

Letter Highlights

- Update on response to COVID-19, including a major free program to support remote needs of all current K-12 customers in the United States - **over 1,500 school applications** in the first two days.
- Q&A on key issues in each of our businesses, including K-12 sales and marketing evolution, the Texas literacy adoption, drivers of PowerUp growth, Consumer Language customer economics - and why they are attractive, Consumer Language product evolution, and creating a consistent K-12 go-to-market strategy with similar benefit of a focused adult Language business.

Dear Investors,

Our highest priorities right now are the health and well-being of our team and supporting our customers as they address the disruption in their lives and organizations caused by the coronavirus. The disruption caused by the COVID-19 pandemic is changing the way we work with each other and our customers and we are committed to ensuring these changes cause the least disruption to our learners - especially as they seek to adopt distance-learning solutions, a core capability of all of our products. We are also committed to maintaining open and clear communications with our employees, customers and other stakeholders, including you.

In this letter we describe the steps we are taking to support our team and customers during this period. One of these is an offer to greatly expand access to all of our existing K-12 customers through the end of the year, with no additional charge, to help them move to remote learning. An offer 1,500 schools took us up on in the first two days (details below).

In Consumer Language, as we said on the earnings call, the first quarter was off to a strong start. The team is working overtime to continue this momentum by providing expanded services to consumer learners who, like many of us, now have more time at home than originally planned.

This letter also expands on several topics touched on during our recent call. In certain areas, we are providing new information to help your understanding of our business, and we are sharing links to a number of third-party resources to provide greater depth and context.

In the Q&A section, we discuss a few of the opportunities we see in K-12 and why we are so excited about them. In addition, we share how we think about the economics of our Consumer Language business, why it is so attractive, and why recent product changes create greater value for learners and us. Finally, we describe the changes we have made to bring greater alignment in sales and marketing for both our K-12 and Language businesses.

During these difficult times, we are fortunate to have a number of things working for us. Financially, we are a high recurring revenue, high gross margin business. While we will have seasonal borrowings, we have no permanent debt, and expect to have a positive net cash balance at all times. We have an amazing brand and, of course, we have a great team.

And we are already seeing a growing appreciation for the power of remote, technology-based learning - cost, flexibility, and, of course, efficacy. Looking back on our 2019 Investor Day (Blended Learning: From the Classroom to the Cloud), and our focus on Adaptive Blended Learning (ABL), I am reminded of how important our ability to blend software and human intervention, including remotely (AI and HI), will be to the future of Rosetta Stone and learning generally.

Today, we are focused on the tasks at hand - supporting our customers and building Rosetta Stone for the future. Our performance during this period will demonstrate the strength of our business and the benefits we bring as we change lives through language and literacy education.

We wish you and your family and friends well.

John

Novel Coronavirus/COVID-19 Response

Rosetta Stone

On March 12th, we announced to our global employee base that they should work from home until further notice. We took this step because it is better for the health and well-being of our team and because, as a technology company, we can. We had planned for this eventuality for a number of weeks and identified no significant issues in moving to a remote work environment. We are also committed to doing our part to slow the spread of the virus and lessen the impact on our communities and healthcare system.

Customers

We are fortunate that all of our solutions can be used by learners remotely. That said, many of our customers, especially in schools, typically use our products within a brick and mortar model. How are we responding in each area of our customer base?

K-12

Background

As you are aware from the news or your own experience, the pace of temporary school closures has accelerated exponentially. When we held our call on March 11th, approximately 1,500 schools had announced that they would be closing at least temporarily. As of this writing the number of U.S. public and private schools closed, or planning to close, exceeds 90,000 (a good source to track closures is The Education Week website). We are operating under the assumption that all schools will close for an extended period of time, prior to the end of this school year. What are we doing to support our K-12 customers and their learners?

Response - Supporting Remote Learning

First, we have been proactive in providing districts and schools the tools and information they need to support remote learning. We sent our first communication outlining best practices for remote learning on March 9th; a link to this communication can be found on our website here.

Fortunately, our K-12 solutions are extremely well suited to this use case. Learners are able to continue their independent learning in our software from home as long as they have access to a device, while teachers can continually track progress and provide support in the precise areas of need for each student from their home through myLexia, which is our data dashboard for educators and administrators.

Response - Supporting Customers Who Need Greater Access

On March 13th, we took the initiative to ensure that all of our current customers can support their entire student population through the end of the school year, regardless of the license arrangement they have with us today. We did this by letting all of our district and school customers know that we will provide them an unlimited school license for each of their buildings at no additional cost through the end of the school year. The application for schools and districts is here.

For a school that had purchased individual student licenses for the year, this now means they can extend Lexia solutions to all of their students. For a district that may have a few, but not all, of their schools under license, they can now extend Lexia to every school and student. In total, this means that theoretically if every district in which we have customers implemented the offer across all of their schools, we would be able to help approximately 48% (approximately 20 million students) of all U.S. public school students, versus the approximately 10% we are working with today. As of the end of the day on Tuesday, March 17th, two working days since the offer was announced, over 1,500 schools had already applied for our program. We are happy to help these schools in their time of need, and look forward to continued partnership with them in the future.

We will incur additional support costs as we rapidly bring new customers and teachers online. To assist everyone in the program, we are also provisioning Lexia Academy, which provides online implementation and training support for teachers, to help them implement our products with their students, while also providing teachers professional development in the science of reading. Done correctly, this is a meaningful opportunity to deepen and broaden our relationships.

This is a huge effort to support schools across the country which we are glad to undertake. We are incredibly proud of our K-12 marketing and sales, customer success, operations and product teams for working overtime to make this happen for our children.

Consumer Language

In Consumer Language, our products have always been used remotely. During this disruptive period, we will work to provide learners with expanded learning opportunities as they are now spending more free time at home. There has never been a better chance for us to be there for learners than right now. Our focus has been to expand the value we are offering to customers, especially those buying higher priced lifetime or longer-term subscriptions. You will find more information on this in the Q&A section of this letter.

In this regard, early next quarter we plan on offering new integrated, digital coaching experiences incorporating human instruction more broadly into our consumer products. To be clear, at this time this is not paid coaching. Rather, it is intended to enhance the value of our learner experience and promote customer retention. This will be another opportunity to make clear the convenience and affordability of online coaching versus attending in-person training in a language center or community college.

We are considering a number of other options to help consumer learners cope with this difficult time and will share them when appropriate.

Enterprise Language

One of the primary differentiating factors in our enterprise product offering is the ability to efficiently provide high-quality, video-based, one-on-one and group training using Rosetta Stone coaches. This capability is even more important in this environment as all learning can continue, regardless of learner style, area of focus or budget, because we can customize our coaching offering and have no dependency on brick and mortar locations. Our coaches also work remotely and are not affected by our new work from home recommendation.

While many of our enterprise customers and potential customers are distracted now, which may impact new sales velocity, we believe over time this period will serve to highlight the affordability and convenience of online training and coaching.

Risks Related to the Virus

While we are confident of our ability to support learners during this period, it is important to understand that dealing with unprecedented levels of disruption for many of our customers will create distraction as schools and businesses focus on supporting the immediate needs of their students and employees. For our business, this may create opportunities to expand our relationships with existing customers who see the clear value of remote learning, while making it somewhat more difficult to win new business.

Corporate Update Q&A

This section of the letter addresses a number of questions that have come up recently and, in some cases, provides information that we have not previously shared publicly. For competitive reasons, among others, we may not provide this kind of detail in the future.

We will begin with questions regarding our K-12 business, then Language, and end with a few questions regarding our corporate strategy.

K-12 Questions

- 1. Describe the changes in sales and marketing in the Literacy segment. What is the overall growth in sales and sales support in 2020 versus 2019?***

Our primary growth driver of K-12 Literacy sales has been to land footholds in new districts or with new schools and expand after demonstrating the exceptional efficacy of solutions like Core5 and PowerUp. This will continue to be our approach and is the reason why we are not moving to a strict hunter-farmer model of sales and customer renewal. But to better focus our sales teams on the differentiated opportunities in our customer base, this year we are clearly distinguishing between those districts with large upsell and strategic renewal opportunities, and smaller districts with more limited new and renewal opportunities.

Strategic Account Focus and Support

To do this, we are focusing our five regional sales managers (RSMs), and their teams of account executives (AEs), on districts with enrollment of over 4,000 students. This represents approximately 16% of the districts in the country (including some of the largest such as NYC, LA and Chicago) and 70% of the student population. Prior to this change, RSMs also supervised account managers (AMs) who covered smaller accounts in their region. This new structure will allow RSMs and AEs to focus on our largest, most strategic existing customers and new opportunities, allowing RSMs to better support their AEs by spending more meaningful time in the field.

The number of AE's has increased 9% from approximately 34 to 37 this year and equally important, our RSM's now have an average of 7 reps to support versus 10 last year.

Smaller Account Focus and Support

To manage smaller customers and new opportunities, we have hired two new regional account managers to oversee our inside sales teams consisting of a somewhat larger group of AMs. In addition, we have expanded the size of our Account Specialist team that supports the lower value, transactional renewal needs of our entire sales organization. Our team is excited about these changes which were rolled out earlier this year and are in practice today.

In addition to the two new regional sales managers, we are growing the AM team from 14 to 16 and our Account Specialist team from 3 to 7.

2. Describe in greater detail the potential opportunity in the Texas literacy adoption.

Background

Texas is the second largest state after California in terms of schools and student population, with approximately 10% of public schools in the United States. It is also a state where Lexia has historically had a strong presence. That said, for a few years prior to 2019, we and most other supplemental literacy providers had been effectively locked out of the Texas market because of a state-level contract with a competitor. This contract ended in 2018.

In addition, in 2019 the state began an eight-year literacy adoption program that was geared towards providing funding support for reading instruction at the local level. This adoption kicked off with Proclamation 2019 targeting the needs of elementary schools. This year, Proclamation 2020 addresses the needs of secondary schools and is focused on supporting literacy intervention needs for students in middle school and high school. While our bookings in Texas grew approximately 40% in 2019, we believe that there is an even greater opportunity this year.

Current Status

In 2020, the convergence of these factors creates two opportunities for us. First, to drive sales of Core5 in the state as districts and schools add supplemental solutions to their core programs in elementary schools under Proclamation 2019. Secondly, to sell PowerUp into the secondary school intervention adoption (Proclamation 2020) that is beginning this year. We believe PowerUp is particularly well suited to this opportunity given its acceptance elsewhere and demonstrated effectiveness (see the next question).

We have devoted substantial time and effort to the Texas opportunity for a few years now and look forward to delivering increased sales in the state in 2020.

3. PowerUp has been growing quickly. What has been the catalyst for its expansion and why should it continue to grow?

PowerUp serves the literacy intervention needs of struggling readers in grades 6 through 12. While intervention seems to imply a highly specialized need, in education it simply means additional instruction designed to create more than one year's growth in a single school year. In middle and high schools this means that PowerUp is focused on a very large marketplace - the two-thirds of students reading below grade level. PowerUp has been successful in its first two years because it is the first adaptive, blended intervention product, with unprecedented depth and breadth, focused on this broad market and priced accordingly.

The potential for PowerUp was recently enhanced by the decision by Evidence for ESSA, the non-profit, authoritative source for reviewing research relative to the standards of the Federal Government's Every Student Succeeds Act, to award a rating of Strong. The decision stated that a recent study (described on Evidence for ESSA's site here) demonstrating that students using PowerUp did significantly better after one semester on a third-party standardized test qualifies for their highest rating of Strong. In fact, Evidence for ESSA currently lists PowerUp as the most effective secondary literacy intervention product of all those reviewed.

4. What is the opportunity for English language learning in U.S. K-12 schools? How does the new product address this opportunity?

We are excited to bring to market in 2020 a new product focused on building English language (EL) fluency in non-native English speakers. Why is this an exciting opportunity? The market is large and it is growing quickly. Our solution directly addresses the needs of non-native English speakers who today constitute approximately 10% of the student population and are expected to be 25% of students by 2025 according to the National Education Association. In addition, pricing in the EL marketplace, because it is a subset of the total student population, tends to be higher than for solutions like Core5 that serve the needs of the broad student population.

These learners are also not well served by existing solutions. The current solutions are largely paper-based, and don't provide ongoing data or frequent opportunities for these learners to speak, which is the ultimate goal. Many times, progress is only measured once at the end of each year.

Rosetta Stone English will help to level the playing field for EL students by providing adaptive, personalized learning tools that meet learners at their level and help them progress more quickly than they could otherwise. At the same time our technology is able to provide real-time feedback to teachers on progress and areas where improvements are needed by capturing and analyzing a learner's entire path through the program. This insight is coupled with supplemental instruction materials, which empower teachers to work with students in these areas. Rosetta Stone English has the potential to be a game changer for teachers addressing the needs of these students.

Not only will Rosetta Stone English align to the most common standards and provide ongoing data without stopping instruction time to test, it will also address the social emotional and motivational needs of learners. Rosetta Stone English was built with the mindset that EL learners are bringing an 'asset' to learning English, not a deficit. Foundationally, we are honoring the students as emergent bilinguals by assessing their speech through a grammar lens, not primarily a pronunciation lens. We want them to be able to speak proper English, but they all will have slightly different accents and that is okay.

One of the biggest challenges in both classrooms and paper-based programs is the limited amount of time that students get to actually speak the language they are learning. Rosetta Stone English, using our proprietary speech recognition engine, is all about speaking, but in a supportive, safe environment where the students are receiving valuable feedback and the educators are receiving the data and instructional materials to help students thrive.

Language Questions

1. A 1.8x LTV/CAC ratio seems low relative to other traditional consumer SaaS companies. Explain why and why you believe it is attractive?

Our Consumer Language business is not like many SaaS subscription businesses for two reasons. We offer a learning experience which, by its nature, is expected to be finite in length. But critically, we are paid almost entirely upfront for that experience. While other subscription companies measure time till payback (how many renewals are required in order to earn a positive return on their customer acquisition costs), we earn a positive return almost immediately.

It is true that some subscription companies operate at higher ratios of the expected lifetime value of the customers they acquire relative to the cost of acquiring those customers. The difference, however, between our economic model and theirs, is that the vast majority of the economic value we receive is paid either entirely upfront or over a relatively short period of time. In other words, rather than spending a dollar and hoping to realize a return over time, we spend a dollar and make ~\$1.80 over a very short period. An ROI of 1.8x earned in a matter of months. This is very attractive, especially given the time frame and the limited risk of our investment.

How is this return created? Many of our customers come to us naturally and at low or no cost by searching for Rosetta Stone. They do this because they know the Rosetta Stone brand and trust us to provide an effective solution. But for many, language learning requires the motivation of paid advertising to stimulate purchase. We use advertising to bring in these customers and convert them to Rosetta Stone learners. While many customers are relatively inexpensive to acquire, we are willing to earn a lower return on the tail of our advertising, given the immediate or almost immediate positive return.

2. Explain the rationale behind the Lifetime product. Why didn't you raise the price for the Universal Access (all languages) Lifetime products?

As the premium priced product in the digital language marketplace, our goal is to provide as much value as we can to customers, and especially to those customers who are willing to commit to a long relationship with us. So while very few customers renew their subscription after two years, our longest subscription other than lifetime, the perceived value of lifetime access is significant for many. To give you a sense, you might see our Lifetime product offered today at \$189-\$199, while a 24-month subscription would be listed at approximately \$144.

Similarly, while our experience tells us that very few customers purchase multiple subscriptions to cover multiple languages, the perceived value of knowing they could use our solution regardless of future need is very high. At a typical price of \$189 or higher, a Universal (all languages) Lifetime subscription provides great perceived value for learners and a terrific return on investment for us.

Corporate Strategy

1. Why did you move sales and marketing for K-12 Language under Nick Gaehde's (co-President of Rosetta Stone, President of K-12) leadership if it is reported in the E&E segment?

While K-12 Language remains part of the Enterprise & Education reporting segment, beginning in 2019, we more tightly aligned our go-to-market strategies against their respective customer bases. At this point, marketing, sales and customer success teams serving K-12 customers all report within the Literacy segment. This allows us to focus our messaging efforts on our positioning as the expert in literacy and language, better coordinate our sales efforts, and provide the highest level of customer service. Critically, it also allows Matt Hulett (co-President of Rosetta Stone, President of Language) and his leadership team to focus on a narrower, more natural group of customers - adults in their home or office. We continue to report the revenues and expenses of the historical K-12 Language business in the E&E segment because that is where the products were built, leveraging Language business content and capability, and are maintained.

2. *Why are you naming the new EL product Rosetta Stone English? Does this imply greater consolidation of the businesses?*

Rosetta Stone English is our new solution for emergent English learners in kindergarten through 6th grade (see question 4 under K-12). This product has been built on the myLexia platform by a team of education and content experts and product engineers that work in Lexia. We made the decision on the name because the product will serve the language development needs of K-6 students and there is no better brand in the world for language development than Rosetta Stone. It's that simple.

But let me be clear about what this is not. We are not integrating our traditional, historical adult language business with our K-12 business. In fact, we are more clearly defining the roles of each by placing the marketing, sales and customer success functions of our K-12 Language business within the structure of Lexia. This will create clear focus and accountability for this customer segment. At the same time, it creates greater focus and accountability within our Language business on a narrower consumer and enterprise customer base.

Forward Looking Statements

This investor communication contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may include, but are not limited to, statements relating to: our business strategy; our response to the coronavirus pandemic and COVID-19 illness; 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 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, 2019, and those updated from time to time in our future reports filed with the Securities and Exchange Commission.

Statistical Measures

This investor communication also contains references to statistical measures. The full definitions of these measures are available in our most recent earnings presentation dated March 11, 2020 posted to the Investor Relations section of our website at www.investors.rosettastone.com.
