FIRST QUARTER 2014 INVESTOR WEBCAST

May 7, 2014

Prepared Remarks

Steve Somers, Investor Relations: Good afternoon and let me welcome you to Rosetta Stone's first quarter 2014 earnings call. I am Steve Somers, Vice President of Corporate Development and Investor Relations and I am joined today by Steve Swad, Rosetta Stone's President and CEO, and Tom Pierno, our CFO, to discuss the operations and financial results for the first quarter and our outlook.

In addition to our commentary, we have made our 1Q14 Earnings Results press release, and a slide deck supporting this webcast available on our IR website at investors.rosettastone.com. Please review them to find important additional information.

[Safe Harbor]

There are or will be forward-looking statements in our press release, slides and conversation today. We offer these statements under the Safe Harbor provided by U.S. law. Of course, risks and uncertainties attach to any forward-looking statement. A detailed discussion of such risks and uncertainties is contained in our Form 10-K for the fiscal year ended December 31, 2013 filed with the SEC in March 2014, which is available on the Investor Relations section of our website. We ask that you review those risk factors before making any investment decision. Please note these forward-looking statements reflect our opinions only as of the date of this presentation and we undertake no obligation to provide or publicly release the results of any revision to the forward-looking statements in light of new information or future events.

We also use non-GAAP numbers in our presentation. The definitions of those numbers, and their reconciliation to GAAP numbers, are available in today's press release on our website and as filed with the SEC today on Form 8-K.

Now here's Steve.

Steve Swad, Chief Executive Officer:

Thanks Steve and welcome everyone.

[First Quarter Overview]

When we hosted our Investor Day in late Feburary, we talked a lot about the on-going transformation that we are executing at Rosetta Stone. This transformation includes focusing on our growing Enterprise & Education business and pursuing a strategy to expand our user base and cross-sell in our Consumer business. To carry this transformation out, we are also focused on integrating our recent acquisitions as well as developing new products for future growth. I'm pleased to report that we are making solid progress on all of these fronts.

For the quarter, we posted 70% bookings growth in our E&E segment while our North American and Rest of World ("ROW") Consumer businesses performed as expected, and our integration and new product development progressed nicely. The highlight of the quarter is the solid performance in our SaaS-based E&E business, driven by the immediate contribution from sales of the Tell Me More product and the strong growth from Lexia. Our Consumer business continued to reflect the effects of varying channel performance, with the web channel again driving positive growth, but the retail channel causing a drag on overall results. The addition of Fit Brains to the

Rosetta Stone consumer portfolio was a positive one and our ability to accelerate their performance was evidence that we can leverage our marketing platform and grow our Consumer user base, which is now over 9 million.

Before going into further detail on the business and the quarter, I want to just take a couple of minutes to review the rationale behind the Lexia and Tell Me More acquisitions, as well as our approach for integrating the two companies. As we've discussed for a couple of years, our overarching strategic direction has been to broaden our mission into being a learning company while deepening our capabilities in language.

In the third quarter of last year, we expanded Rosetta Stone into children's reading with the acquisition of Lexia. Lexia expanded our presence in the K-12 market and gave us a leading-edge reading product that naturally expands our SaaS-based E&E business. It also provided us with expertise in reading and the opportunity to expand further in international and consumer markets. From an operational stand-point, our plan has been to pursue a "light-touch" integration, allowing Lexia to focus on selling its new subscription product and building out its direct sales force, while taking advantage of a few cross-selling opportunities and back-end integration.

The acquisition of Tell Me More, which we closed in the second week of January, provided a natural and complementary fit that deepened our capabilities in the global language space. With complementary intermediate and advanced language solutions, primarily for the E&E segment, this acquisition now gives Rosetta Stone the ability to deliver a comprehensive suite of language learning solutions to corporations, schools and government agencies around the world. Tell Me More also creates a more global footprint, particularly in Europe and China and expands our presence with corporations and higher ed institutions. Lastly, since Tell Me More was a direct competitor, we have leverage and scale opportunities that we are working to realize. Unlike Lexia, Tell Me More is a full integration requiring significant effort, most of which is taking place in the first half of this year.

For the first quarter, we delivered bookings and Adjusted EBITDA that were in line with our guidance and expectations. This performance was achieved in the face of significant integration with Tell Me More. Despite that integration disruption, the teams were able to cross-sell Tell Me More product in the first quarter at a level that exceeded my expectations. We also aligned the TMM employees into new reporting structures and importantly, began to merge the customer management systems. Overall, the addition of the robust Tell Me More product suite and strong geographical presence in Europe and China has generated a lot of excitement in the marketplace, which is translating into a growing pipeline for the business.

On the product side, we have reworked the Tell Me More UI/UX to be cleaner and have re-branded the product as Rosetta Stone. We expect to roll out this refreshed product over the next couple of months. With this new look, and as the combined sales force gets more comfortable at selling our new language learning suite, we expect our position in the marketplace to strengthen and improve as we progress through the year.

Lexia also gained significant momentum during the quarter with over 35% pro forma bookings growth compared with 1Q13. The shift to a subscription model is showing nice progress and since that model was only introduced in 3Q last year, we don’t have meaningful renewal data but, based on feedback from teachers and schools, we expect to see very high rates of renewals. Core5 recently won a prestigious Academics’

Choice award and mid-term results from the Kanas Reading Initiative indicate sharp improvements in reading achievement for students that use this product – the rate of students reading at or above grade level doubled using Lexia Core5 from 36% to 72% – which are really impressive results.

One of our major product development activities this year is adapting Lexia's Core5 reading product to be suitable for the consumer market. This is on track for a 4Q launch, so we believe that we are taking advantage of our two segments, which is a competitive advantage.

On the North American Consumer side, we saw the business trend similar to last quarter. The softness that we saw in the retail channel continued in the first quarter due to absence of daily deal activity. Our DTC business was down slightly in the quarter, but the sharp decline in retail drove the overall decrease in N.A. Consumer. Within the DTC channel, we continue to drive positive growth via the web-channel, which is the largest portion of our business, but call center bookings declined, as more customers are going directly to the web.

This was the first quarter with Fit Brains in the portfolio which contributed over $1MM of bookings. With Fit Brains, we directed some marketing efforts to enhance its prominence in the Apple and Google ecosystems which helped drive download activity - total Fit Brains downloads are now over 8MM. With this increased download activity Fit Brains now occupies the #1 or #2 ranking in the mobile ecosystem for brain fitness.

Central to our strategy in North America is to grow the customer base and then cross-sell multiple products to this expanding base. While we are in early days and don't have much to report yet, we think our ability to accelerate Fit Brains downloads and rankings is a good indication that we can grow our user base from various product categories. Next, we will be strategically offering multiple products to these customers. Also during the quarter, we made strides in changing our website to offer more than just our TOTALe product. We are testing heavily and expect to be offering on our website Fit Brains's and Tell Me More's products, as well as our apps by 3Q.

Overall, I feel that we moved the needle in the right direction in the first quarter and that the transformation we are undertaking is taking hold and we are creating value. For the balance of the year, we will continue to be focused on driving growth in our E&E business while integrating Tell Me More, developing new reading products for the Consumer business that will address the kids market, expanding Fit Brains and furthering our strategy to leverage our brand and deliver multiple products to a growing customer base.

Now let me turn the call over to Tom.

Tom Pierno, Chief Financial Officer:

[Review of results]

Echoing Steve's broader commentary on the first quarter, from a financial standpoint the quarter was generally in the range of our expectations with total bookings just about at the mid-point of our guidance and Adjusted EBITDA coming in better than guidance. Since we exited the N.A. kiosk channel in early 2Q of last year, all of my bookings commentary today on comparisons to last year's first quarter will exclude the kiosk channel so we can focus the following commentary on the performance of the ongoing business. With that said, total consolidated bookings in the first quarter were up 6% versus the prior year to $61.2MM, which was in our guidance range of $60MM to $63MM. Bookings from our E&E segment increased 70% to $18.3MM, which was at the mid-point of our guidance for 60% to 80% growth. As we discussed at our Investor Day, this growth was driven by the acquisitions of Lexia and Tell Me More. Let me unpack this performance for you a bit. Since Tell Me More is a complete integration and we already integrated the sales teams in the first quarter, it is not possible to split out Tell Me More from Rosetta Stone; so we look at this piece as one, which we refer to as E&E language. For the quarter E&E Language grew 36% to $14.7MM vs. $10.8MM a year ago. On a pro forma basis, assuming we had owned Tell Me More a year ago, growth was down 4% in the quarter. This result was within our expectations as we communicated that we anticipated some disruption in year one of the integration, particularly in the first half of the year when most of the heavy lift is occurring. As a reminder, our expectation for E&E Language on a full year basis is mid-single digit % growth with flat to positive growth in 2Q as we build towards a double-digit exit rate at year end. On the literacy side of E&E, Lexia delivered $3.6MM of bookings and pro forma growth of 35%. The market for digital reading in K-12 is growing and Lexia is starting to see good acceptance of its new Core5 reading program while its efforts to enhance its sales force are demonstrating good progress. As a reminder, our E&E business is nearly 100% SaaS-based and we think that the growth we are delivering is evidence of the value that we are delivering to customers and the benefit of recurring revenue streams.

Switching to our N.A. Consumer segment, bookings were $36.1MM, down 7% from a year ago. Continued growth in our web channel was more than offset by a weak retail channel. While we anticipated that retail would continue to be weak, it was softer than expected, and was actually down by $4.0MM in the quarter or almost 50%. Most of this decline can be attributed to lower daily deal activity. Our DTC channel, which consists of web site sales and call-center operations, was essentially flat in the quarter; if you look at each piece, we drove double-digit percentage web sales growth which was offset by decreases in our call center. We believe call center sales will continue to shift to the web.

Partially offsetting the decrease in the N.A. Consumer language business, was over a $1MM contribution from Fit Brains, which reflected over 100% growth on a pro forma basis.

In the Rest of the World Consumer segment, bookings were down 18% to $6.8MM in the quarter versus last year. This decrease was driven entirely by our Asian markets, where we shut down our company-owned operations in Japan and moved to a third-party model and downsized Korea to focus more on our Proctor Assisted Learning channel. Our European operations however, grew at double-digit rates in the quarter, helped in part by the addition of France to our operations. We also had modest incremental bookings in the quarter from third-party partner operations in several countries that were launched in the fourth quarter of 2013. ROW Consumer bookings in aggregate were consistent with our guidance for them to be flat to down 10% for the full year with decreases in subsequent quarters expected to ease.

In looking at our Consumer product unit and Paid Online Learner metrics, total Product Units decreased 6% to 133k units compared with 142k units a year-ago. The year-over-year decrease primarily reflects the absence of unit sales from our NA Kiosk channel in 1Q13 as well as our decision to downsize our Asian operations and shift our model in Japan to a third-party partner model. Average revenue per product unit (ARPU) decreased 12% to $273 from $312 in last year's first quarter. Overall, Consumer Product Revenue decreased 18% versus the first quarter of last year.

Paid online learners grew 25% to 100k at the end of the quarter, while monthly ARPU declined modestly to $22 compared with the fourth quarter of 2013. ARPU has been effectively flat in the mid $20's for the past year and a half, reflecting the predominance of our 12-month access offering in the high $200 range. Revenue from Paid Online Learners was up 9% to $6.3MM from last year.

As part of our transformation we are driving more Consumer sales from online and digital offerings, where we now derive about 42% of our Consumer revenue from Online and Digital offerings, compared with about 20% a year ago.

In terms of how we performed from a bottom-line perspective, we had negative $6.7MM of Adjusted EBITDA in 1Q14 vs. negative $1.1MM a year ago. This result was better than our guidance for negative $8MM to $10MM. The year-over-year decrease was due mainly to two factors. The first is the $4.0MM decline in North America retail bookings, with almost all of that dropping straight to Adjusted EBITDA. The second factor is the inclusion of the results of acquisitions this year, which operated at a seasonal loss in the first quarter. Partially offsetting these factors was the contribution from higher bookings from our acquisitions and benefits from restructurings in Japan and Korea. Included within our Adjusted EBITDA this quarter is $8.0MM of one-time adjustments compared with $2.1MM in 1Q13. These adjustments relate primarily to lease terminations, severance, restructuring expenses, and acquisition transaction and integration expenses

In connection with the downsizing of our operations in Asia in the quarter and the lowered expectations for this business longer term, we also recorded a non-cash, $2.2MM goodwill impairment in our ROW Consumer segment that we excluded from Adjusted EBITDA.

Because of the significant pivots we are making in the business and the subsequent charges related to these actions, we have a summary "economic" income statement that reflects all of the one-time adjustments into their respective line items in the appendix of our slide presentation. This should give you more transparency into how the business is trending on an economic basis and how we are looking at the business internally.

[Balance Sheet and Cash Flow]

Our balance sheet remained solid with $56.0MM of cash at the end of the quarter compared with $98.8MM at 12/31/13. The decrease in cash was mainly due to the acquisition of Tell Me More S.A. of $28.0MM, the negative Adjusted EBITDA in the quarter and other one-time cash expenses for restructuring and related wind-down costs, severance and acquisition transaction and integration expenses. We continued to have no debt on the balance sheet at quarter end. Deferred revenue increased $2.7 MM in the quarter to $81.5MM compared with $78.9MM at 12/31/13. Approximately

85% of this deferred revenue balance will be recognized over the next 12 months, providing a high quality future revenue stream.

Free cash flow in the first quarter was negative $15.0MM compared with negative $8.2MM a year ago. The decline in free cash flow reflects the impact of lower Adjusted EBITDA, higher one-time cash adjustments and a decrease in working capital, offset by a decrease in capital expenditures to $1.4MM in the first quarter compared with $2.5MM a year ago. Normalizing free cash flow for one-time cash items in each quarter would result in negative free cash flow of $10.9MM in 1Q14 vs. negative $7.4MM a year ago. As a reminder, we are highly seasonal in the first quarter with most of our cash generation coming in the second half of the year. This is particularly true this year due to our acquisitions.

[Guidance]

Based on the performance of the business in the first quarter and the continuing positive momentum we see from our transformation, we are confirming our FY2014 guidance for bookings to be in a range of $315MM to $325MM and Adjusted EBITDA to be in range of $18MM to $22MM. We still anticipate capex to be between $10MM and $14MM. Consistent with our comments regarding the weak retail channel, we increased our bad debt reserve in the quarter due to one slow-paying retail partner that distributes our software to retailers like Best Buy and Staples. Our full year Adjusted EBITDA guidance assumes no accounts receivable write-offs related to this partner. With respect to the second quarter, we expect total bookings to be between $68MM and $72MM. We anticipate E&E bookings growth of 55-75%, including mid-teens % growth from Lexia and flat to positive growth from Language on a pro forma basis. North

America Consumer bookings, excluding kiosk, are expected to be flat to down single digit %, while ROW Consumer bookings will down about 25% reflecting the downsizing in Asia. We expect that Adjusted EBITDA will be in a range of negative $2MM to positive $2MM for the quarter. Overall we continue to be pleased with the direction that we are headed in and look forward to reporting further progress next quarter.

Thank you and we’re happy to take your questions.