,693**	**$ 51,678**	**$ 194,089**	**$ 47,693**	**$ 45,905**	**$ 46,206**	**$ 44,789**	**$ 184,593**
Change in deferred revenue	(10,491)	107	12,629	(3,535)	(1,290)	(14,974)	8,579	16,346	370	10,321
Adjustment for the SOURCENEXT transaction	0	0	0	0	0	0	(11,374)	(1,497)	(53)	(12,924)
Total sales, before SOURCENEXT	**$ 37,511**	**$ 45,823**	**$ 61,322**	**$ 48,143**	**$ 192,799**	**$ 32,719**	**$ 43,110**	**$ 61,055**	**$ 45,106**	**$ 181,990**

[1]See Appendix for definitions and reconciliation of GAAP to non-GAAP Financial Measures.

Rosetta Stone.

Segment Contribution[1]

	Amounts ($000)									
	Quarterly					Quarterly				
	1Q16	2Q16	3Q16	4Q16	FY16	1Q17	2Q17	3Q17	4Q17	FY17
Revenue:										
Literacy segment	$ 7,577	$ 7,950	$ 8,786	$ 9,810	$ 34,123	$ 10,170	$ 10,370	$ 11,028	$ 12,040	$ 43,608
Enterprise & Education ("E&E") Language segment	18,331	17,490	18,336	17,926	72,083	16,500	17,260	16,529	14,978	65,267
Consumer Language segment	22,094	20,276	21,571	23,942	87,883	21,023	18,275	18,649	17,771	75,718
Shared services	0	0	0	0	0	0	0	0	0	0
Combined Language	40,425	37,766	39,907	41,868	159,966	37,523	35,535	35,178	32,749	140,985
Total revenue	$ 48,002	$ 45,716	$ 48,693	$ 51,678	$ 194,089	$ 47,693	$ 45,905	$ 46,206	$ 44,789	$ 184,593
Segment contribution:										
Literacy segment	$ 57	$ 439	$ (364)	$ 1,400	$ 1,532	$ 961	$ 1,591	$ 582	$ 1,830	$ 4,964
E&E Language segment	6,297	6,903	8,064	7,818	29,082	7,119	7,357	7,176	5,245	26,897
Consumer Language segment	5,040	3,934	6,233	6,295	21,502	8,357	6,060	5,683	4,749	24,849
Shared services	(5,457)	(4,982)	(4,758)	(5,562)	(20,759)	(4,990)	(4,672)	(4,148)	(3,559)	(17,369)
Combined Language	5,880	5,855	9,539	8,551	29,825	10,486	8,745	8,711	6,435	34,377
Total segment contribution	$ 5,937	$ 6,294	$ 9,175	$ 9,951	$ 31,357	$ 11,447	$ 10,336	$ 9,293	$ 8,265	$ 39,341
Segment contribution margin percentage:										
Literacy segment	1%	6%	-4%	14%	4%	9%	15%	5%	15%	11%
E&E Language segment	34%	39%	44%	44%	40%	43%	43%	43%	35%	41%
Consumer Language segment	23%	19%	29%	26%	24%	40%	33%	30%	27%	33%

[1]Please see the Appendix for definitions of non-GAAP financial measures. The Literacy segment was previously a component of the "Enterprise & Education" segment and is comprised solely of the Lexia business. Prior periods have been reclassified to reflect our current segment presentation and definition of segment contribution.