Rosetta Stone has prepared the following supplemental information regarding the results for the first quarter ended March 31, 2019, 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 Tuesday, May 7, 2019, 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 11:59 p.m. ET on Tuesday, May 14, 2019. Investors may dial into the replay using 1-412-317-6671 and passcode 13689513.

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.

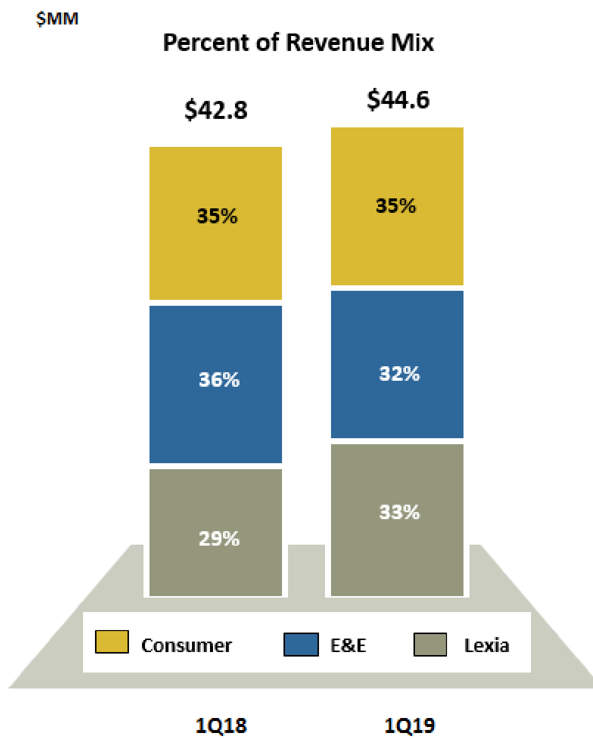
Q1 2019 Revenue

Total revenue in first quarter 2019 grew $1.8 million or 4% to $44.6 million, compared to $42.8 million in first quarter 2018.

- The Literacy segment had a strong quarter with revenue increasing $2.4 million (20%) year-over-year, reflecting a consistently high retention rate of

91% in Q1. Bookings were flat year-over-year at $4.5 million, as both new and renewal bookings continue to consolidate into the third calendar quarter.

- Consumer Language segment revenue increased slightly by $0.4 million (2%) year over year, reflecting higher bookings and the benefit of previously deferred subscription revenue. New perpetual unit sales in Q1 2019 were just 1% of total units sold, compared to 7% in the same quarter last year. Consumer Language bookings totaled $15.8 million in Q1 2019, up year-over-year from $15.2 million before SOURCENEXT and Fit Brains, which was decommissioned. The SaaS transition within the Consumer Language segment's direct-to-consumer ("DTC") channel was largely completed by the end of 2017 and the migration from CD-based product sales to subscriptions in the retail channel was largely completed in the first quarter of 2018.



- Education and Enterprise ("E&E") Language segment revenue declined $1.0 million (6%) year-over-year due to lower bookings levels in 2018. E&E Language bookings decreased $0.3 million (4%) year-over-year.

Q1 2019 Net Loss

The Company reported a Q1 2019 net loss of $0.5 million, or $(0.02) per diluted share, compared to a net loss of $6.4 million, or $(0.29) per diluted share, in the year-ago period.

The year-over-year improvement in net loss benefitted by $3.3 million from three non-recurring items: the $1.4 million gain on sale of assets; a $0.6 million improvement in the income tax provision driven by Virginia’s state adoption of 2017 Tax Reform; and, the absence of a $1.3 million inventory obsolescence charge taken in the first quarter of 2018 associated with the switch from packaged perpetual products to subscription-based offerings in the retail and DTC channels of the Consumer Language segment which did not recur in 2019. There were also some timing benefits, relative to our prior Q1 2019 guidance, for certain expenditures that we believe will now occur primarily in Q2 and, to a lesser extent, Q3.

Annualized Recurring Revenue

Q1 2019 ARR Performance Metrics

	Q1 2019	Q1 2018
Literacy	$51.7MM	$43.9MM
E&E Language	$53.3MM	$55.7MM

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 March 31, 2019, was up $7.8 million (18%) year-over-year to $51.7 million. Growth in this business continues to be driven by high retention and renewal rates and new bookings from its direct salesforce. E&E Language ARR was down $2.4 million (4%) year-over-year and flat on a sequential basis.

Q1 2019 Segment Contribution

Literacy segment contribution was $3.0 million (or 20% of segment revenue), compared to $1.9 million (or 15% of segment revenue) in the year-ago period. This improvement was due to higher revenue, compared to the same period last year, which was partially offset by higher sales and marketing expenses (up 11% to $6.9 million), cost of goods sold (up 22% to $2.5 million) and research and development expenses (up 10% to $2.0 million) as the Company continues to make investments 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 the 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 $7.0 million (23% of total combined Language segment revenue), which was up $3.2 million from $3.8

million (13% of total combined Language segment revenue) in the prior year period. The increase was driven by lower sales and marketing expense (down 9%), partially offset by lower revenue in the Language segments (down $0.6 million or 2% year-over-year), primarily related to lower E&E revenue described above.

The E&E Language segment contribution margin **before shared Language R&D expense** was $6.1 million (or 42% of segment revenue), which was up $0.2 million from $5.9 million (or 38% of segment revenue) in the year-ago period. This performance was primarily driven by decreases in sales and marketing expense (down 14%) and cost of sales (down 9%).

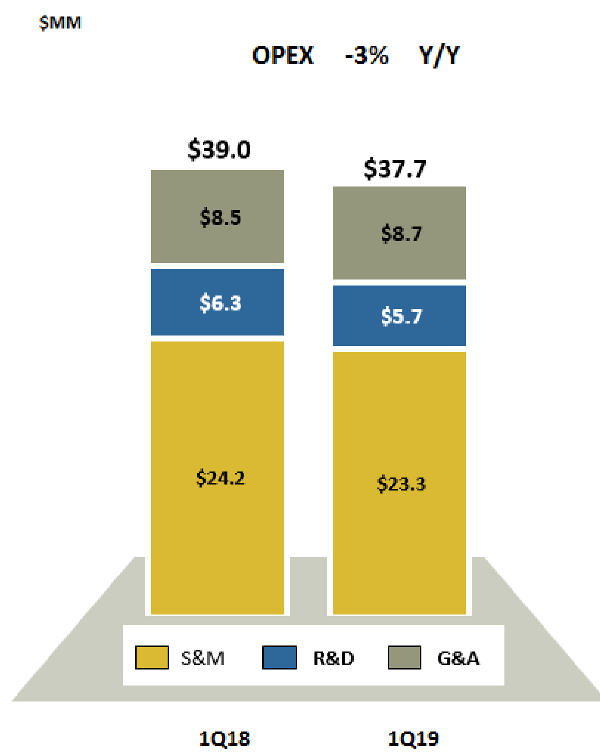
Consumer Language segment contribution margin **before shared Language R&D expense** was $4.5 million (or 30% of segment revenue), which was up $2.5 million from $2.1 million (or 14% of segment revenue) in the year-ago period. This performance was primarily driven by decreases in cost of sales (down 48%) and sales and marketing (down 3%).

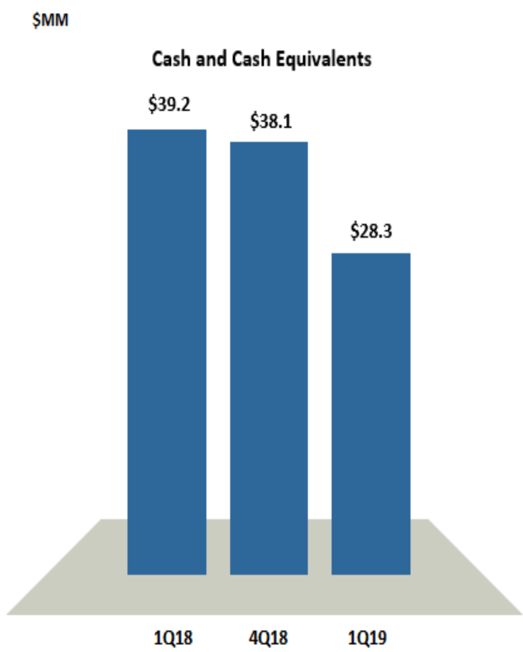
Lifetime Value ("LTV") added was $14.6 million in Q1 2019, a decrease of $0.2 million from the year-ago period. Note that Consumer LTV per unit in Q1 2019 was $157 compared to $167 in Q1 2018. This year-over-year decline reflects an increase in shorter-duration new unit subscription sales following the introduction of subscription pricing in mobile app stores in Q1 2018, but was more stable sequentially, compared to $160 LTV per unit sold in Q4 2018. We believe mobile customers will have somewhat lower overall LTVs, in part, because they tend to purchase shorter initial subscription terms. The Consumer Language segment's transition to all SaaS sales in the DTC channel was largely complete by the end of

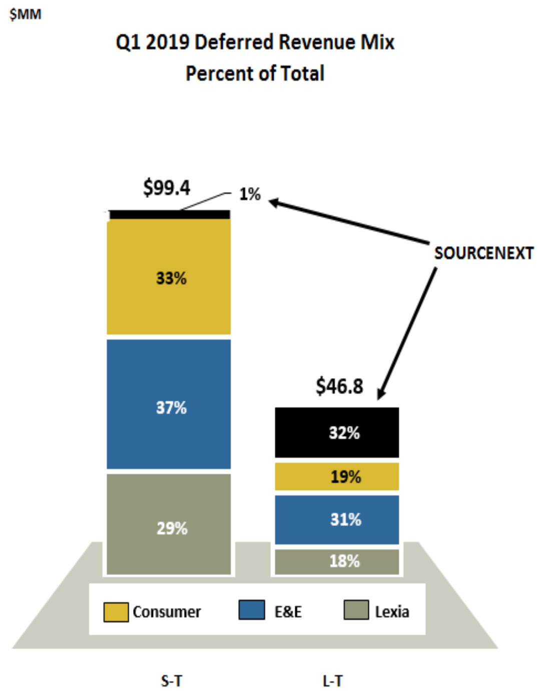
2017, so more of the aggregate LTV generated by current quarter sales will be recognized as revenue in future periods compared to the year-ago period.

Q1 2019 Operating Expenses

Total operating expenses decreased $1.4 million (3%) year-over-year to $37.7 million in the first quarter 2019 driven by decreases in sales and marketing and research and development expenses, partially offset by an increase in general and administrative expense.







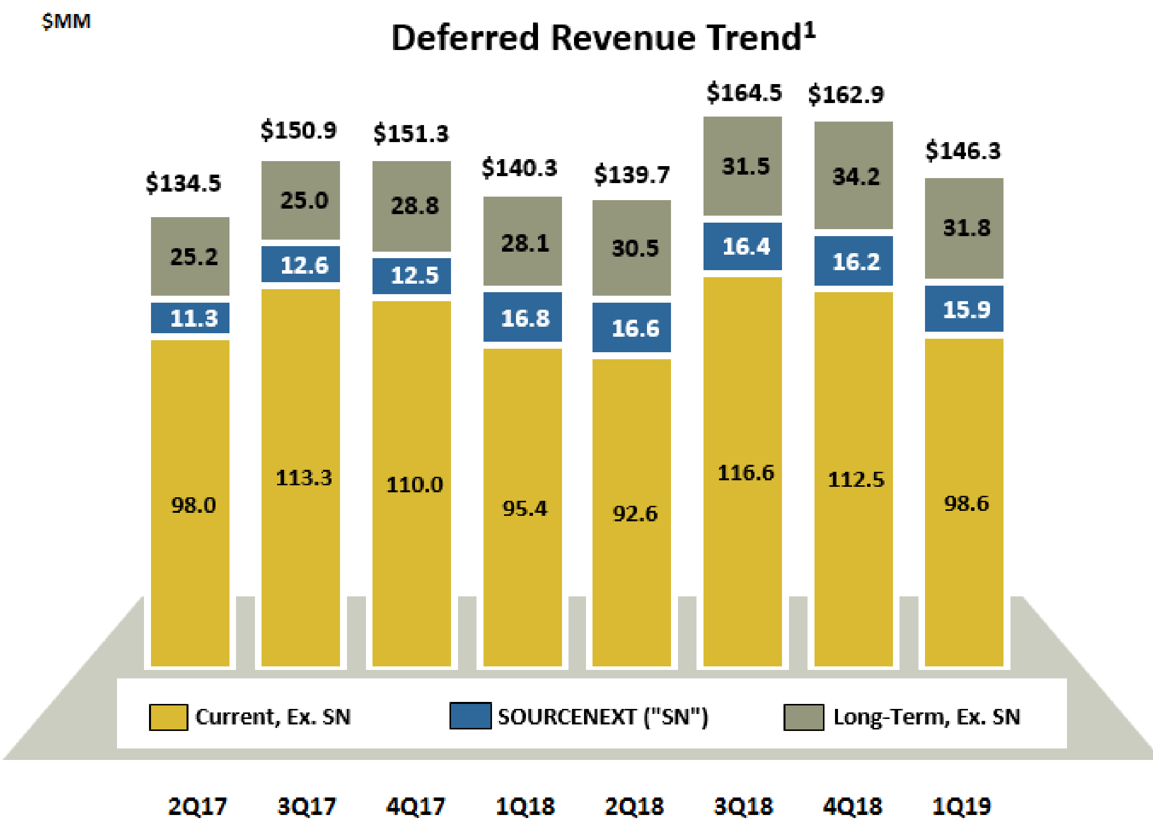
Q1 2019 Selected Balance Sheet Data

Deferred revenue totaled $146.3 million at March 31, 2019, down sequentially from $162.9 million at December 31, 2018 and up from $140.3 million at March 31, 2018. Of the March 31, 2019 total deferred revenue balance, $99.4 million (or approximately 68%), was short-term and will be recognized as revenue over the next 12 months. Excluding SOURCENEXT, short-term deferred revenue at March 31, 2019 was approximately 67% of total deferred revenue.

The chart above depicts the Q1 2019 balance by the segment components, with separate disclosure of the SOURCENEXT component within the Consumer Language segment - note that the vast majority of the cash received to date from our 2017 long-term royalty agreement with SOURCENEXT was recorded as deferred revenue, with nearly all of that classified as noncurrent to be recognized over 20 years.

The following chart depicts the 8-quarter trend in deferred revenue, with the separation of short-term, long-term and the amounts that were attributable to the SOURCENEXT transaction.

As of March 31, 2019, the Company had zero debt and $28.3 million of cash and cash equivalents. The ending cash balance was down approximately $10.9 million compared to the year-ago period, and down $9.8 million sequentially from December 31, 2018.



[1] The vast majority of SOURCENEXT deferred revenue is long-term and is being recognzied as revenue over 20 years.

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. For Q1 2019, the Company reported a net loss of $0.5 million, compared to a net loss of $6.4 million in the year-ago period. Adjusted EBITDA was positive $3.3 million, compared to Adjusted EBITDA of negative $1.3 million in the year-ago period.

Net cash used in operating activities was $6.6 million, compared to net cash used in operating activities of $0.4 million in Q1 2018. Note that Q1 2018 benefited from $4.5 million received from SOURCENEXT. Capital expenditures, which primarily relate to capitalized labor on product and IT projects, totaled $4.7 million, an increase from $3.9 million in Q1 2018. Lexia drove the majority of the increase in capital expenditures year-over-year, reflecting investments to support long-term growth. Free cash flow was an outflow of $11.3 million, compared to an outflow of $4.4 million in the year-ago period.

Financial Outlook - Full Year 2019

With respect to the full year 2019 guidance that we communicated in conjunction with our year-end conference call on March 6, 2019, our outlook remains unchanged. We continue to expect total consolidated revenue will be approximately $191 million and consolidated bookings will be approximately $199 million, broken down for the mix among the three segments as follows:

Literacy revenue is expected to be approximately $63.0 million, on bookings of approximately $74 million (up over 25% versus 2018), with all the growth in 2019 expected to come in the second half of the year

E&E Language revenue to approach $62.5 million on bookings of approximately $58 million (down 2% versus 2018)

Consumer revenue is expected to be approximately $65.5 million on bookings of approximately $67 million, which are up 6% versus 2018 after excluding $4.5 million from SourceNext and approximately $0.3 million from Fit Brain bookings in 2018 that will not be repeated as that product has been decommissioned. We also now expect Consumer subscribers to grow approximately 24% in 2019, to approximately 600,000 subscribers at the end of 2019 compared to 483,000 at the end of 2018.

Consistent with the seasonality in our business, we continue to anticipate that approximately 75% of our 2019 revenue growth will occur in the second half of the year.

For the full year 2019, our outlook for net loss remains unchanged at approximately $15 million, a 30% or $6.5 million year-over-year improvement while also taking into account investment in new products. As with the above seasonality in our revenue growth, we continue to anticipate the majority of the 2019 improvement in net loss will occur in the second half of the year.

Partially offsetting our increase in revenue in 2019 is a $4 million expected increase in Cost of Revenue, over 80% of which is driven by a non-cash increase in amortization primarily for Literacy and Language product costs that had been capitalized during development prior to launch in 2018. Notwithstanding this increase, we continue to expect the 2019 gross margins will be flat to 2018.

Our outlook for Adjusted EBITDA remains unchanged at approximately $8 million, up from breakeven in 2018.

We continue to expect to end 2019 with no debt and approximately $38 million in cash (unchanged from the 2018 ending cash balance). We continue to expect to have some seasonal borrowings that would be outstanding as we go through the year. As K-12 has become the largest part of our business, and as more and more of this business is concentrated in Q3 and Q4 even as our expenses are relatively fixed, the need to fund this mismatch has grown. To be clear, this is not expected to be a permanent part of our capital structure, and we intend to have no borrowings outstanding at year end.

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.
- North America Consumer DTC and Global App Sales LTV per Unit - The Lifetime Value per unit, or LTV per unit, is an operating metric calculated as the combined value of customers' initial purchases plus an estimate of future renewals based on the median renewal rates observed for recent renewals of similar products. The per unit metric is expressed as the weighted average LTV per unit of all products sold during a given period.
- LTV Added is the LTV per unit multiplied by total new unit sales net of returns.
- North America Consumer DTC and Global App Sales CAC - The Customer Acquisition Cost, or CAC, is an operating metric calculated as the sum of Consumer GAAP sales and marketing expenses in a period plus affiliate commission expenses that are classified as cost of goods sold, adjusted to reflect the lifetime app store commissions incurred on the initial app sale plus an estimate of app commission expenses on future renewals.
- CAC per Unit is CAC divided by total new unit sales net of returns for North America DTC and Global App sales.
- The LTV-to-CAC ratio is calculated as LTV per Unit divided by CAC per Unit.
- Net LTV Added is calculated as LTV Added minus CAC.
- Retention is a customer-based metric based on whether a customer was retained from a prior period to the current period. Renewal is an annualized dollar-based metric (of the dollars available to renew) and includes upsells.
- Prior period amounts have been restated to be comparable to the current period methodology. In addition, prior period LTV, CAC Net LTV, retention and renewal metrics presented for a given period may change over time as the most current experience for that period is used to update the calculations of those operating metrics.

Definitions – Non-GAAP Financial Measures

- Bookings represents executed contracts received by the Company that are either recorded immediately as revenue or deferred revenue. Therefore, bookings 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 E&E Language segments. Prior periods have been reclassified to reflect our current segment presentation and definition of segment contribution.

Adjusted EBITDA and Free Cash Flow

	Amounts ($000)					
	Quarterly					Quarterly
	1Q18	2Q18	3Q18	4Q18	FY18	1Q19
GAAP net loss	$ (6,402)	$ (4,158)	$ (6,489)	$ (4,424)	$ (21,473)	$ (544)
Total other non-operating expense (income), net	286	59	(40)	(260)	45	(769)
Income tax expense (benefit)	461	454	588	306	1,809	(170)
Depreciation and amortization	3,610	3,479	3,802	3,725	14,616	3,529
Stock-based compensation	583	1,353	1,452	1,087	4,475	1,220
Restructuring expenses	31	(23)	(8)	(3)	(3)	-
Other EBITDA adjustments	141	261	27	252	681	53
Adjusted EBITDA	$ (1,290)	$ 1,425	$ (668)	$ 683	$ 150	$ 3,319

	Amounts ($000)					
	Quarterly					Quarterly
	1Q18	2Q18	3Q18	4Q18	FY18	1Q19
Net cash (used in)/provided by operating activities	$ (418)	$ (14,316)	$ 14,471	$ 10,706	$ 10,443	$ (6,567)
Purchases of property and equipment	(3,948)	(4,188)	(3,564)	(5,189)	(16,889)	(4,714)
Free Cash Flow	$ (4,366)	$ (18,504)	$ 10,907	$ 5,517	$ (6,446)	$ (11,281)

Revenue and Bookings

	Amounts ($000)					
	Quarterly					Quarterly
	1Q18	2Q18	3Q18	4Q18	FY18	1Q19
Revenue						
Literacy	$ 12,384	$ 12,695	$ 13,215	$ 14,472	$ 52,766	$ 14,806
E&E Language						
Enterprise	8,983	8,538	8,421	8,019	33,961	8,021
North America K-12	6,453	6,818	6,569	6,575	26,415	6,422
Total E&E Language	15,436	15,356	14,990	14,594	60,376	14,443
Consumer Language	14,988	15,451	14,545	15,508	60,492	15,362
Total Language	30,424	30,807	29,535	30,102	120,868	29,805
Total Revenue	$ 42,808	$ 43,502	$ 42,750	$ 44,574	$ 173,634	$ 44,611
Bookings						
Literacy	$ 4,524	$ 10,325	$ 33,980	$ 9,799	$ 58,628	$ 4,511
E&E Language						
Enterprise	5,498	9,921	7,621	10,928	33,968	5,622
North America K-12	2,486	7,952	9,901	4,969	25,308	2,020
Total E&E Language	7,984	17,873	17,522	15,897	59,276	7,642
Consumer Language	19,906	14,752	16,055	17,238	67,951	15,827
Less: Adjustment for SOURCENEXT	4,486	-	-	-	4,486	-
Subtotal for Consumer, before SOURCENEXT	15,420	14,752	16,055	17,238	63,465	15,827
Subtotal for Language, before SOURCENEXT	23,404	32,625	33,577	33,135	122,741	23,469
Total Bookings, before SOURCENEXT	$ 27,928	$ 42,950	$ 67,557	$ 42,934	$ 181,369	$ 27,980

Reconciliation of Revenue and Bookings

	Amounts ($000)					
	Quarterly					Quarterly
	1Q18	2Q18	3Q18	4Q18	FY18	1Q19
Reconciliation of Revenue to Bookings						
Literacy						
Segment revenue	$ 12,384	$ 12,695	$ 13,215	$ 14,472	$ 52,766	$ 14,806
Segment change in deferred revenue	(7,860)	(2,370)	20,765	(4,673)	5,862	(10,295)
Bookings	$ 4,524	$ 10,325	$ 33,980	$ 9,799	$ 58,628	$ 4,511
E&E Language						
Segment revenue	$ 15,436	$ 15,356	$ 14,990	$ 14,594	$ 60,376	$ 14,443
Segment change in deferred revenue	(7,452)	2,517	2,532	1,303	(1,100)	(6,801)
Bookings	$ 7,984	$ 17,873	$ 17,522	$ 15,897	$ 59,276	$ 7,642
Consumer Language						
Segment revenue	$ 14,988	$ 15,451	$ 14,545	$ 15,508	$ 60,492	$ 15,362
Segment change in deferred revenue	4,918	(699)	1,510	1,730	7,459	465
Adjustment for SOURCENEXT	(4,486)	-	-	-	(4,486)	-
Bookings, before SOURCENEXT	$ 15,420	$ 14,752	$ 16,055	$ 17,238	$ 63,465	$ 15,827
Total revenue	**$ 42,808**	**$ 43,502**	**$ 42,750**	**$ 44,574**	**$ 173,634**	**$ 44,611**
Change in deferred revenue	(10,394)	(552)	24,807	(1,640)	12,221	(16,631)
Adjustment for SOURCENEXT	(4,486)	-	-	-	(4,486)	-
Total bookings, before SOURCENEXT	**$ 27,928**	**$ 42,950**	**$ 67,557**	**$ 42,934**	**$ 181,369**	**$ 27,980**

Segment Contribution

	Amounts ($000)					
	Quarterly					Quarterly
	1Q18	2Q18	3Q18	4Q18	FY18	1Q19
Revenue:						
Literacy segment	$ 12,384	$ 12,695	$ 13,215	$ 14,472	$ 52,766	$ 14,806
E&E Language segment	15,436	15,356	14,990	14,594	60,376	14,443
Consumer Language segment	14,988	15,451	14,545	15,508	60,492	15,362
Shared services	-	-	-	-	-	-
Combined Language	30,424	30,807	29,535	30,102	120,868	29,805
Total revenue	$ 42,808	$ 43,502	$ 42,750	$ 44,574	$ 173,634	$ 44,611
Segment contribution						
Literacy segment	$ 1,872	$ 1,823	$ 1,025	$ 2,453	$ 7,173	$ 3,013
E&E Language segment	5,890	5,663	5,666	5,633	22,852	6,107
Consumer Language segment	2,085	4,550	3,301	2,835	12,771	4,548
Shared services	(4,156)	(4,074)	(3,907)	(4,016)	(16,153)	(3,680)
Combined Language	3,819	6,139	5,060	4,452	19,470	6,975
Total segment contribution	$ 5,691	$ 7,962	$ 6,085	$ 6,905	$ 26,643	$ 9,988
Segment contribution margin percentage:						
Literacy segment	15%	14%	8%	17%	14%	20%
E&E Language segment	38%	37%	38%	39%	38%	42%
Consumer Language segment	14%	29%	23%	18%	21%	30%
Combined Language	13%	20%	17%	15%	16%	23%