



Q4 2009 Financial Results

Conference Call Slides

February 25, 2010

Safe harbor summary

These slides and accompanying oral presentation contain forward-looking statements including our guidance for the first quarter of 2010 and the full year 2010, the expected release dates of Rosetta Stone Version 4 TOTALe and Rosetta Stone iPhone/iPod Touch, the costs of our launch of Rosetta Stone Version 4 TOTALe and our litigation with Google. These statements relate to future events or to future financial performance and involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by the use of words such as “may,” “could,” “expect,” “intend,” “plan,” “seek,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” or “continue” or the negative of these terms or other comparable terminology. You should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors that are, in some cases, beyond our control and that could materially affect actual results, levels of activity, performance, or achievements.

Factors that could materially affect actual results, levels of activity, performance or achievements include those listed under the caption “Risk Factors” of Rosetta Stone’s Form 10-Q dated November 13, 2009.

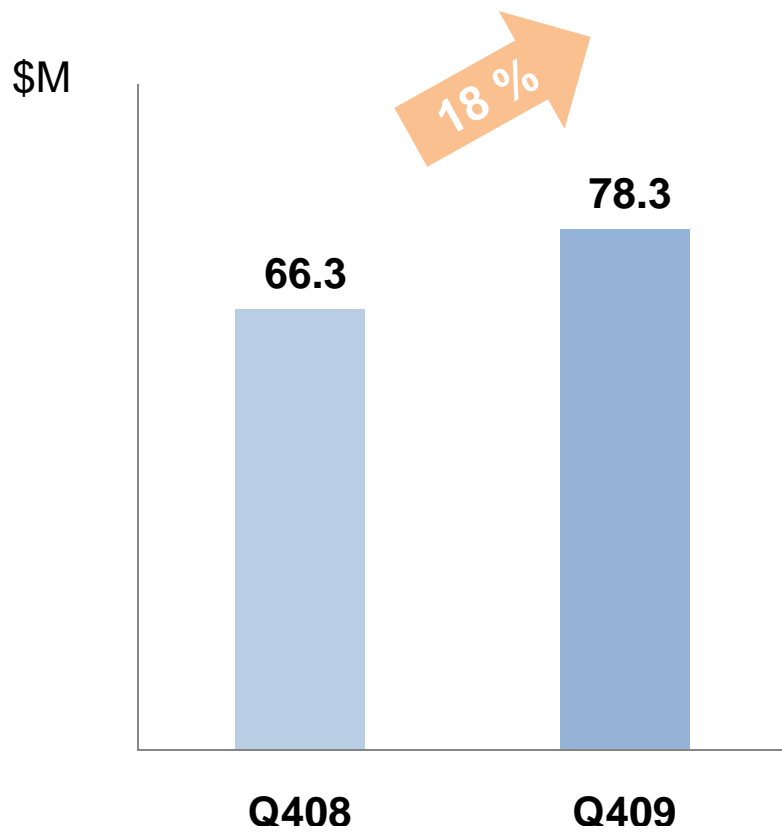
If any of these risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary significantly from what we projected. Any forward-looking statement you see or hear during this presentation reflects our current views with respect to future events and is subject to these and other risks, uncertainties, and assumptions relating to our operations, results of operations, growth strategy, and liquidity. We assume no obligation to publicly update or revise these forward-looking statements for any reason, whether as a result of new information, future events, or otherwise.

Highlights

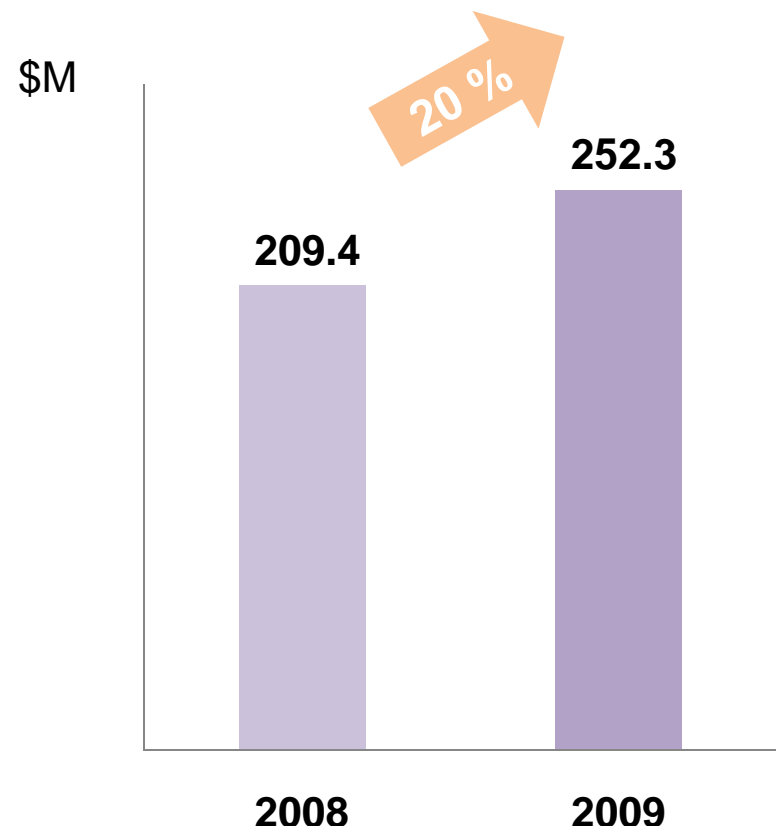
- **Record revenues and earnings in Q4 and FY 2009**
- **Strong demand drives performance in all business segments**
- **International experiencing accelerating growth**
- **Significant product platform innovations in 2H 2010**
 - Rosetta Stone® Version 4 TOTALe™
 - Rosetta Stone iPhone / iPod Touch (“Mini”)

Record revenue

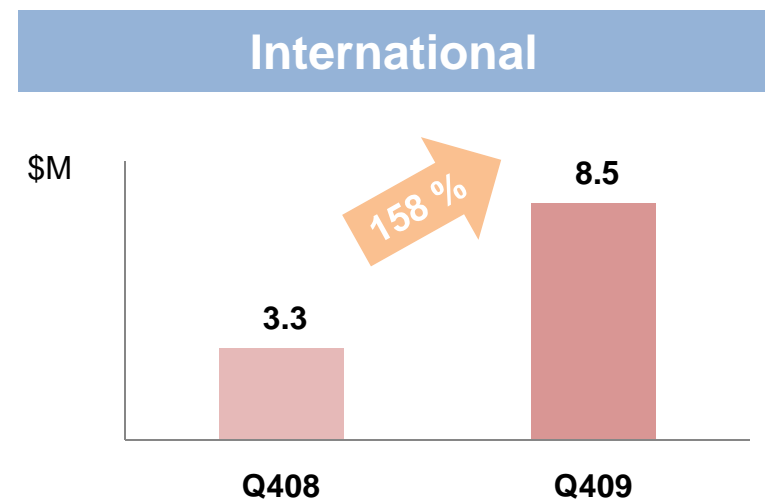
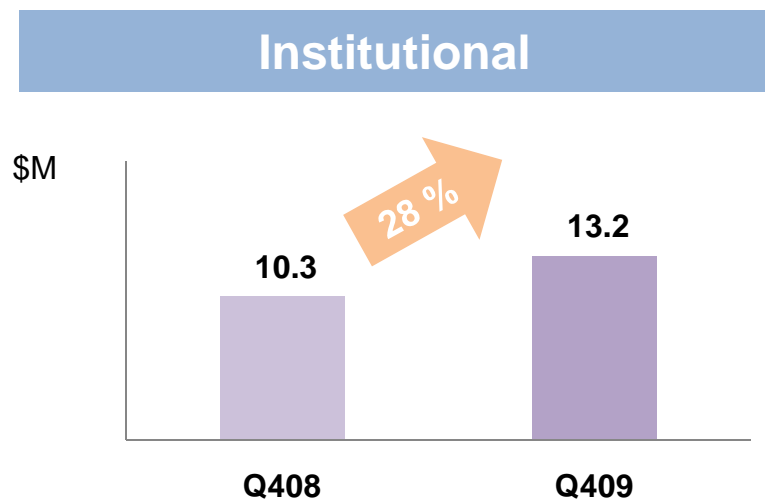
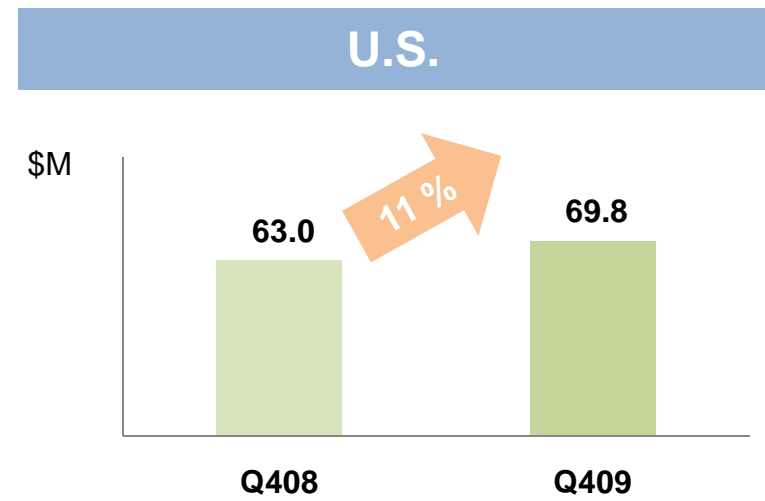
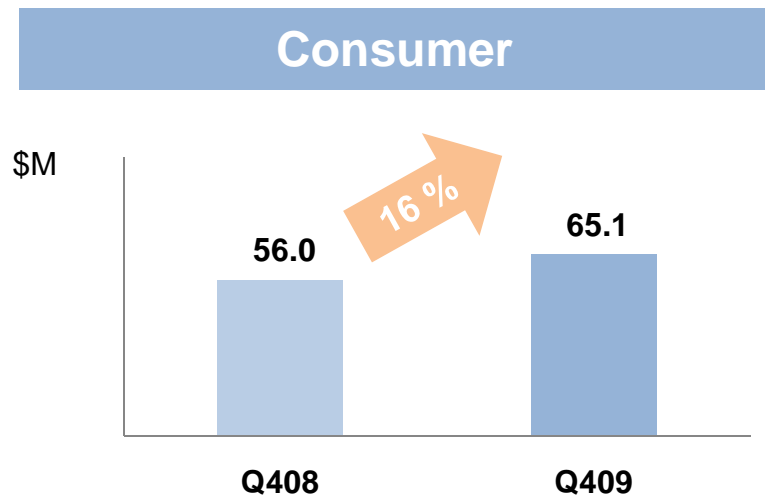
Fourth Quarter 2009



Full Year 2009

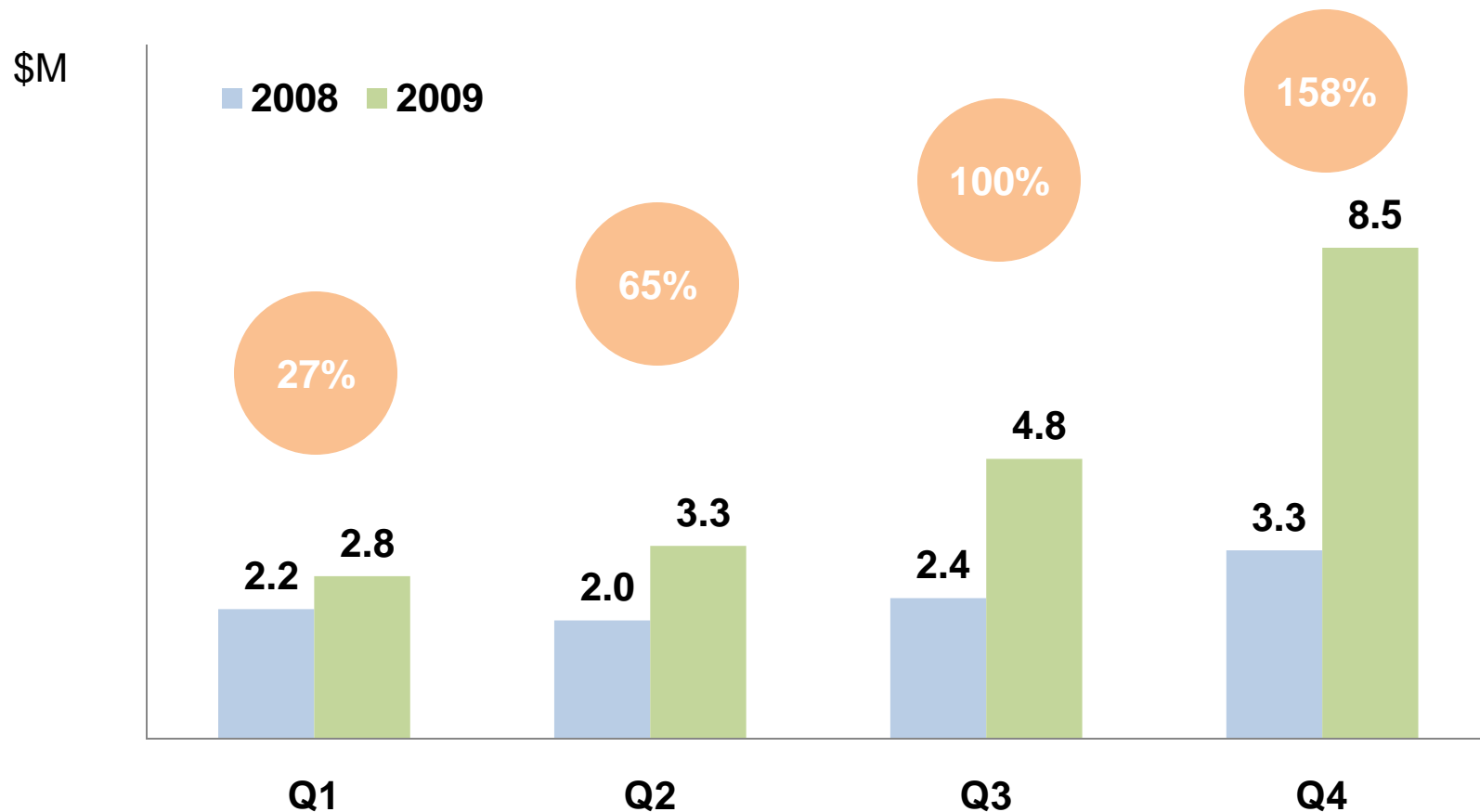


Growth in all businesses



International growth accelerated during 2009

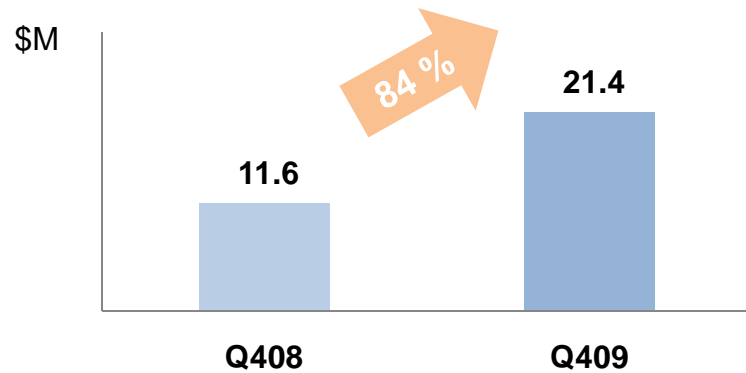
Non-U.S. revenue growth over same quarter previous year



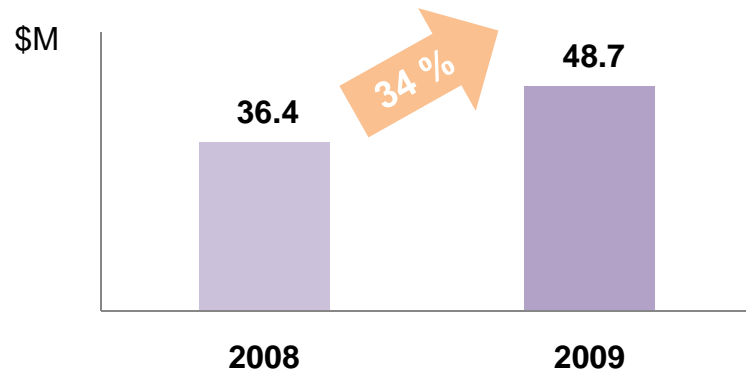
Record earnings

Adjusted EBITDA

Fourth Quarter

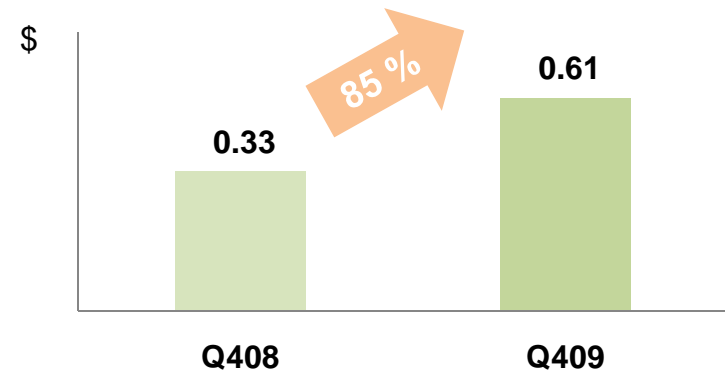


Full Year

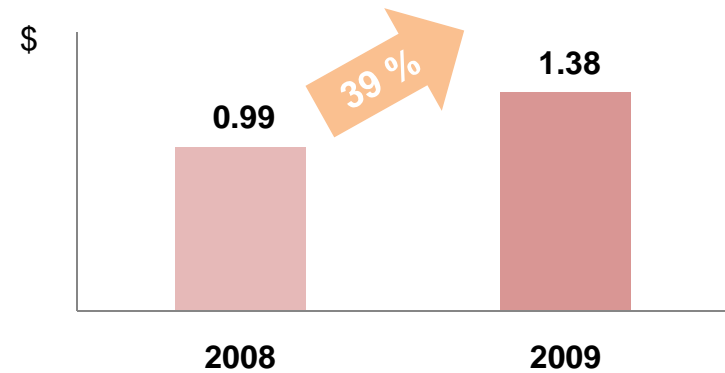


Non-GAAP EPS

Fourth Quarter



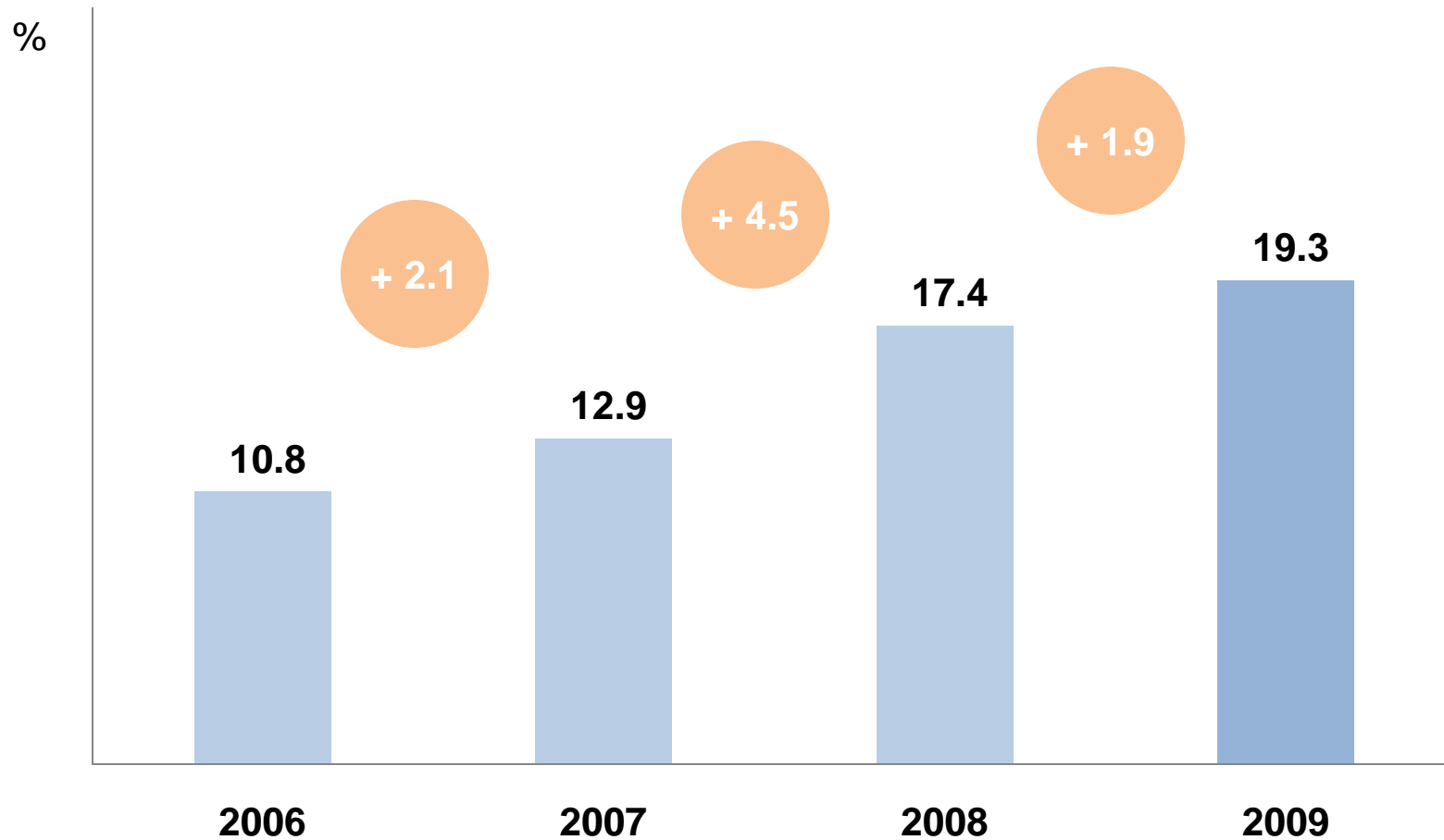
Full Year



Adjusted EBITDA (excludes stock-based compensation and amortization of intangibles)

Record EBITDA margin

Adjusted EBITDA as Percentage of Revenue



Adjusted EBITDA (excludes stock-based compensation and amortization of intangibles)

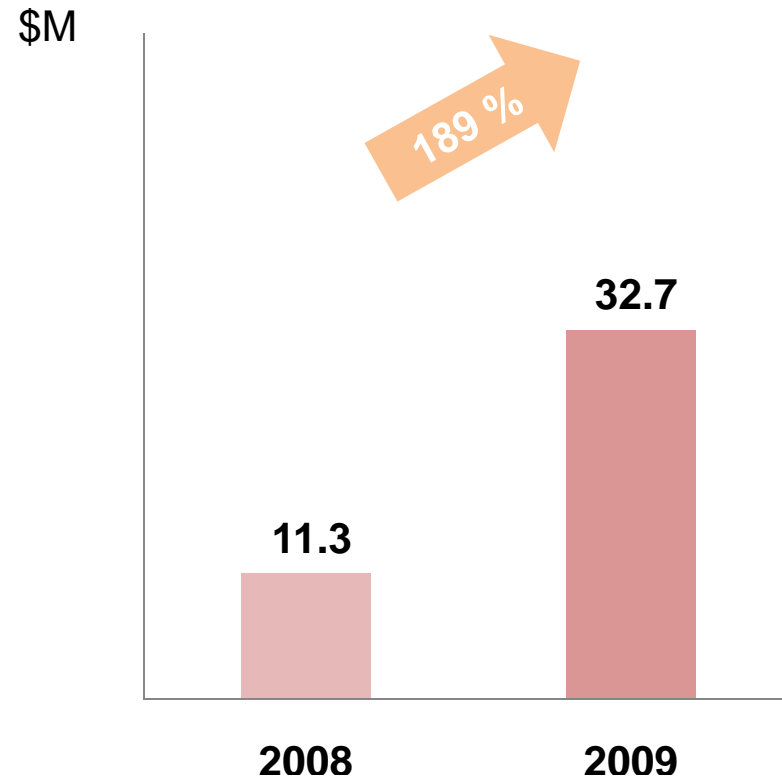
Rosetta Stone Inc. © 2010

Record cash flow generation

Operating Cash Flow



Free Cash Flow



"Free cash flow" is operating cash flow minus capital expenditures.

Strong balance sheet

In \$M

	12/31/2008	12/31/2009
Cash and cash equivalents	30.6	95.2
Accounts receivable, net	26.5	37.4
Total assets	138.8	225.4
Deferred revenue	15.7	26.1
Total debt	9.9	-
Total liabilities	59.7	69.0
Total liabilities and stockholders' equity	138.8	225.4

New: Rosetta Stone Version 4 TOTALE

Complete solution as new core offering:

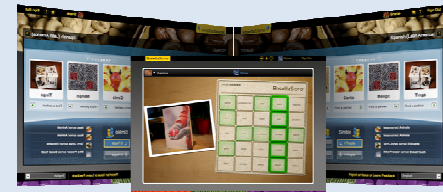
Interactive software



Live coaches (Studio)



Games and community (World)



Audio companion



Mobile companion



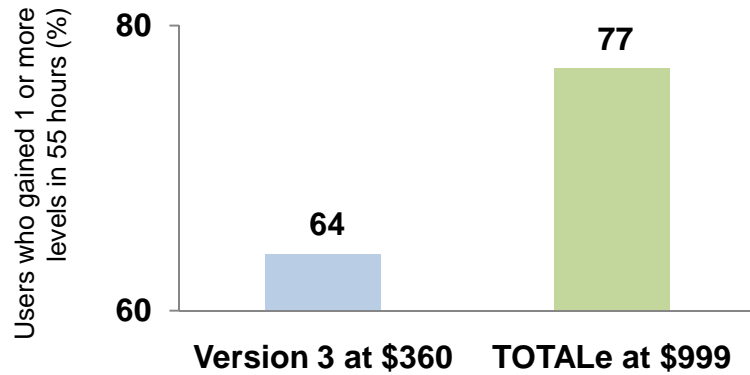
Headset with microphone



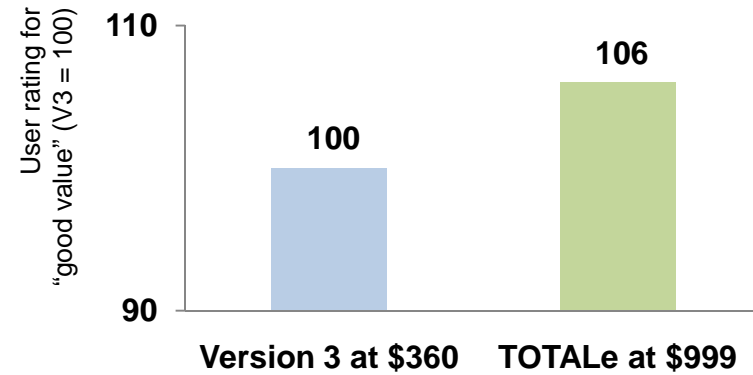
Success agents

Test market feedback

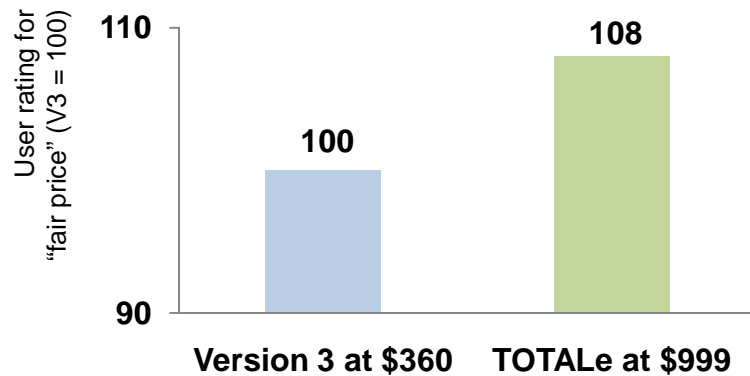
More Effective



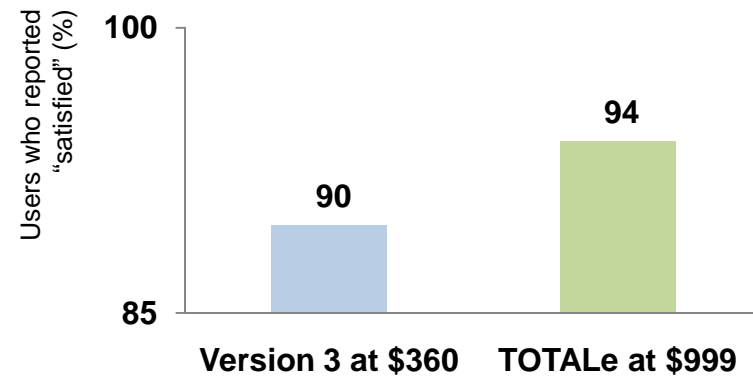
Better Value



Fairer Price



Greater Satisfaction



Based on results from May 2009 quantitative study conducted by Rockman et al on effectiveness of the Rosetta Stone Spanish language solution on 89 users who took six hours of Rosetta Studio™ sessions and were exposed on average to 64 ½ hours of work with the software.

Best solution at compelling price

Version 3

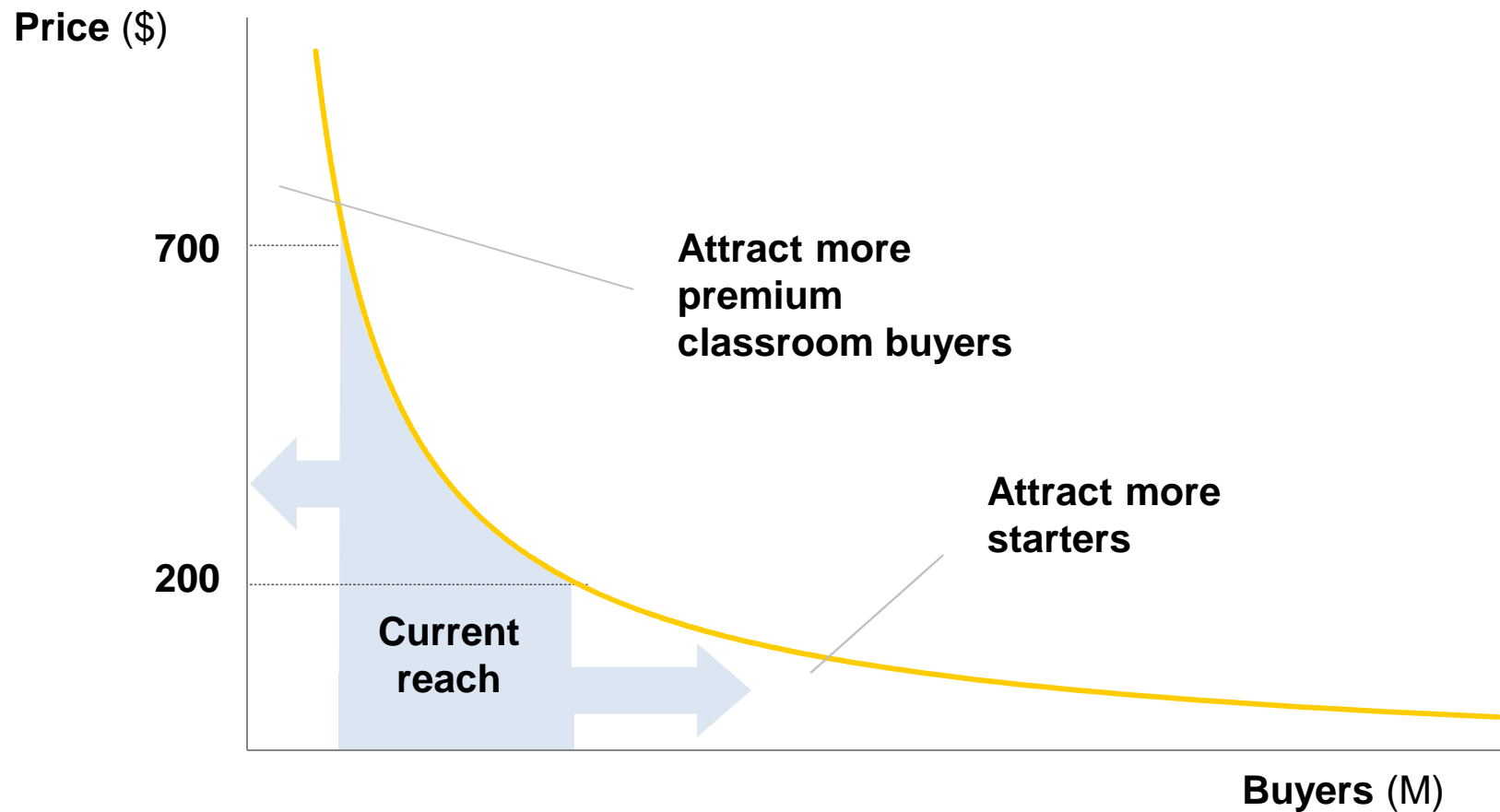
Offering	MSRP (\$)
Level 1	229
Set 2	409
Set 3	539
Set 5	699
Per Level (2-5)	299

Version 4 TOTALe

Offering	MSRP (\$)
Starter course	<180
Level 1	Slight Premium over Version 3
Set 2	
Set 3	
Set 5	
Per Level (2-5)	

Version 4 TOTALe solution expands market reach

U.S language learning demand curve:



Source: Nielsen 2007 Global Language Survey

Better business model

Version 3 Software

One-time sale

Limited after-sale contact

Course progress validation

Piracy risk

Limited control over outcomes

PC / Mac

Version 4 TOTALe Solution

Lifetime value

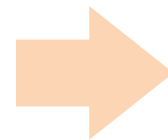
Ongoing relationship

Live coach validation

Can't copy full experience

Success agents

PC / Mac / offline / online / mobile



More effective

More use

Greater stickiness

Higher value

Harder to emulate

Accounting methods

In accordance with GAAP, Version 4 TOTALe requires a different accounting method due to the subscription component.

GAAP Requirements

- **Defer portion of revenue related to online subscription component.**
- **Deferred amount to be recognized as revenue over subscription term.**

2010 Impact

- **Expect to defer 20-25% of each Rosetta Stone Version 4 TOTALe sale.**
- **Expect subscriptions to average 9 months, ranging from 1 to 15 months.**
- **Start reporting sales bookings.**
- **Start reporting Operating EBITDA.**

“Operating EBITDA” equals Adjusted EBITDA (excludes stock-based compensation and amortization of intangibles) plus change in deferred revenue.

Financial Outlook: Q1 2010 and Full-Year 2010

	Q1 2010	Full Year 2010
Total revenue	\$58 mil. to \$60 mil.	\$286 mil. to \$299 mil.
Sales bookings¹	\$58 mil. to \$60 mil.	\$310 mil. to \$325 mil.
Non-GAAP diluted net income per share	\$0.07 to \$0.09	\$0.90 to \$1.00
Operating EBITDA²	\$3.1 mil. to \$3.6 mil.	\$58 mil. to \$65 mil.
Diluted shares outstanding	21.2 mil.	21.5 mil.
<i>Google litigation</i>	<i>\$4.0 mil.</i>	<i>\$6.0 mil.</i>

1 "Sales bookings" are defined as executed sales contracts received by company that are either recorded immediately as revenue or as deferred revenue.

2 "Operating EBITDA" equals Adjusted EBITDA (excludes stock-based compensation and amortization of intangibles) plus change in deferred revenue.

Guidance: quarterly Version 4 TOTALE impact

Category	Estimated Impact	2010 Timing		
		Q2	Q3	Q4
Ongoing				
Coaches and agents	Gross margins of 83% to 84% upon Version 4 launch ¹ .	✓	✓	✓
Non-recurring				
V4 marketing preparation	Approximately \$2.0M additional costs.	✓		
V4 launch activities	Approximately \$2.5M additional costs.		✓	
V3 inventory obsolescence	Approximately \$3.0M charge.	✓		
Ongoing, no cash difference				
Revenue deferment	20% to 25% of sales price of Rosetta Stone Version 4 TOTALE.		✓	✓

¹ Impact to be smaller in Q2, larger towards Q4.

Guidance: Operating EBITDA reconciliation

In \$ million

	2009 Actual	2010 Forecast
Adjusted EBITDA	\$48.7	\$34.0 – \$39.0
Increase in deferred revenue	\$10.4	\$24.0 – \$26.0
Operating EBITDA	\$59.1	\$58.0 – \$65.0
Non-recurring expenses		
Version 4 TOTALe launch	-	\$4.5*
Inventory obsolescence	-	\$3.0*
Google litigation	\$1.1	\$6.0*
Reconciled Operating EBITDA	\$60.1	\$71.5 – \$76.5

19 - 27 %
increase

*Represents approximate expense levels.