



Q2 2010 Financial Results

Conference Call Slides

August 5, 2010

Safe Harbor Summary

These slides and accompanying oral presentation contain forward-looking statements including our guidance for the third 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, the anticipated impact of Rosetta Stone Version 4 TOTALe on our industry, 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-K dated March 10, 2010.

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.

Use of Non-GAAP Measures

This presentation contains the following non-GAAP financial measures: non-GAAP net income, non-GAAP net income per share, Adjusted EBITDA, Operating EBITDA and non-GAAP operating income. These measures differ from GAAP in that they exclude amortization primarily related to acquired intangibles and stock-based compensation expenses. Adjusted EBITDA is GAAP net income or loss plus interest expense, income tax expense, depreciation, amortization and stock-based compensation expenses. Operating EBITDA is Adjusted EBITDA plus the change in deferred revenue. An additional non-GAAP financial measure in this press release is total sales bookings, which represents executed sales contracts received by the company that are either recorded immediately as revenue or as deferred revenue.

Highlights

- **International business continues triple-digit year-over-year revenue growth**
- **Institutional business achieves record revenue performance**
- **Profitability results exceed expectations**
 - Adjusted EBITDA of \$7.5M and Operating EBITDA of \$10.9M
 - GAAP EPS of \$0.17 and Non-GAAP EPS of \$0.21
 - Proforma EPS of \$0.27 and Proforma Operating EBITDA of \$13.1M⁽¹⁾
- **Strong U.S. consumer margins but business impacted by significant price increases in Scatter TV advertising market**
 - TV impressions down by more than 60%
 - Higher response rates to media generating more sales per 1,000 impressions

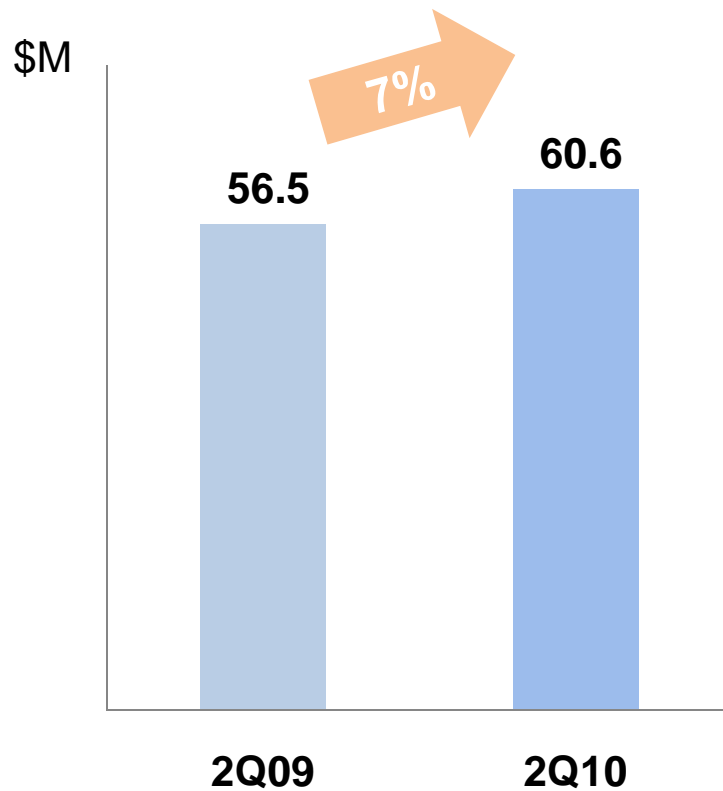
(1) Please see slide 8 for the definition of Proforma EPS and Proforma Operating EBITDA.

Highlights (continued)

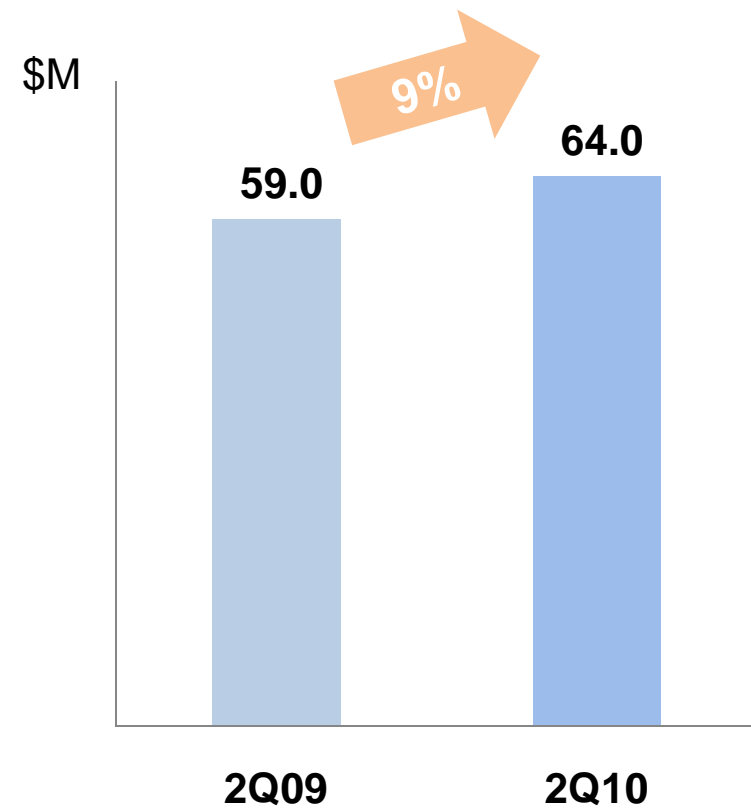
- **Version 4 TOTALe on track for September launch**
 - Provides greater learner success, increases customer lifetime value and widens appeal to a broader customer base
 - Launch date occurs prior to major holiday season
- **Continuing to diversify revenue streams**
 - Expanding international business
 - Continuing growth in institutional business
 - Introducing new products and price points
 - Increasing subscription revenue base

Continued Revenue and Sales Bookings Growth

Total Revenue

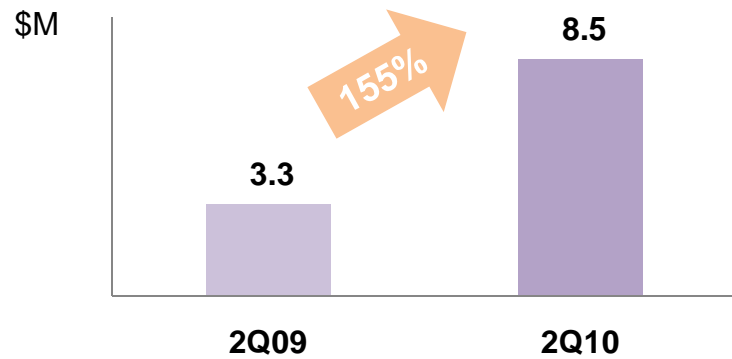


Sales Bookings

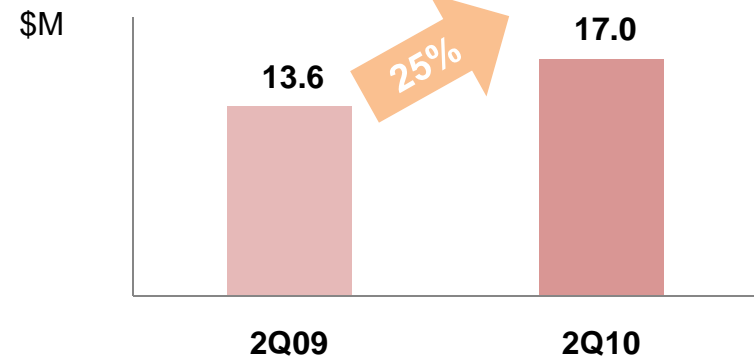


Strong International & Institutional Revenue Growth

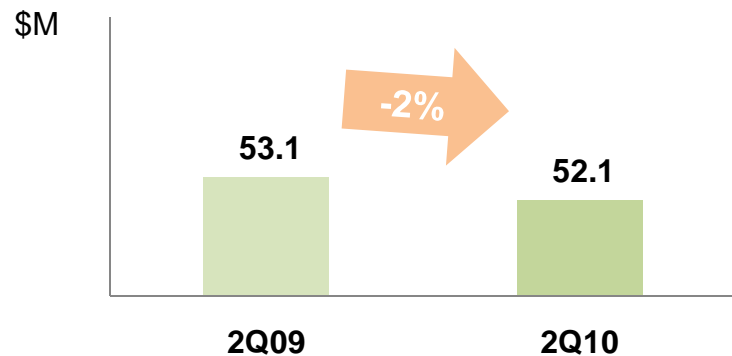
International



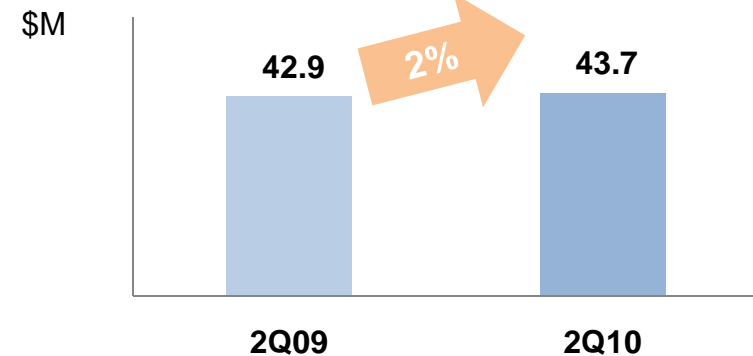
Institutional



U.S.

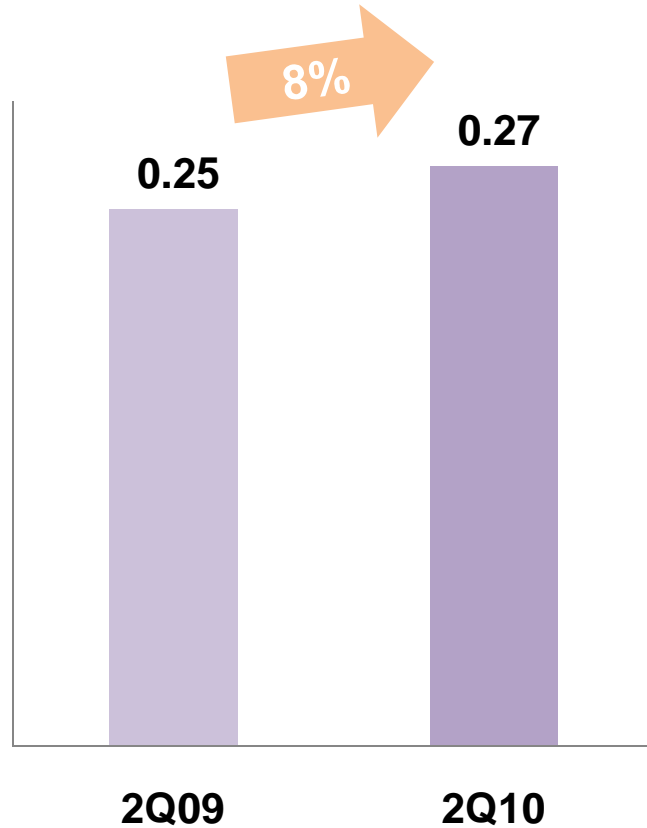


Consumer

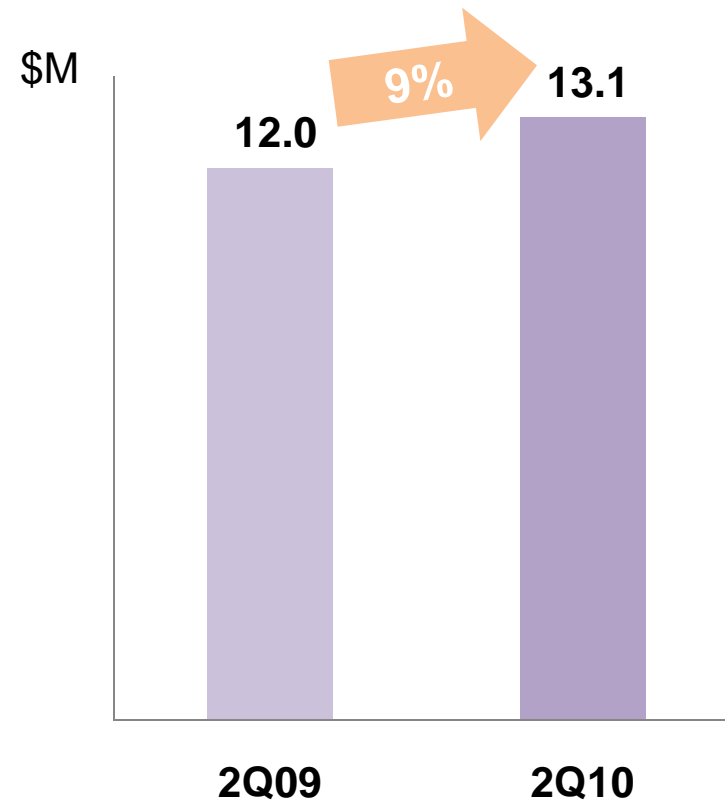


Healthy Earnings and Operating EBITDA

Proforma EPS⁽¹⁾



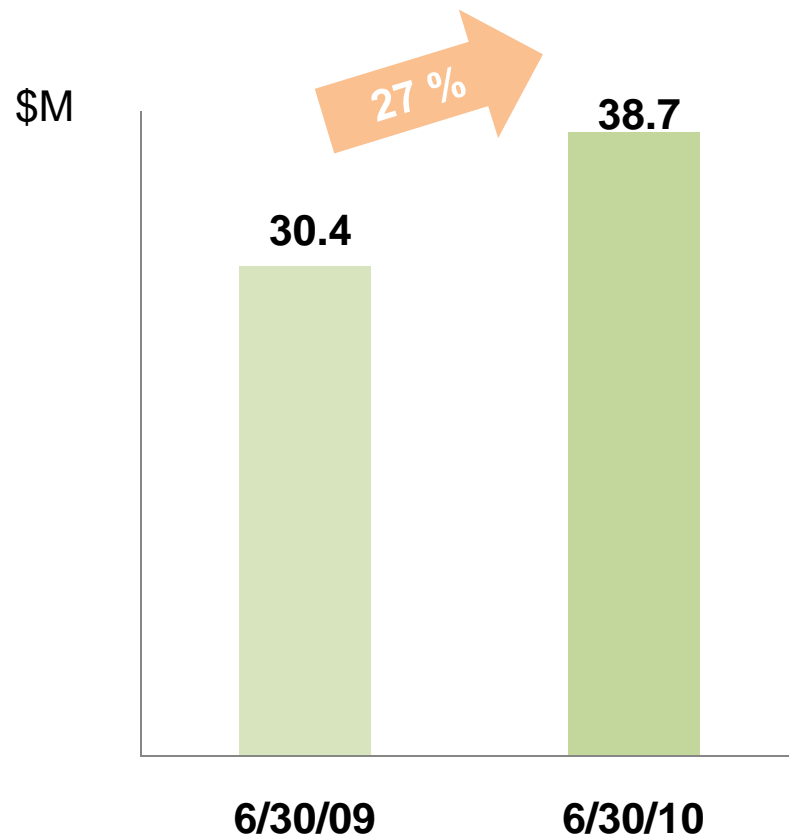
Proforma Operating EBITDA⁽²⁾⁽³⁾



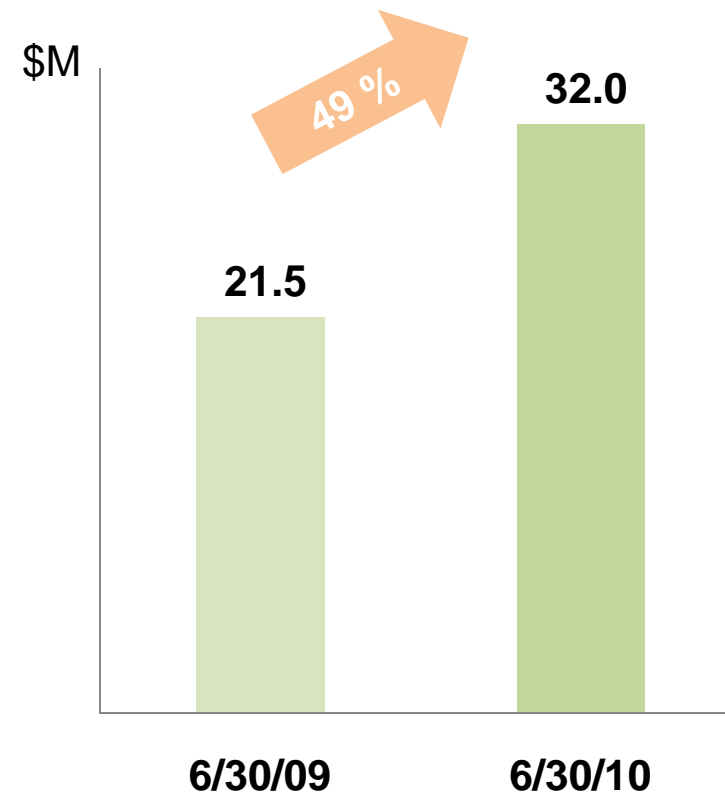
1. Proforma net income is defined as non-GAAP net income excluding the impact of \$1.2 million, or \$0.03 per share, of legal expenses related to the Company's lawsuit against Google, Inc. and \$1.1 million, or \$0.03 per share, of costs associated with the launch of Version 4 TOTALe.
2. Operating EBITDA is defined as Adjusted EBITDA plus the change in deferred revenue.
3. Proforma Operating EBITDA excludes \$1.1 million of stock-based compensation, \$1.2 million of Google litigation expenses and \$1.1 million of costs associated with the launch of Version 4 TOTALe.

Strong Cash Flow Generation – Trailing 12 Months

TTM Operating Cash Flow⁽¹⁾



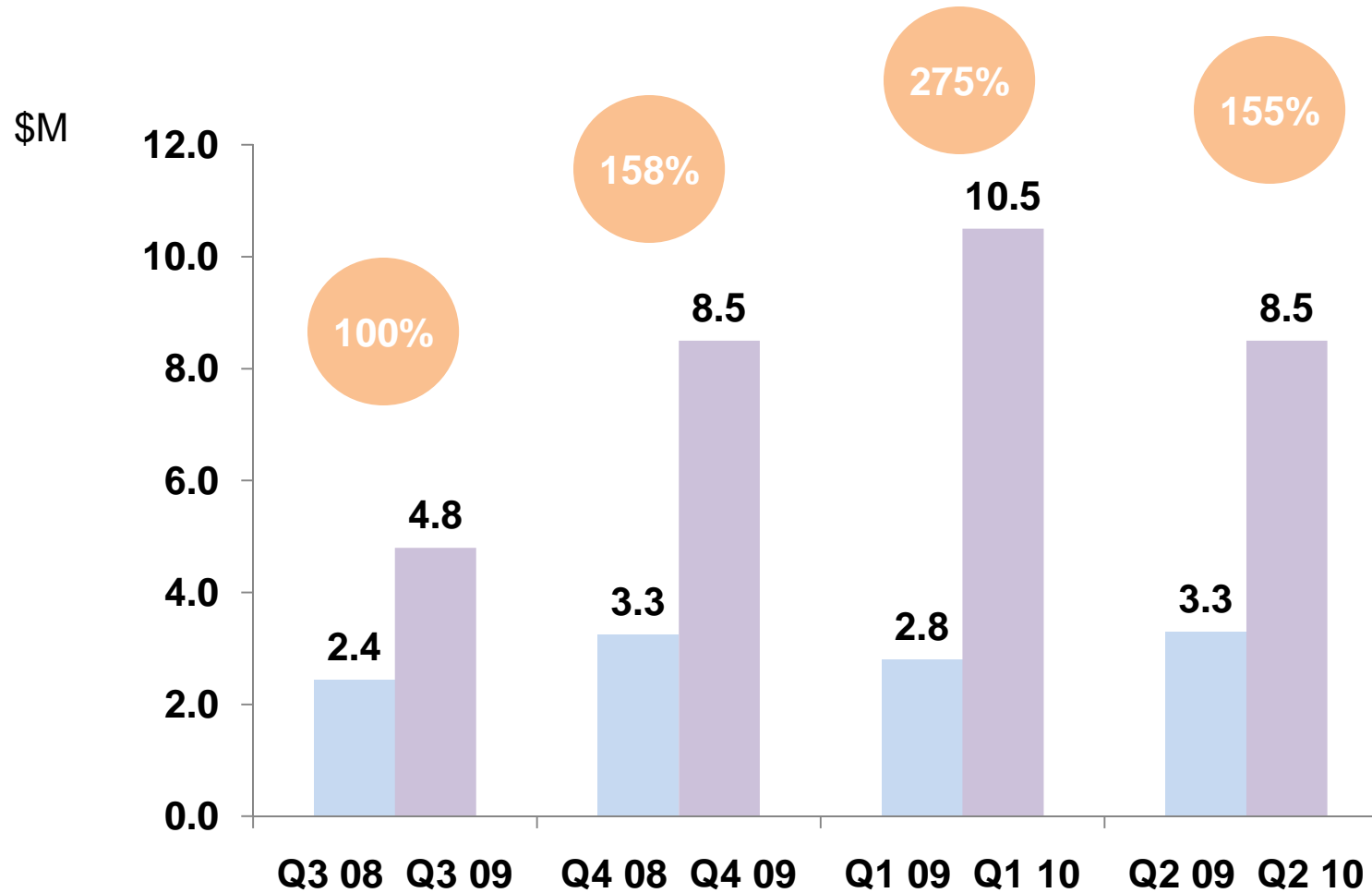
TTM Free Cash Flow⁽²⁾



1. "TTM" is trailing twelve months.
2. "Free cash flow" is operating cash flow minus capital expenditures.

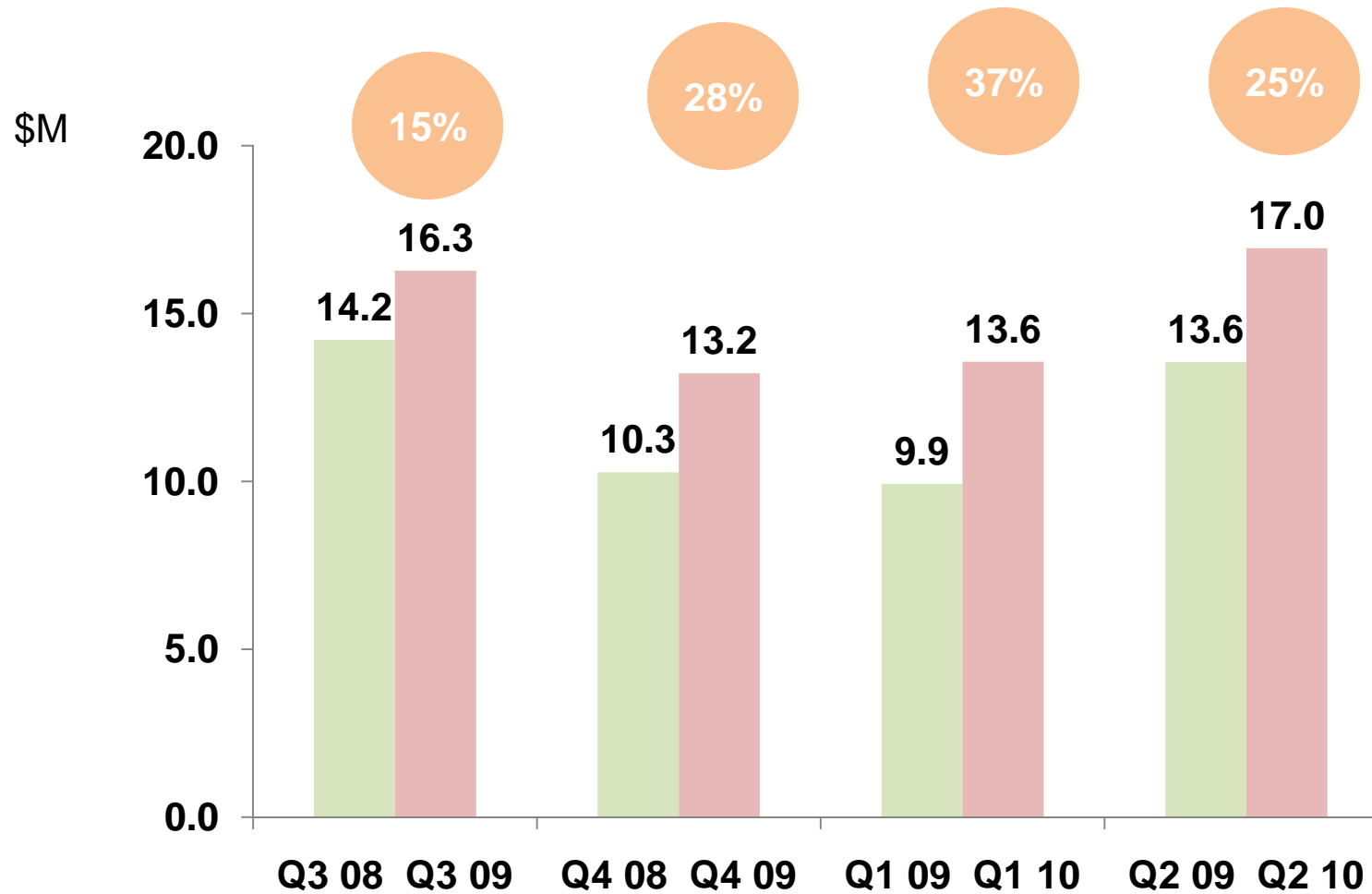
Triple-Digit International Growth

International Revenue Growth (Year-over-Year)



Strong Institutional Growth

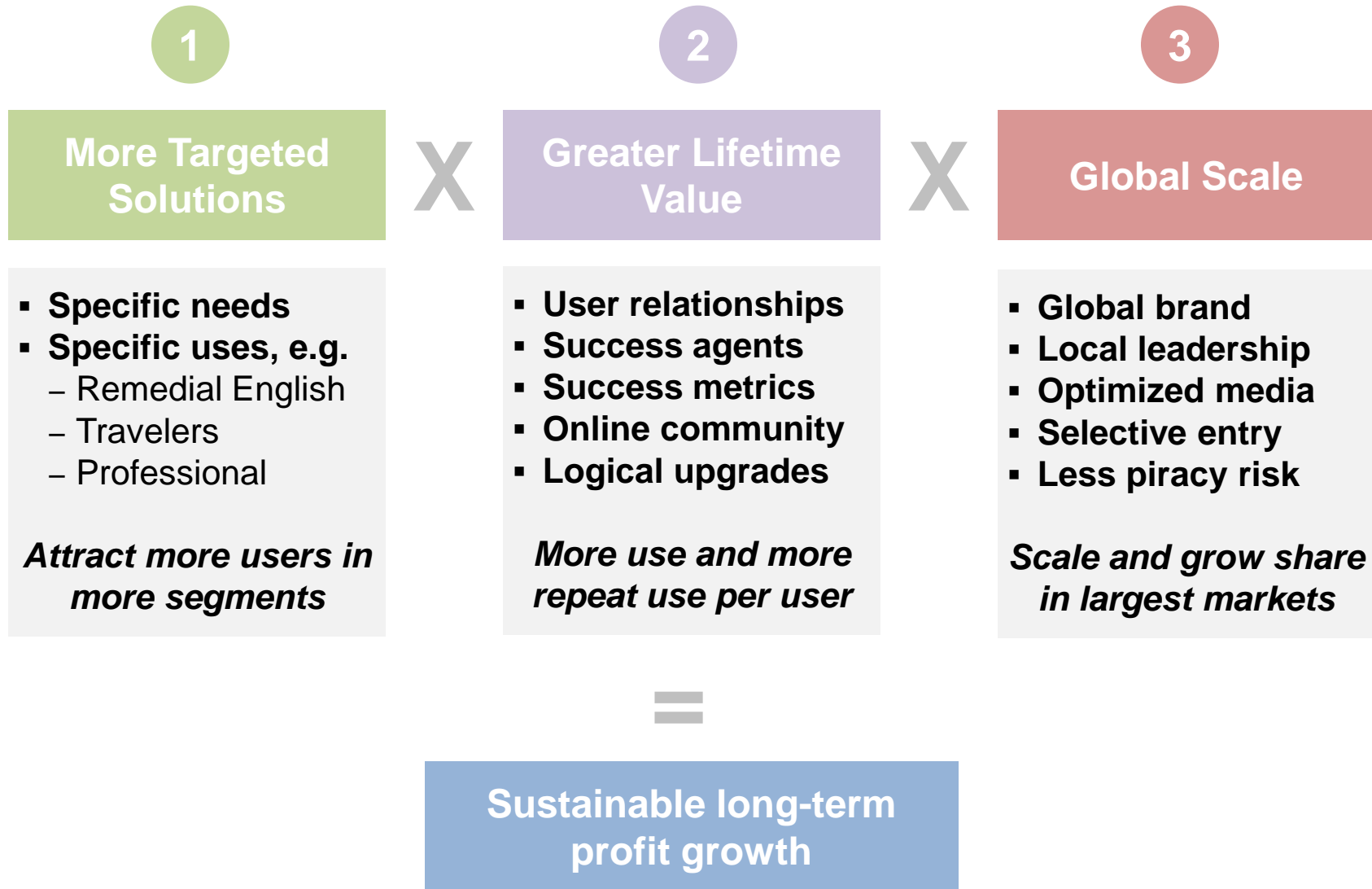
Institutional Revenue Growth (Year-over-Year)



Strong Balance Sheet

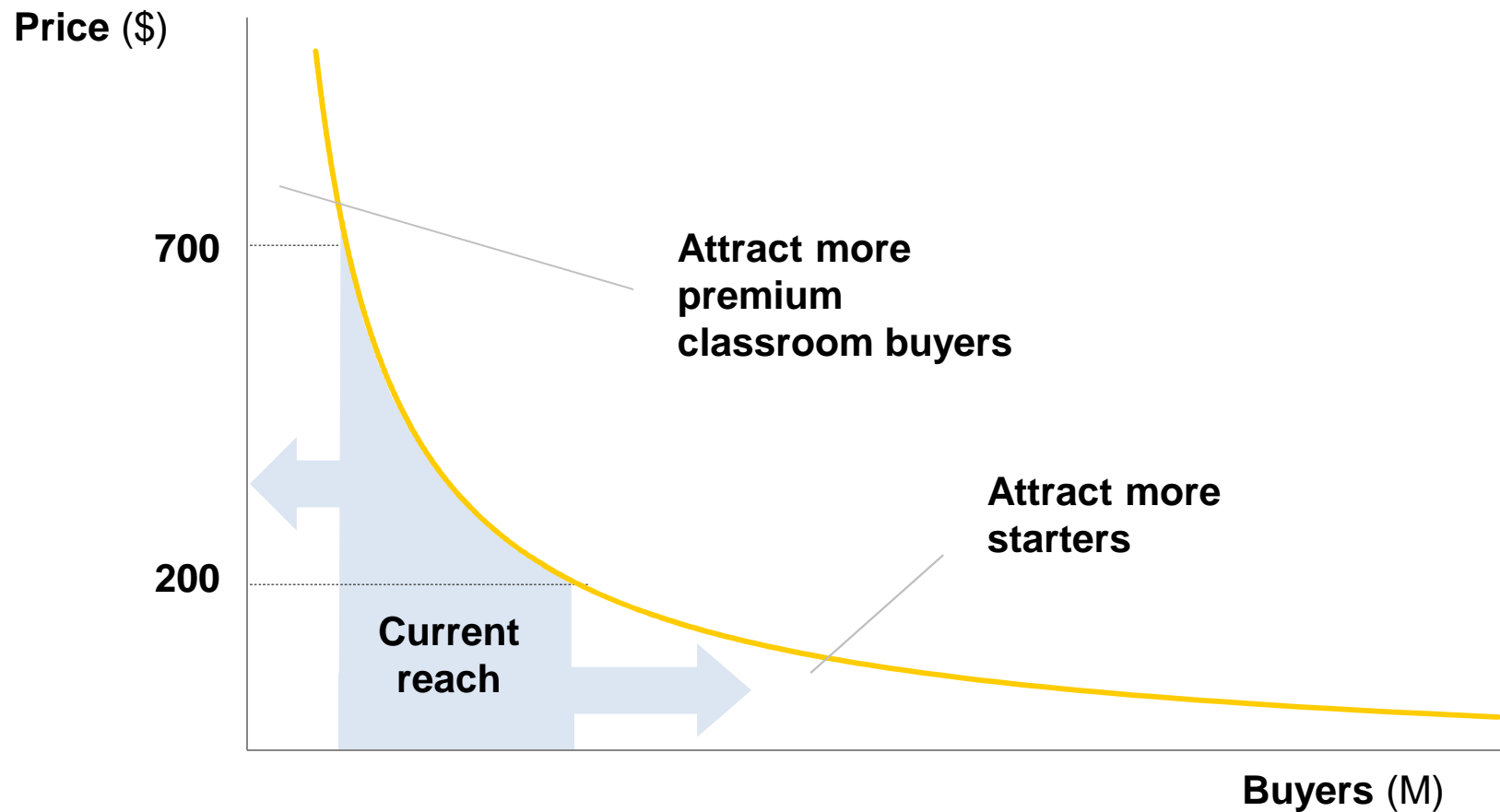
\$M	12/31/2009	6/30/2010
Cash and cash equivalents	\$95.2	\$99.7
Accounts receivable, net	37.4	32.8
Total assets	225.4	232.1
Deferred revenue	26.1	27.2
Total debt	-	-
Total liabilities	69.0	63.8
Total liabilities and stockholders' equity	\$225.4	\$232.1

Three Long-Term Growth Drivers



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

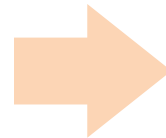
Ongoing relationship

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

Global Language Learning Market

Rosetta Stone Revenue (2009)		
Total		\$ 252M
International		20M
U.S. Market⁽¹⁾		
Total		\$ 4.5B
Self-study		2.5B
International Markets⁽²⁾		
Total non-U.S.		\$ 78B
Top 5 markets		40B
Rosetta Stone office markets		17B

Local offices:

UK (2005)

Japan (2007)

Germany (2009)

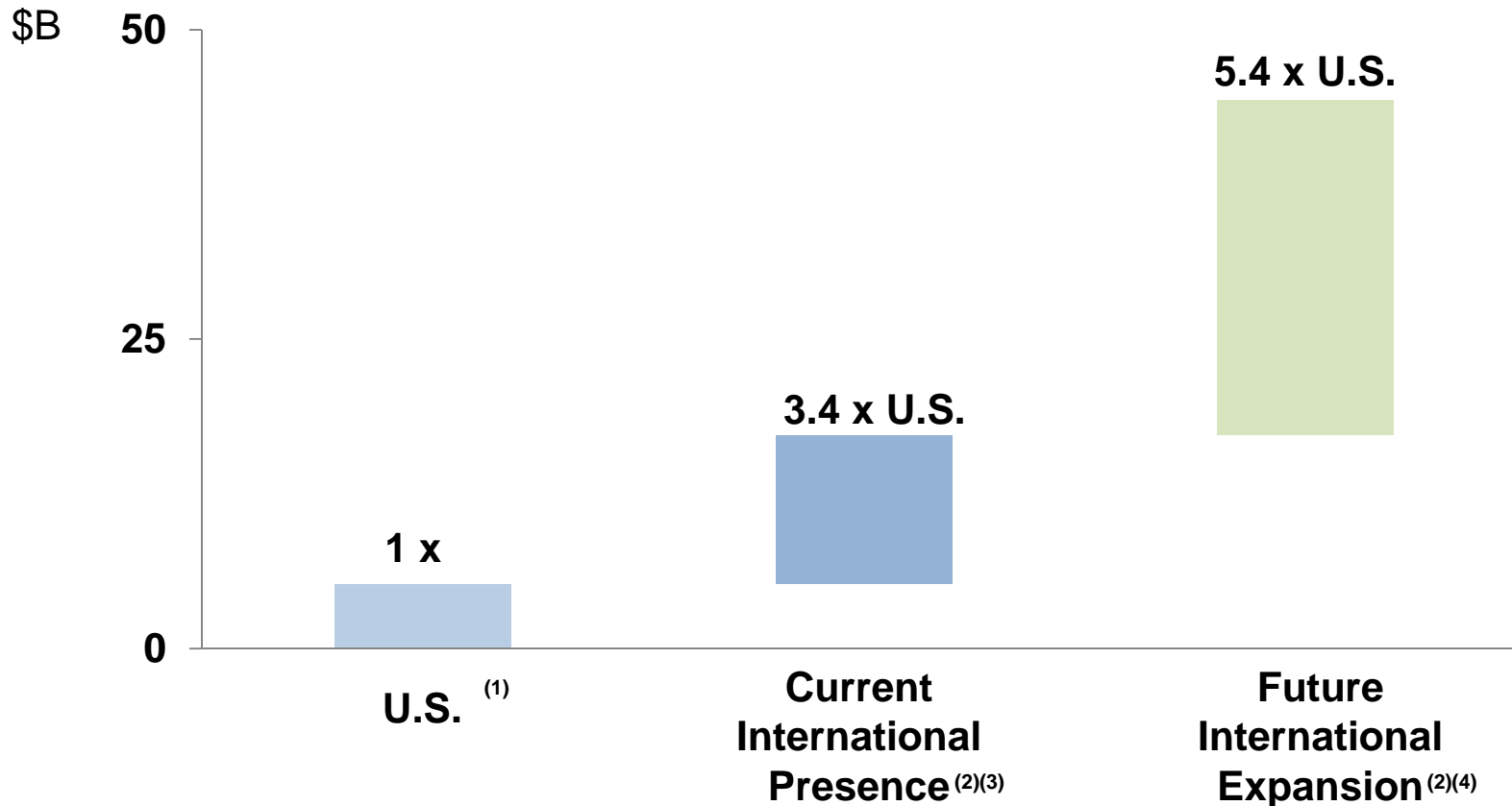
Korea (2009)

(1) U.S. market size source: Company 2009 U.S. Language Survey

(2) International market size source: Nielsen 2007 Global Language Survey

Large International Opportunity

Language learning spend excluding college:



- (1) U.S. market size source: Company 2009 U.S. Language Survey
- (2) International market size source: Nielsen 2007 Global Language Survey
- (3) Includes Germany, Japan, Korea, and the United Kingdom
- (4) Includes Brazil, China, France, and Italy which represent primary markets for potential future expansion

Financial Outlook: Q3 2010 and Full-Year 2010

	Q3 2010	Full Year 2010
Total revenue	\$60M to \$64M	\$265M to \$275M
Sales bookings¹	\$72M to \$76M	\$285M to \$295M
Non-GAAP basic net income per share	(\$0.02) to (\$0.09)	\$0.77 to \$0.93
Operating EBITDA²	\$11M to \$13M	\$50M to \$55M
Diluted shares outstanding	20.4M	21.3M
Google litigation	-	\$4.4M

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	
		Q3	Q4
<i>Ongoing</i>			
Coaches and agents	Gross margins of 84% to 85% upon Version 4 launch ¹ .	✓	✓
<i>Non-recurring</i>			
V4 launch activities	Approximately \$3M additional costs.	✓	✓
V3 inventory obsolescence	Approximately \$3M charge.	✓	
<i>Ongoing, no cash difference</i>			
Revenue deferment	15% to 20% of the sales price of Rosetta Stone Version 4 TOTALE.	✓	✓

¹ Impact to be smaller in Q3, larger towards Q4.