Rosetta Stone has prepared the following supplemental information regarding the results for the second quarter ended June 30, 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, August 6, 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, August 13, 2019. Investors may dial into the replay using 1-412-317-6671 and passcode 13692171.

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.

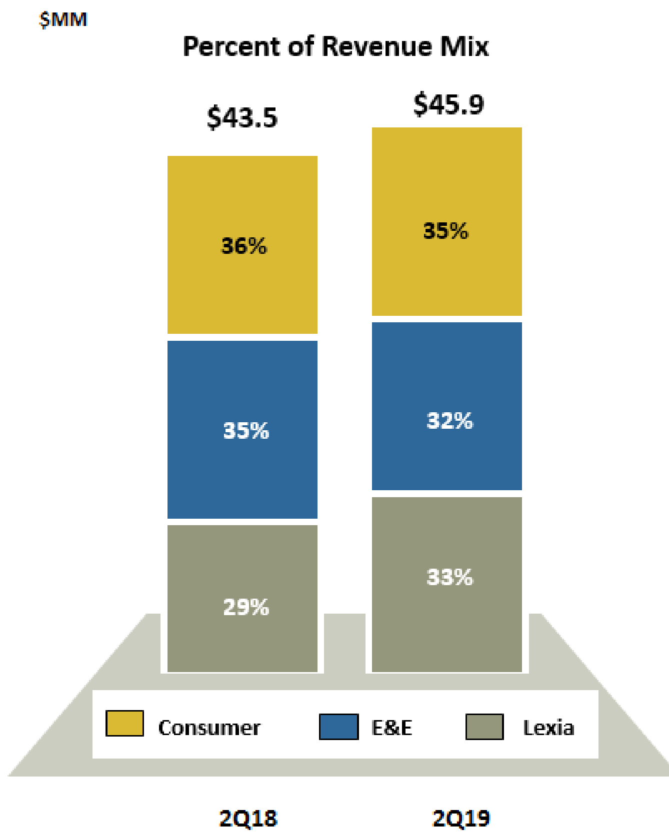
Q2 2019 Revenue

Total revenue in second quarter 2019 grew $2.4 million or 6% to $45.9 million, compared to $43.5 million in second quarter 2018.

- The Literacy segment had a strong quarter with revenue increasing $2.4 million (19%) year-over-year, reflecting a consistently high retention rate of 89% in Q2.

Bookings increased year-over-year to $12.1 million, a 17% increase, largely due to some early renewals that had been expected to occur in Q3.

- Consumer Language segment revenue increased by $0.9 million (6%) year over year, reflecting stable year-over-year new bookings and the recognition of a greater amount of previously deferred subscription revenue. Consumer Language bookings totaled $14.6 million in Q2 2019, flat year-over-year before SOURCENEXT and Fit Brains, which was decommissioned.



- Education and Enterprise ("E&E") Language segment revenue declined $0.9 million (6%) year-over-year due to lower bookings levels in 2018 and in the first half of this year. E&E Language bookings decreased $2.5 million (14%) year-over-year largely due to the absence of $1.9 million in custom content bookings recorded in Q2 of 2018.

Q2 2019 Net Loss

The Company reported a Q2 2019 net loss of $2.8 million, or $(0.12) per diluted share, compared to a net loss of $4.2 million, or $(0.18) per diluted share, in the year-ago period. The year-over-year improvement was driven by the increase in revenues and relatively stable expenses.

Annualized Recurring Revenue

Q2 2019 ARR Performance Metrics

	Q2 2019	Q2 2018
Literacy	$52.7MM	$45.0MM
E&E Language	$54.1MM	$54.4MM

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 June 30, 2019, was up $7.7 million (17%) year-over-year to $52.7 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 $0.3 million (1%) year-over-year and up on a sequential basis.

Q2 2019 Segment Contribution

Literacy segment contribution was $2.4 million (or 16% of segment revenue), compared to $1.8 million (or 14% 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 cost of goods sold (up 28% to $2.4 million), research and development expenses (up 28% to $2.2 million), and sales and marketing expenses (up 12% to $7.6 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 $6.1 million (20% of the total combined Language segment revenue), which was flat compared to the prior year period.

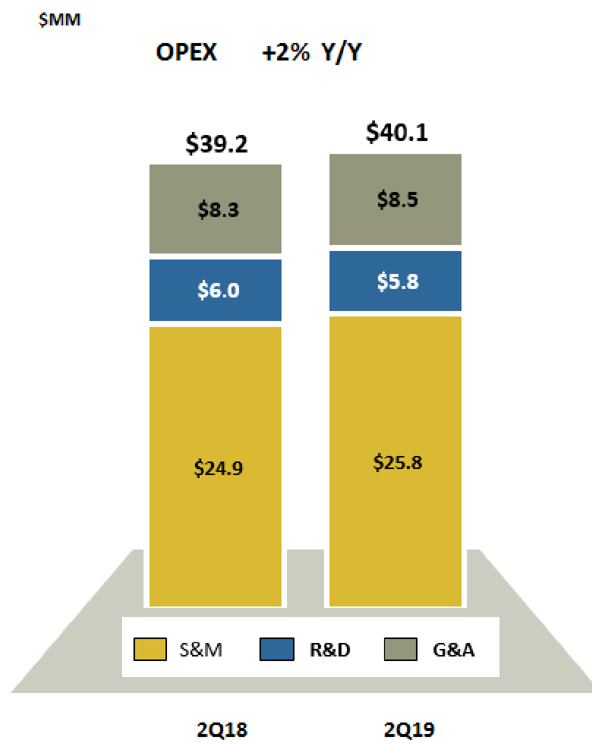
The E&E Language segment contribution margin **before shared Language R&D expense** was $5.8 million (or 40% of segment revenue), which was up $0.2 million from $5.7 million (or 37% of segment revenue) in the year-ago period. This performance was primarily driven by decreases in sales and marketing expense (down 14%).

Consumer Language segment contribution margin **before shared Language R&D expense** was $3.6 million (or 22% of segment revenue), which was down $0.9 million from $4.6 million (or 29% of segment revenue) in the year-ago period. The decrease was primarily related to increases in sales and marketing (up 22%) due to approximately $1.5 million in production costs and variable media spending for an offline media test which has a longer return profile than Consumer's usual digital media. Before the cost of this offline test, Consumer segment contribution was up $0.6 million year-over-year.

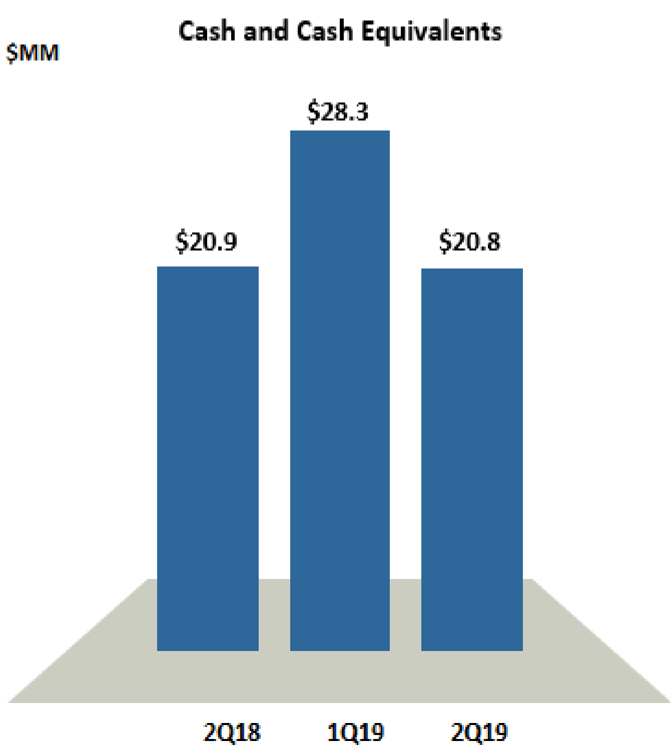
Lifetime Value ("LTV") added was $13.0 million in Q2 2019, a decrease of $1.0 million from the year-ago period. Note that Consumer LTV per unit in Q2 2019 was $153 compared to $175 in Q2 2018, but was more stable sequentially, compared to $155 LTV per unit sold in Q1 2019. The year-over-year decline reflects an increase in shorter-duration new unit subscription sales following the introduction of subscription pricing in mobile app stores in Q1 2018. We believe mobile customers will have somewhat lower overall LTVs, in part, because they tend to purchase shorter initial subscription terms. Additionally, Q2 was impacted by approximately $1.5 million in production costs and variable media spending for an offline media test, which impacted both the LTV created in the quarter, as a smaller portion of our dollars were spent on faster returning performance marketing, and the overall amount of CAC incurred in the period.

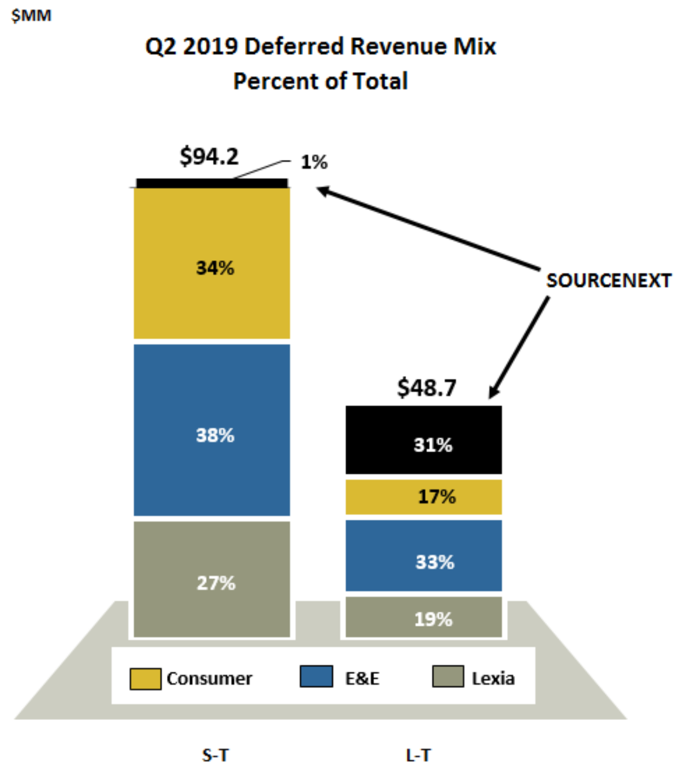
Q2 2019 Operating Expenses

Total operating expenses slightly increased $0.9 million (2%) year-over-year to $40.1 million in the second quarter 2019 driven by increases in sales and marketing and general and administrative expenses, partially offset by a decrease in research and development expense.



Q2 2019 Selected Balance Sheet Data

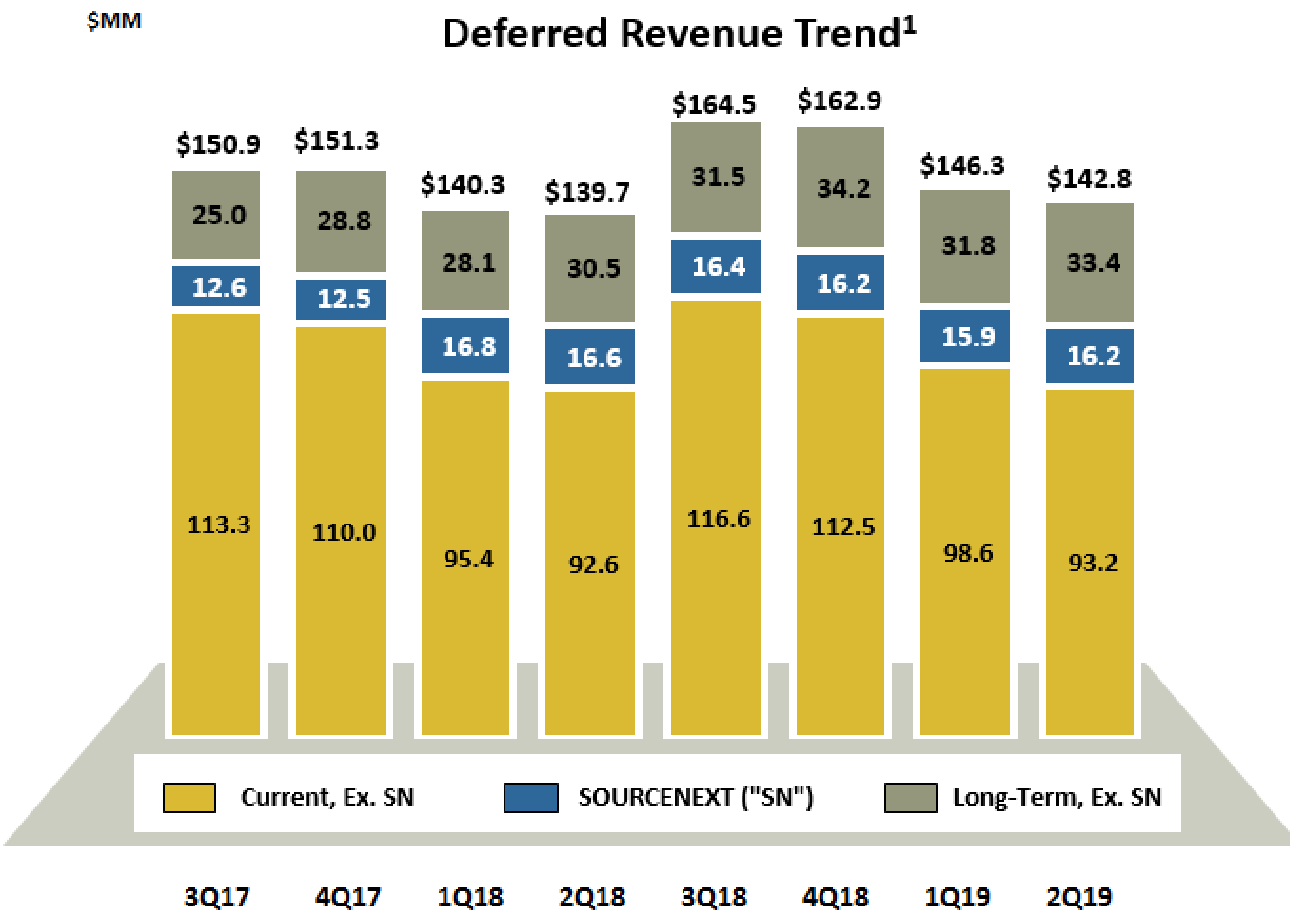




Deferred revenue totaled $142.8 million at June 30, 2019, down sequentially from $146.3 million at March 31, 2019 and down from $162.9 million at December 31, 2018. Of the June 30, 2019 total deferred revenue balance, $94.2 million (or approximately 66%), was short-term and will be recognized as revenue over the next 12 months. Excluding SOURCENEXT and non-core custom content, short-term deferred revenue at June 30, 2019 was approximately 78% of total deferred revenue.

The chart above depicts the Q2 2019 deferred revenue 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.



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

As of June 30, 2019, the Company had $20.8 million of cash and cash equivalents and $9.9 million in short-term debt outstanding under the Company's seasonal revolver. The ending cash balance was down approximately $0.2 million compared to the year-ago period, and down $7.5 million sequentially from March 31, 2019. The borrowing level was in line with expectations, has started to be paid down subsequent to June 30 and is expected to be fully repaid by year-end.

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 Q2 2019, the Company reported a net loss of $2.8 million, compared to a net loss of $4.2 million in the year-ago period. Adjusted EBITDA was $2.0 million, compared to Adjusted EBITDA of $1.4 million in the year-ago period.

Net cash used in operating activities was $14.8 million, compared to net cash used in operating activities of $14.3 million in Q2 2018. Note that Q2 2019 benefited from $0.5 million received from SOURCENEXT. Capital expenditures, which primarily relate to capitalized labor on product and IT projects, totaled $5.0 million, an increase from $4.2 million in Q2 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 $19.8 million, compared to an outflow of $18.5 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 first quarter conference call on May 7, 2019, we are reiterating our guidance for Literacy and Consumer revenue and bookings and consolidated net income. We are raising our bookings guidance for E&E for the full year, as we recently agreed to a $7 million custom content contract. The deal has been signed by both parties and funding has been secured by our partner. There is a final formal governance step, which means it is not completely finalized, so there is some risk it won't close, but we expect this step to happen soon and we have included the transaction in our internal forecast and bookings, cash and operating cash flow guidance for the year. If it happens as expected, it will be one of the largest single contracts in the 26-year history of Rosetta Stone. Because we do not begin to recognize revenues in our custom deals until we start to deliver content, this deal will have no impact on revenues this year. While we expect revenue growth to accelerate in the second half of 2019 (we now expect 10% second-half revenue growth versus 2018, with that growth weighted more towards Q4), we are slightly lowering our revenue outlook for the year, driven by the expected timing of the realization as revenues of slightly lower bookings from E&E excluding custom content. E&E bookings are expected to come in later in the year than previously expected, and consequently contribute less to 2019 revenues or, in the case of the custom deal, contribute to revenue beyond 2019.

We now expect total consolidated revenue will be approximately $187 million (growth of 8% year over year) and consolidated bookings (revenue plus change in deferred revenue) will be in the range of $196.0 - $203.0 million, broken down for the mix among the three segments as follows:

Literacy revenue remains unchanged at approximately $63.0 million, on bookings of approximately $74 million (up over 25% versus 2018 - also unchanged), with most of the growth in 2019 expected to come in the second half of the year.

E&E Language revenue is now expected to be approximately $58.5 million on bookings in the range of $55.0 - $62.0 million. As mentioned above, E&E bookings are now expected to come in later in the year than planned, and consequently contribute less to 2019 revenues, or in the case of non-core custom content contracts have no impact on revenue this year.

Consumer revenue remains unchanged at approximately $65.5 million on bookings of approximately $67 million, up 6% versus 2018 after excluding SourceNext ($0.5 million in 2019 and $4.5 million in 2018) 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.

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, as the reduced guided revenue expected for the year has been offset by lower expected expenses while also taking into account investment in new products. We continue to anticipate all of the 2019 improvement in net loss has occurred in the first half of the year, with the second half down slightly year over year more weighted to Q3.

Partially offsetting our year-over-year increase in revenue in 2019 is approximately $2 million expected increase in Cost of Revenue, driven by higher 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 is now expected to be closer to $6 million (previously was $8 million) due to the change in revenue outlook, partially offset by lower expected expenses. This compares to breakeven in the full year 2018. The remaining second half year-over-year improvement is expected to be heavily weighted to Q4.

We continue to expect to end 2019 with no debt and now expect ending cash to be in the range of $38.0 - $42.0 million, with the low end of this range representing our prior guidance. We continue to expect to have some seasonal borrowings that would be outstanding as we go through the remainder of the year but repaid by December 31, 2019. 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	2Q19
GAAP net loss	$ (6,402)	$ (4,158)	$ (6,489)	$ (4,424)	$ (21,473)	$ (544)	$ (2,807)
Total other non-operating expense (income), net	286	59	(40)	(260)	45	(769)	(429)
Income tax expense (benefit)	461	454	588	306	1,809	(170)	175
Depreciation and amortization	3,610	3,479	3,802	3,725	14,616	3,529	3,457
Stock-based compensation	583	1,353	1,452	1,087	4,475	1,220	1,356
Restructuring expenses	31	(23)	(8)	(3)	(3)	-	-
Other EBITDA adjustments	141	261	27	252	681	53	269
Adjusted EBITDA	$ (1,290)	$ 1,425	$ (668)	$ 683	$ 150	$ 3,319	$ 2,021

	Amounts ($000)						
	Quarterly					Quarterly	
	1Q18	2Q18	3Q18	4Q18	FY18	1Q19	2Q19
Net cash (used in)/provided by operating activities	$ (418)	$ (14,316)	$ 14,471	$ 10,706	$ 10,443	$ (6,567)	$ (14,847)
Purchases of property and equipment	(3,948)	(4,188)	(3,564)	(5,189)	(16,889)	(4,714)	(4,995)
Free Cash Flow	$ (4,366)	$ (18,504)	$ 10,907	$ 5,517	$ (6,446)	$ (11,281)	$ (19,842)

Revenue and Bookings

Amounts ($000)

	Quarterly					Quarterly	
	1Q18	2Q18	3Q18	4Q18	FY18	1Q19	2Q19
Revenue							
Literacy	$ 12,384	$ 12,695	$ 13,215	$ 14,472	$ 52,766	$ 14,806	$ 15,101
E&E Language							
Enterprise	8,983	8,538	8,421	8,019	33,961	8,021	7,871
North America K-12	6,453	6,818	6,569	6,575	26,415	6,422	6,631
Total E&E Language	15,436	15,356	14,990	14,594	60,376	14,443	14,502
Consumer Language	14,988	15,451	14,545	15,508	60,492	15,362	16,339
Total Language	30,424	30,807	29,535	30,102	120,868	29,805	30,841
Total Revenue	$ 42,808	$ 43,502	$ 42,750	$ 44,574	$ 173,634	$ 44,611	$ 45,942
Bookings							
Literacy	$ 4,524	$ 10,325	$ 33,980	$ 9,799	$ 58,628	$ 4,511	$ 12,089
E&E Language							
Enterprise	5,498	9,921	7,621	10,928	33,968	5,622	7,421
North America K-12	2,486	7,952	9,901	4,969	25,308	2,020	7,938
Total E&E Language	7,984	17,873	17,522	15,897	59,276	7,642	15,359
Consumer Language	19,906	14,752	16,055	17,238	67,951	15,827	15,071
Less: Adjustment for SOURCENEXT	4,486	-	-	-	4,486	-	499
Subtotal for Consumer, before SOURCENEXT	15,420	14,752	16,055	17,238	63,465	15,827	14,572
Subtotal for Language, before SOURCENEXT	23,404	32,625	33,577	33,135	122,741	23,469	29,931
Total Bookings, before SOURCENEXT	$ 27,928	$ 42,950	$ 67,557	$ 42,934	$ 181,369	$ 27,980	$ 42,020

Reconciliation of Revenue and Bookings

	Amounts ($000)						
	Quarterly					Quarterly	
	1Q18	2Q18	3Q18	4Q18	FY18	1Q19	2Q19
Reconciliation of Revenue to Bookings							
Literacy							
Segment revenue	$ 12,384	$ 12,695	$ 13,215	$ 14,472	$ 52,766	$ 14,806	$ 15,101
Segment change in deferred revenue	(7,860)	(2,370)	20,765	(4,673)	5,862	(10,295)	(3,012)
Bookings	$ 4,524	$ 10,325	$ 33,980	$ 9,799	$ 58,628	$ 4,511	$ 12,089
E&E Language							
Segment revenue	$ 15,436	$ 15,356	$ 14,990	$ 14,594	$ 60,376	$ 14,443	$ 14,502
Segment change in deferred revenue	(7,452)	2,517	2,532	1,303	(1,100)	(6,801)	857
Bookings	$ 7,984	$ 17,873	$ 17,522	$ 15,897	$ 59,276	$ 7,642	$ 15,359
Consumer Language							
Segment revenue	$ 14,988	$ 15,451	$ 14,545	$ 15,508	$ 60,492	$ 15,362	$ 16,339
Segment change in deferred revenue	4,918	(699)	1,510	1,730	7,459	465	(1,268)
Adjustment for SOURCENEXT	(4,486)	-	-	-	(4,486)	-	(499)
Bookings, before SOURCENEXT	$ 15,420	$ 14,752	$ 16,055	$ 17,238	$ 63,465	$ 15,827	$ 14,572
Total revenue	**$ 42,808**	**$ 43,502**	**$ 42,750**	**$ 44,574**	**$ 173,634**	**$ 44,611**	**$ 45,942**
Change in deferred revenue	(10,394)	(552)	24,807	(1,640)	12,221	(16,631)	(3,423)
Adjustment for SOURCENEXT	(4,486)	-	-	-	(4,486)	-	(499)
Total bookings, before SOURCENEXT	**$ 27,928**	**$ 42,950**	**$ 67,557**	**$ 42,934**	**$ 181,369**	**$ 27,980**	**$ 42,020**

Segment Contribution

	Amounts ($000)						
	Quarterly					Quarterly	
	1Q18	2Q18	3Q18	4Q18	FY18	1Q19	2Q19
Revenue:							
Literacy segment	$ 12,384	$ 12,695	$ 13,215	$ 14,472	$ 52,766	$ 14,806	$ 15,101
E&E Language segment	15,436	15,356	14,990	14,594	60,376	14,443	14,502
Consumer Language segment	14,988	15,451	14,545	15,508	60,492	15,362	16,339
Shared services	-	-	-	-	-	-	-
Combined Language	30,424	30,807	29,535	30,102	120,868	29,805	30,841
Total revenue	$ 42,808	$ 43,502	$ 42,750	$ 44,574	$ 173,634	$ 44,611	$ 45,942
Segment contribution							
Literacy segment	$ 1,872	$ 1,823	$ 1,025	$ 2,453	$ 7,173	$ 3,013	$ 2,371
E&E Language segment	5,890	5,663	5,666	5,633	22,852	6,107	5,848
Consumer Language segment	2,085	4,550	3,301	2,835	12,771	4,548	3,649
Shared services	(4,156)	(4,074)	(3,907)	(4,016)	(16,153)	(3,680)	(3,387)
Combined Language	3,819	6,139	5,060	4,452	19,470	6,975	6,110
Total segment contribution	$ 5,691	$ 7,962	$ 6,085	$ 6,905	$ 26,643	$ 9,988	$ 8,481
Segment contribution margin percentage:							
Literacy segment	15%	14%	8%	17%	14%	20%	16%
E&E Language segment	38%	37%	38%	39%	38%	42%	40%
Consumer Language segment	14%	29%	23%	18%	21%	30%	22%
Combined Language	13%	20%	17%	15%	16%	23%	20%