



Q2 2015 Earnings

August 5, 2015

Caution on Forward-Looking Statements

This presentation and our comments today contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts, and often include words such as "believes," "expects," "anticipates," "estimates," "intends," "plans," "seeks" or words of similar meaning, or future-looking or conditional verbs, such as "will," "should," "could," "may," "might," "aims," "intends," or "projects." These statements may relate to: our revised business strategy; guidance or projections related to revenue, Adjusted EBITDA, bookings, and other measures of future economic performance; the contributions and performance of our businesses including acquired businesses and international operations; projections for future capital expenditures; and other guidance, projections, plans, objectives, and related estimates and assumptions. A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances might not occur. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our present expectations or projections. Some important factors that could cause actual results to differ materially from what we say in our forward-looking statements include: the risk that we are unable to execute our business strategy; declining demand for our language learning solutions; the risk that we are not able to manage and grow our business; the impact of any revisions to our pricing strategy; the risk that we might not succeed in introducing and producing new products and services; the impact of foreign exchange fluctuations; the adequacy of internally generated funds and existing sources of liquidity, such as bank financing, as well as our ability to raise additional funds; the risk that we cannot effectively adapt to and manage complex and numerous technologies; the risk that businesses acquired by us might not perform as expected; and the risk that we are not able to successfully expand internationally. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. These and other risks and uncertainties are more fully described in the Company's filings with the U.S. Securities and Exchange Commission (SEC). We encourage you to review those documents before making any investment decision.

Non-GAAP Financial Measures

Today's presentation and discussion also contain references to non-GAAP financial measures. The full definition, GAAP comparisons, and reconciliation of those measures are available in our press release which is posted on our website at www.rosettastone.com. Our non-GAAP measures may not be comparable to those used by other companies, and we encourage you to review and understand all our financial reporting before making any investment decision.

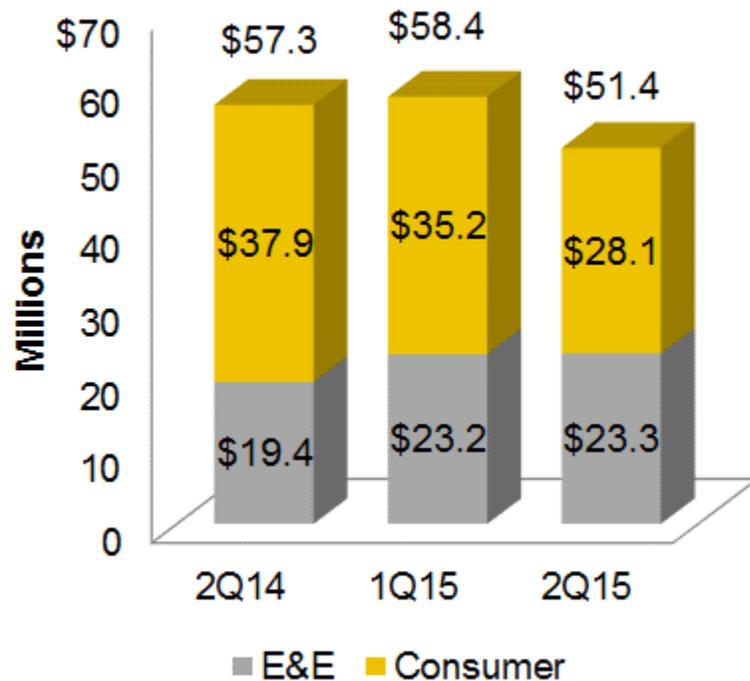
Q2 2015 Overview

- Net loss of \$8.2 million, or \$(0.38) per diluted share
 - Net loss included restructuring charges and other related costs totaling \$1.3 million (pre-tax)
 - Net loss improved 48% year-over-year (“Y/Y”) and Diluted EPS improved \$0.36
- Revenue in the Enterprise & Education (“E&E”) segment totaled \$23.3 million, up \$3.9 million compared to \$19.4 million in the year-ago period, reflecting the benefit of purchase accounting impacts, which lowered revenue in the second quarter 2014, and 46% growth in Literacy bookings; Language bookings decreased year-over-year due, in part, to a lower amount of multi-year paid upfront deals and currency impacts
- Segment contribution was 38% of revenue for the Consumer segment, up from 25% in the second quarter last year, reflecting a higher return on media spend and heightened focus on profitability
- Total operating expense was down \$10.7 million versus prior year quarter
- Additional \$12 million in annualized cost savings identified, on top of the \$50 million announced in March 2015
 - Actions already initiated to realize some benefit in 2015, with full benefit in 2016
- Revenue-based Adjusted EBITDA, a non-GAAP financial measure, totaled \$(0.3) million, up from \$(9.0) million in the year-ago period
 - The Company has reverted to a revenue-based computation of Adjusted EBITDA which no longer adjusts for the change in deferred revenue or the change in deferred commissions
- Ended the quarter with \$29.8 million in cash with no debt outstanding

Q2 2015 Total Revenue

Revenue

Total Revenue ↓ 10% Y/Y
Constant Currency Basis ↓ 8% Y/Y



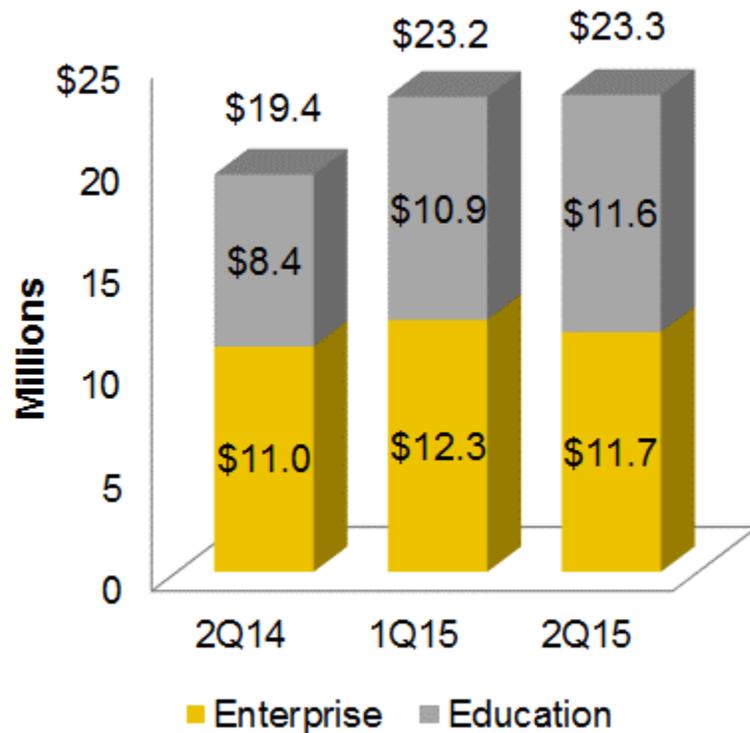
Drivers

- Total revenue declined \$5.9MM or 10% Y/Y
 - Subscription and service revenue increased to 72% of total revenue mix, up from 51% in the year-ago period
- E&E segment revenue increased \$3.9MM or 20% Y/Y, to a record high 45% of total revenue mix
 - Literacy sustained strong growth trend
- Consumer segment revenue decreased 26% Y/Y, driven by lower marketing spend and strategic decision to optimize profit, not size

Q2 2015 E&E Revenue

Revenue

E&E Revenue ↑ 20% Y/Y

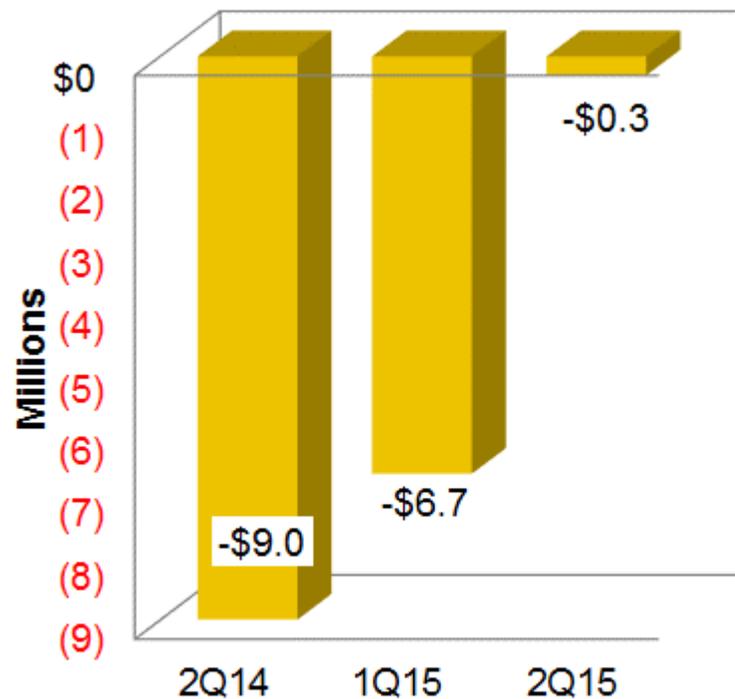


Drivers

- Total E&E revenue increased \$3.9MM or 20% Y/Y, driven primarily by growth in Literacy
 - Growth benefitted from purchase accounting impacts on acq. deferred revenue from Lexia and Tell Me More
- E&E Enterprise revenue increased \$0.7MM or 6% Y/Y
 - On a constant currency basis, E&E Enterprise revenue would have been \$12.7MM, up \$1.7MM or 15% Y/Y
- E&E Education revenue increased \$3.2MM or 38% Y/Y
 - Sustained growth in Literacy based on strong fundamental trends in end market acceptance and utilization

Adjusted EBITDA

Revenue-Based Adjusted EBITDA¹



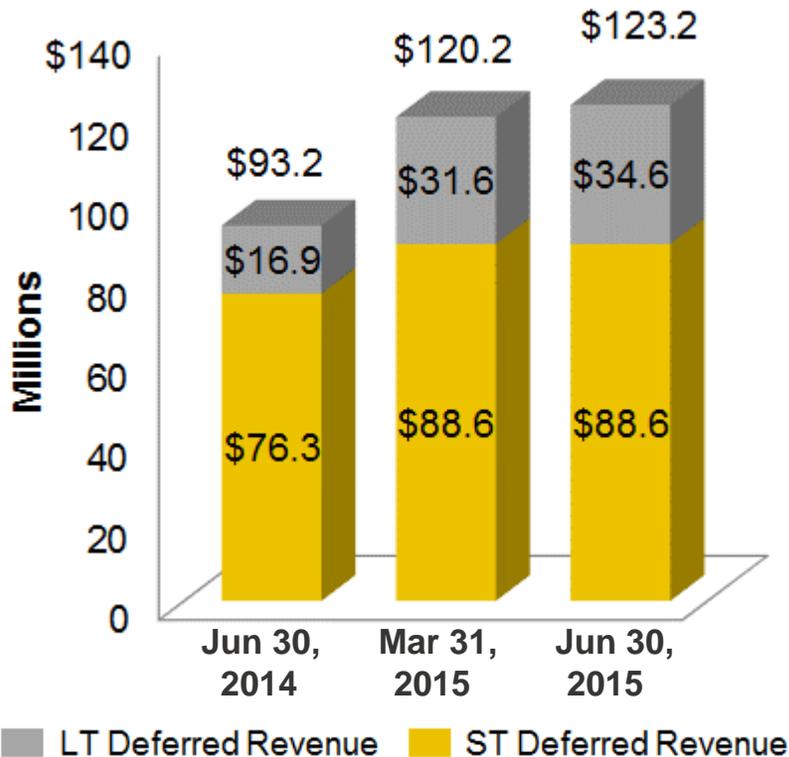
- Q2 2015 Adjusted EBITDA was \$(0.3)MM, up \$(8.7)MM Y/Y
- E&E segment contribution improved \$3.2MM (up 96%) Y/Y
- Consumer segment contribution improved \$1.3MM (up 14%) Y/Y
- Net unallocated expenses improved \$2.9MM (favorable 10%) Y/Y
- Favorable currency effects totaled \$0.2MM Y/Y

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

Balance Sheet Deferred Revenue

Deferred Revenue

+2% Seq. +32% Y/Y

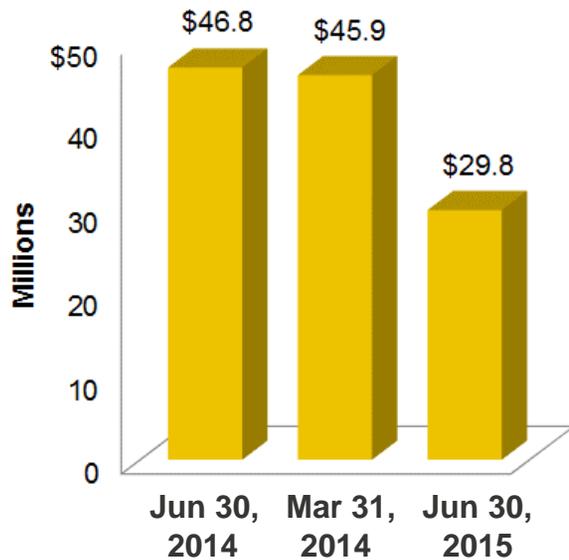


Drivers

- Y/Y increase driven by impact of purchase accounting and growth in Literacy bookings
- Increased mix of long-term (“LT”) deferred revenue
 - ST mix was 72% in Q2 2015 vs. 82% in Q2 2014
 - LT portion increasing due to growth in Consumer sales of 3-year online products and, to a lesser extent, multi-year E&E agreements

Cash and Free Cash Flow

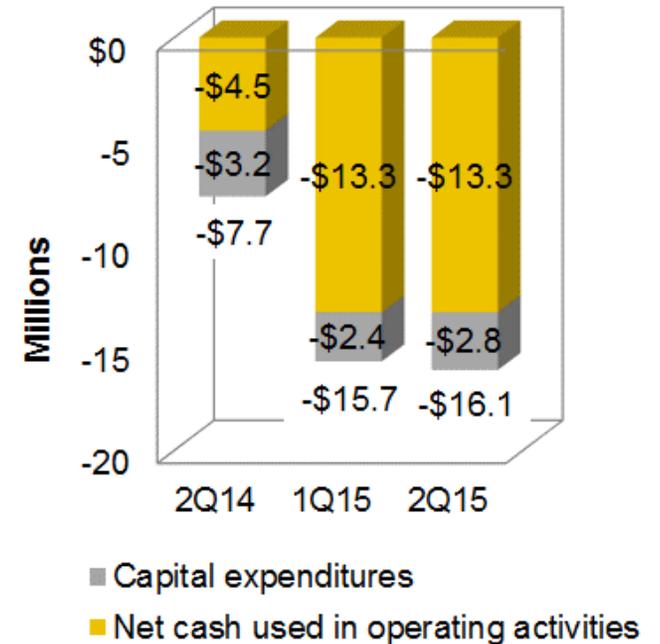
Total Cash Balance



Drivers

- Discrete items totaling \$5.2MM are not expected to recur, including:
 - Severance of \$4.5MM
 - Restructuring-related costs of \$0.7MM
- Working capital changes in Q2 2015 reflect the changing mix of our business
- Strategic shift away from Consumer segment that typically turns orders to cash more quickly
- Growing E&E segment that typically has longer collection cycles

Free Cash Flow¹



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

Guidance – Full Year 2015 Outlook

- Effective this quarter, the Company is guiding to GAAP revenue – not Bookings (a non-GAAP financial measure). Disregard prior Bookings guidance – the Company is not updating previous statements made with respect to Bookings
- Similarly, disregard prior Bookings-based Adjusted EBITDA guidance – the Company has reverted to a revenue-based definition of Adjusted EBITDA. This change is consistent with the fact that we will no longer communicate Bookings guidance

	<u>Current</u>	<u>Previous</u>
Total Revenue	Approx. \$220 MM	No Prior Guidance
E&E Segment Revenue	\$94MM to \$100MM	Same
Lexia Revenue (included in E&E Segment)	Approx. \$21 MM	No Prior Guidance
Consumer Segment Revenue	\$120MM to \$125MM	No Prior Guidance
GAAP Net Loss	Approx. \$52MM	No Prior Guidance
Restructuring and Other Related Costs - pre-tax (included in GAAP Net Loss)	Approx. \$9 MM	No Prior Guidance
Capital Expenditures	Approx. \$11MM	Same
Revenue-Based Adjusted EBITDA	Approx. \$(20)MM	No Prior Guidance
Year-end Cash Balance	Mid-\$40MM Range	Down mid-teens (\$) from \$64.7MM at Year-end 2014
Bookings and Bookings-Based Adjusted EBITDA		
E&E Segment Bookings	N/A	Current segment revenue consistent with lowering original Bookings guidance by Approx. \$10MM at high-end and low-end of range
Booking-Based Adjusted EBITDA	N/A	Current Revenue-Based Adjusted EBITDA guidance consistent with low-end of the original range

All of the guidance we are discussing today is caveated by the fact that we are in the early stage of our transformation process and expect to have more changes to come.

Decisions that will be good for the long-term health of the business could have near-term impacts on revenue, Adjusted EBITDA and cash which are not reflected in our current guidance.



Appendix

Non-GAAP Financial Measures – Definitions

- **Bookings** represent executed sales contracts received by the Company that are either recorded immediately as revenue or as deferred revenue.
- **Adjusted EBITDA** is GAAP net income/(loss) plus interest income and expense, other income/expense, income tax benefit and expense, depreciation, amortization, and stock-based compensation expense. In addition, Adjusted EBITDA excludes impairment, any items related to the litigation with Google Inc., consulting and other related costs associated with the development and implementation of the accelerated strategy and cost reductions, restructuring and related wind down costs, severance costs, and transaction and other costs associated with mergers and acquisitions, as well as all adjustments related to recording the non-cash tax valuation allowance for deferred tax assets. Adjusted EBITDA for prior periods has been revised to conform to current definition.
- **Free cash flow** is cash flow from operating activities minus cash used in purchases of property and equipment.

Adjusted EBITDA¹

The former definition of Adjusted EBITDA was a bookings-based metric that also adjusted for the change in deferred revenue and the change in deferred commissions. The Company has discontinued its former bookings-based Adjusted EBITDA metric; the reconciliation of the current definition of Adjusted EBITDA metric to the previously reported bookings-based metric is shown solely for historical reference purposes.

	Quarterly						Year-to-Date			
	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	2Q14	3Q14	4Q14	2Q15
GAAP net income (loss)	(20,241)	(15,750)	(16,178)	(21,537)	(19,884)	(8,175)	(35,992)	(52,170)	(73,706)	(28,059)
Total other non-operating (income) and expense	(175)	293	795	432	1,665	589	118	912	1,345	2,254
Income tax expense (benefit)	(683)	491	(244)	(6,053)	192	389	(191)	(435)	(6,489)	581
Impairment	2,199	0	0	18,134	291	160	2,199	2,199	20,333	451
Stock-based compensation	1,406	1,953	2,109	1,294	1,287	2,108	3,359	5,468	6,762	3,395
Depreciation and amortization	3,434	3,460	3,335	3,674	3,350	3,333	6,894	10,229	13,904	6,683
Other EBITDA adjustments	8,006	561	1,098	525	6,434	1,331	8,567	9,666	10,190	7,765
Revenue-based Adjusted EBITDA	(6,054)	(8,992)	(9,085)	(3,531)	(6,665)	(265)	(15,046)	(24,131)	(27,661)	(6,930)
Revenue-based Adjusted EBITDA (above)	(6,054)	(8,992)	(9,085)	(3,531)	(6,665)	(265)	(15,046)	(24,131)	(27,661)	(6,930)
Change in deferred revenue	475	11,689	17,635	17,309	(7,946)	2,944	12,165	29,799	47,108	(5,002)
Change in deferred commission	(1,377)	(2,556)	(2,212)	(1,069)	106	(1,518)	(3,933)	(6,145)	(7,214)	(1,412)
Bookings-based Adjusted EBITDA	(6,956)	141	6,338	12,709	(14,505)	1,161	(6,814)	(477)	12,233	(13,344)

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

Bookings and Revenue

	Quarterly						Year-to-Date			
	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	2Q14	3Q14	4Q14	2Q15
Enterprise & Education										
E&E Education										
Literacy	3.6	6.3	8.1	5.1	3.9	9.2	9.9	18.0	23.1	13.1
NA K12	3.1	9.6	13.5	7.0	2.5	7.0	12.7	26.2	33.2	9.5
Total Education	6.7	15.9	21.6	12.1	6.4	16.2	22.6	44.2	56.3	22.6
E&E Enterprise	11.6	13.3	15.3	16.7	8.6	11.5	24.9	40.2	56.9	20.1
Total E&E	18.3	29.2	36.9	28.8	15.0	27.7	47.5	84.4	113.2	42.7
Consumer	42.9	39.8	45.3	67.8	35.5	26.7	82.7	128.0	195.8	62.2
Total Bookings	61.2	69.0	82.1	96.6	50.5	54.4	130.2	212.3	308.9	104.9
<i>Memo: Language (NA K12 + Enterprise)</i>	14.7	22.9	28.8	23.7	11.1	18.5	37.6	66.4	90.1	29.6
<hr/>										
Enterprise & Education										
E&E Education										
Literacy	1.4	1.9	2.8	3.7	4.2	4.7	3.3	6.1	9.8	8.9
NA K12	6.4	6.5	6.9	6.8	6.7	6.9	12.9	19.8	26.6	13.6
Total Education	7.8	8.4	9.7	10.5	10.9	11.6	16.2	25.9	36.4	22.5
E&E Enterprise	10.1	11.0	12.8	14.3	12.3	11.7	21.1	33.9	48.2	24.0
Total E&E	17.9	19.4	22.5	24.9	23.2	23.3	37.3	59.8	84.7	46.5
Consumer	42.9	37.9	42.0	54.4	35.2	28.1	80.8	122.8	177.2	63.3
Total Revenue	60.8	57.3	64.5	79.3	58.4	51.4	118.1	182.6	261.9	109.8
<i>Memo: Language (NA K12 + Enterprise)</i>	16.5	17.5	19.7	21.1	19.0	18.6	34.0	53.7	74.8	37.6

Year-to-Date amounts have been corrected from what accompanied the webcast.

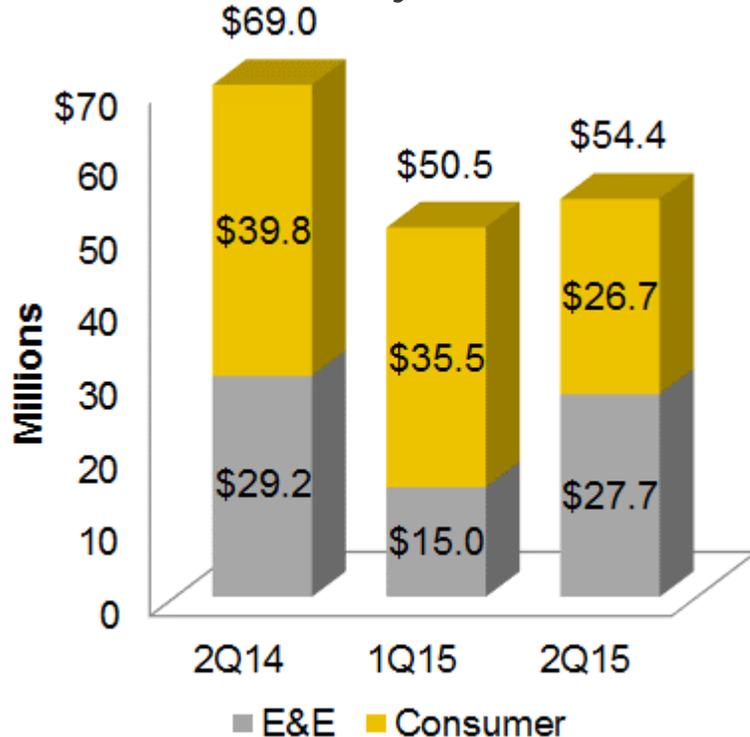
1. Immaterial rounding differences may be present in this data in order to conform to reported totals.



Q2 2015 Total Bookings

Bookings¹

Total Bookings ↓ 21% Y/Y
Constant Currency Basis ↓ 19% Y/Y



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

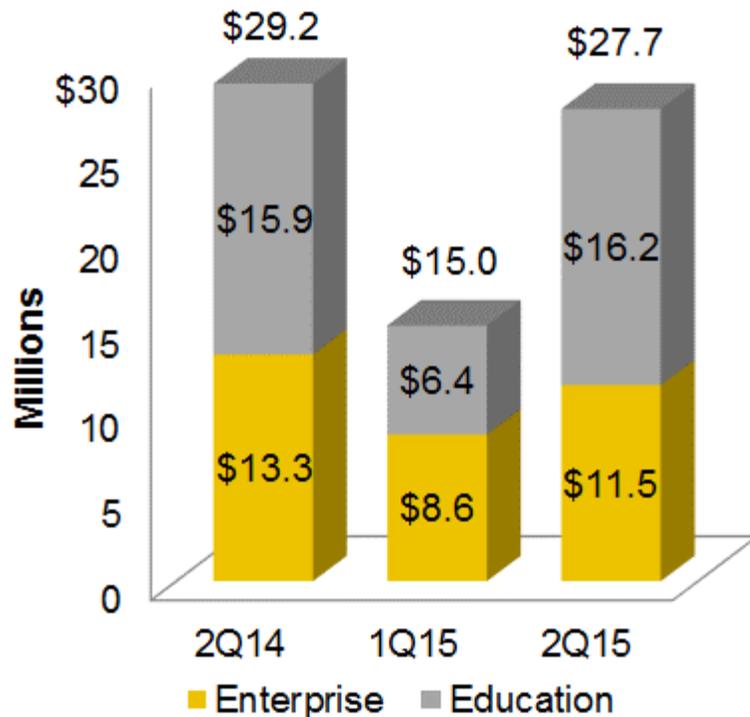
Drivers

- Total bookings declined \$14.6MM or 21% Y/Y
 - Unfavorable currency effects of \$1.1MM, or 2%
- E&E bookings decreased \$1.5MM or 5% Y/Y
 - Unfavorable currency effects of \$0.8MM, or 3%
- Consumer bookings decreased \$13.1MM or 33% Y/Y
 - Unfavorable currency effects of \$0.2MM, or 1%

Q2 2015 E&E Bookings

Bookings¹

E&E Bookings ↓ 5% Y/Y



Drivers

- Total E&E bookings down \$1.5MM or 5% Y/Y
 - Includes unfavorable currency effects of \$0.8MM, or 3%
- Enterprise decreased \$1.8MM or 14% Y/Y
 - Includes unfavorable currency effects of \$0.8MM, or 7%
- Education increased \$0.3MM or 2% Y/Y, driven by double-digit growth in Literacy
 - Q2 2014 included large multi-year deal (not yet eligible for renewal)

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