



Earnings Conference
Call Presentation Q3 2017

Caution on Forward-Looking Statements

This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by non-historical statements and often include words such as “outlook,” “potential,” “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 include, but are not limited to, statements relating to: our business strategy; guidance or projections related to revenue, Adjusted EBITDA, bookings (or “sales”), 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. In addition, forward-looking statements are based on the Company’s current assumptions, expectations and beliefs and 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, performance or achievement to differ materially from those expressed or implied by these forward-looking statements include, but are not limited to: 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 developments or otherwise, except as required by law. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements, risks and uncertainties that are more fully described in the Company’s filings with the U.S. Securities and Exchange Commission (SEC), including those described under the section entitled “Risk Factors” in the Company’s most recent quarterly Form 10-Q filings and Annual Report on Form 10-K, as such factors may be updated from time to time.

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

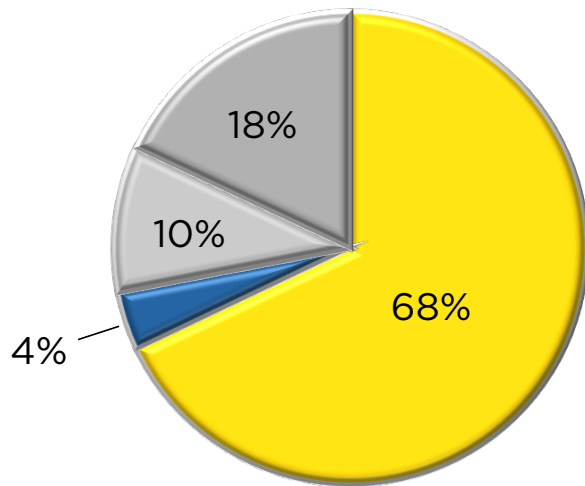
Non-GAAP Financial Measures

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 this presentation or 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.

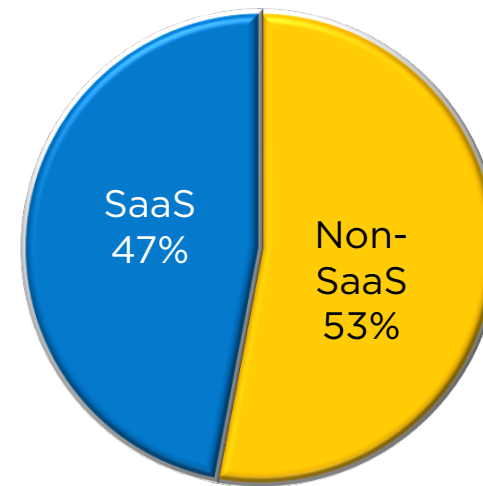
Rosetta Stone 2014

Consumer Dominated...

% Total Revenues in 2014



...Non-Recurring Business¹

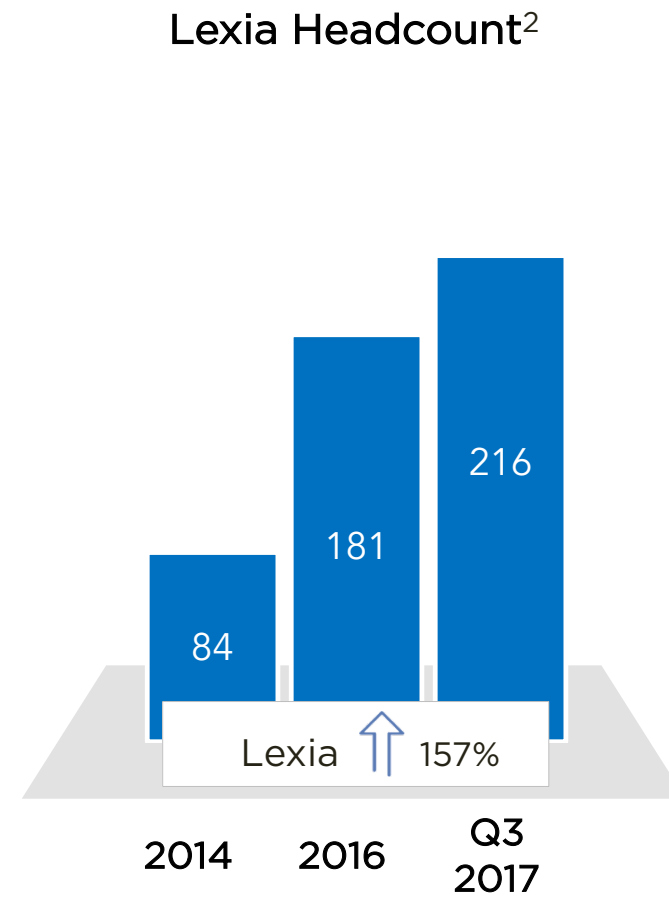
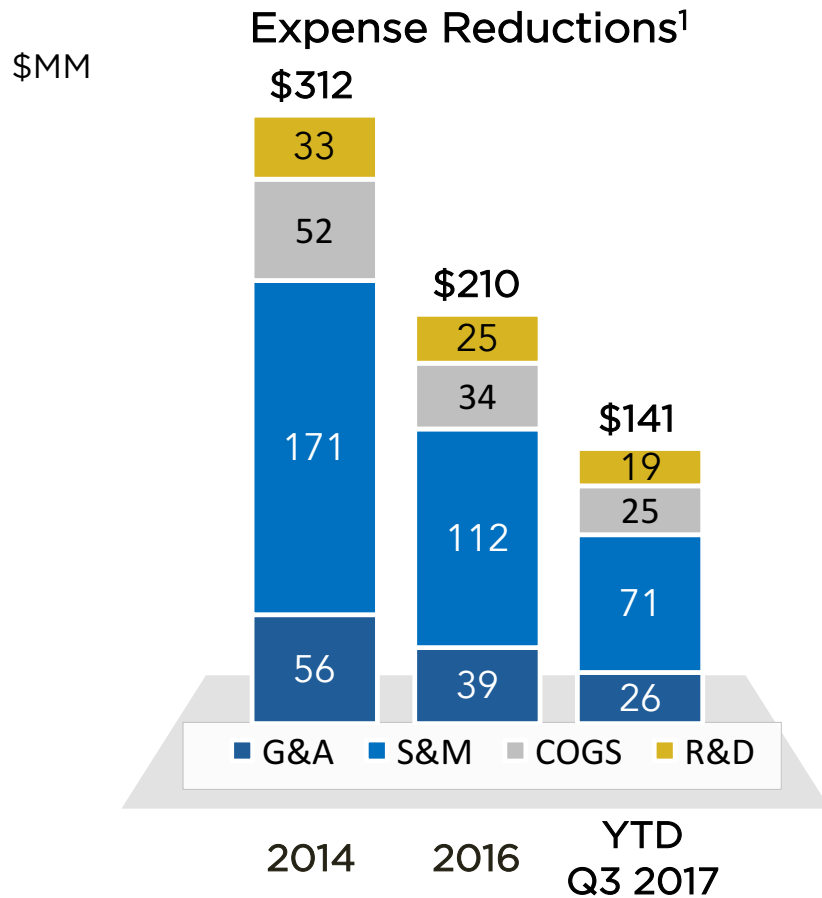


¹ Based on sales.

Singular Objective

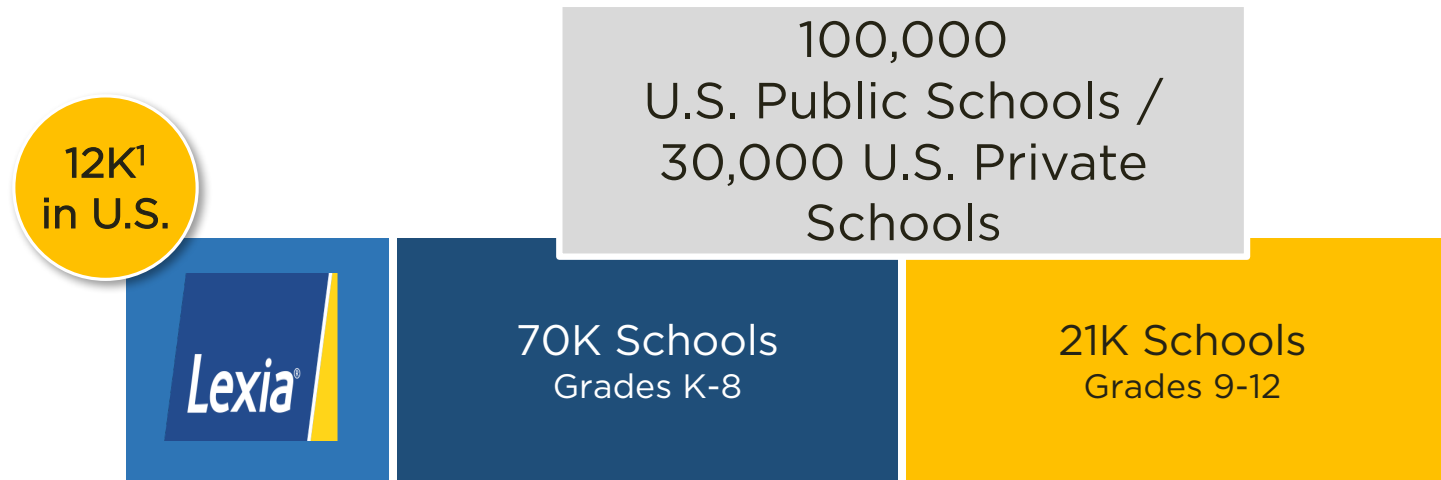
Build a Profitable and Growing
Recurring Revenue Business

Expenses Cut While Investing in Lexia



¹ Expense amounts are before restructuring and severance related charges of \$4.2MM, \$5.2MM and \$1.1MM in 2014, 2016 and YTD Q3 2017, respectively; ² Full-time headcount.

Lexia – Large TAM Driven by Great Need



- 2/3 of U.S. students in grades 4 and 8 are non-proficient readers
- Struggling readers account for 60% of students who drop out or fail to graduate on time

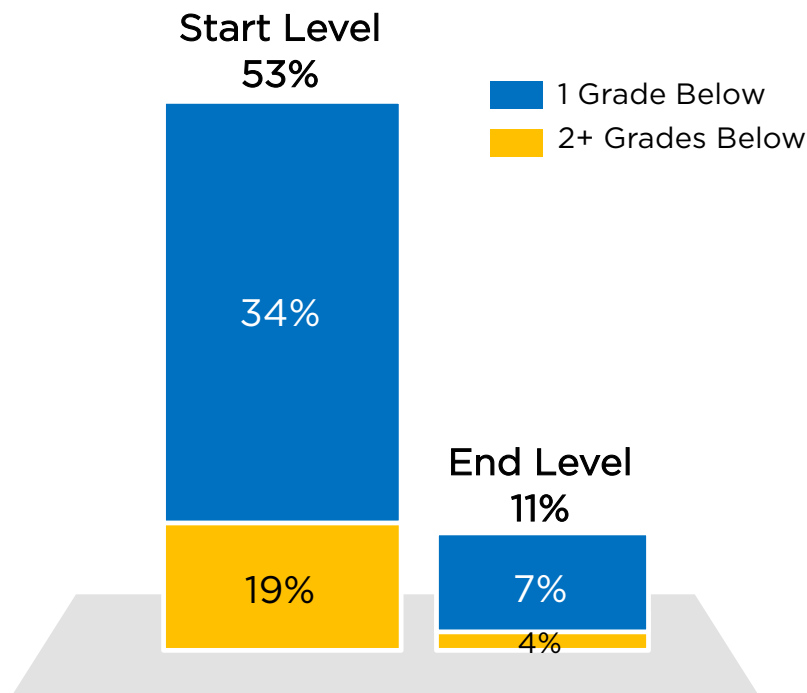
Sources: U.S. Department of Education, 2015 National Assessment of Educational Progress, Anne E. Casey Foundation, 2012 *"Double Jeopardy: How Third Grade Reading Skills and Poverty Influence High School Graduation"*, and Council for American Private Education.

¹Rosetta Stone has previously quoted the North America total.

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Lexia – Demonstrated Efficacy

Students reading below grade level declined from 53% to 11% in one school year



Program Effectiveness Validated by Research

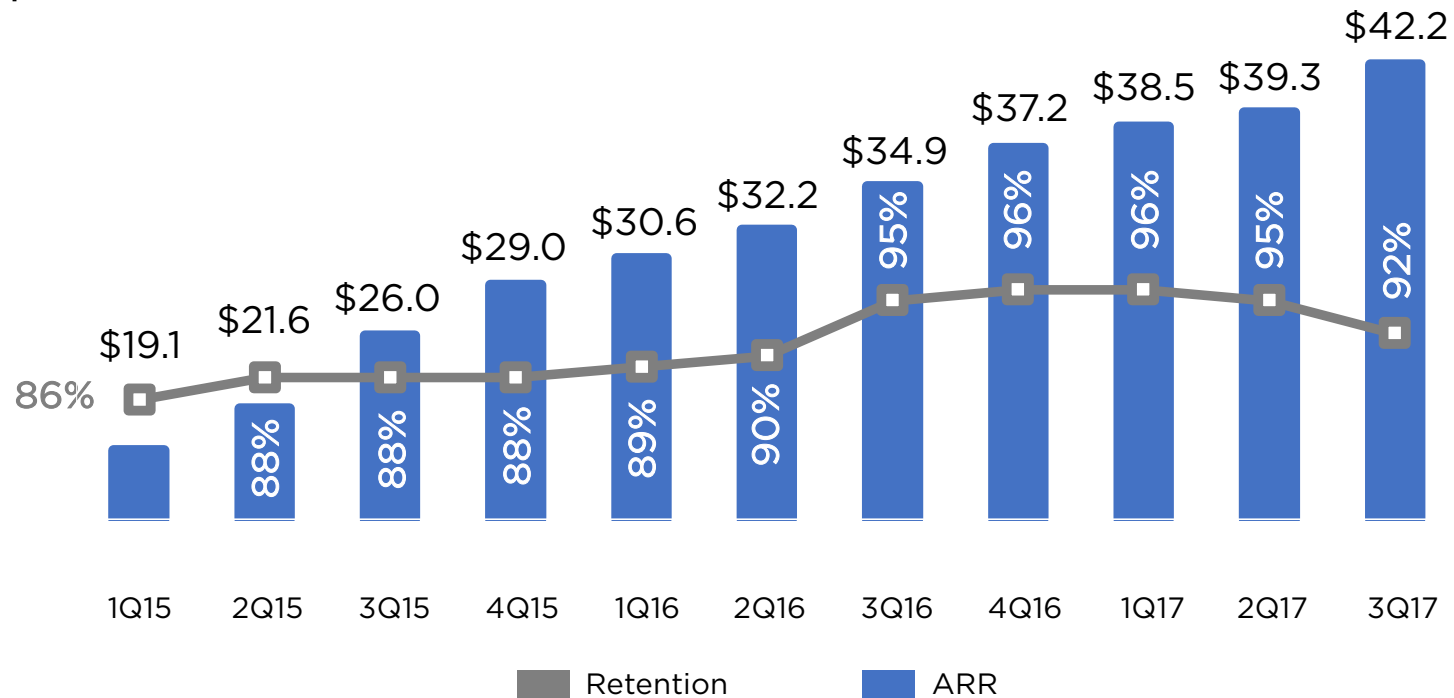


Source: 2017 National analysis of 712,000 students using Lexia Reading in a geographically and ethnically representative sample.

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Lexia – Strong Retention and Growing ARR

\$MM



¹ See Appendix for definitions and reconciliation of GAAP to non-GAAP Financial Measures. Prior period ARR has been updated to reflect current period presentation.

Lexia – Growth Through Improved Productivity

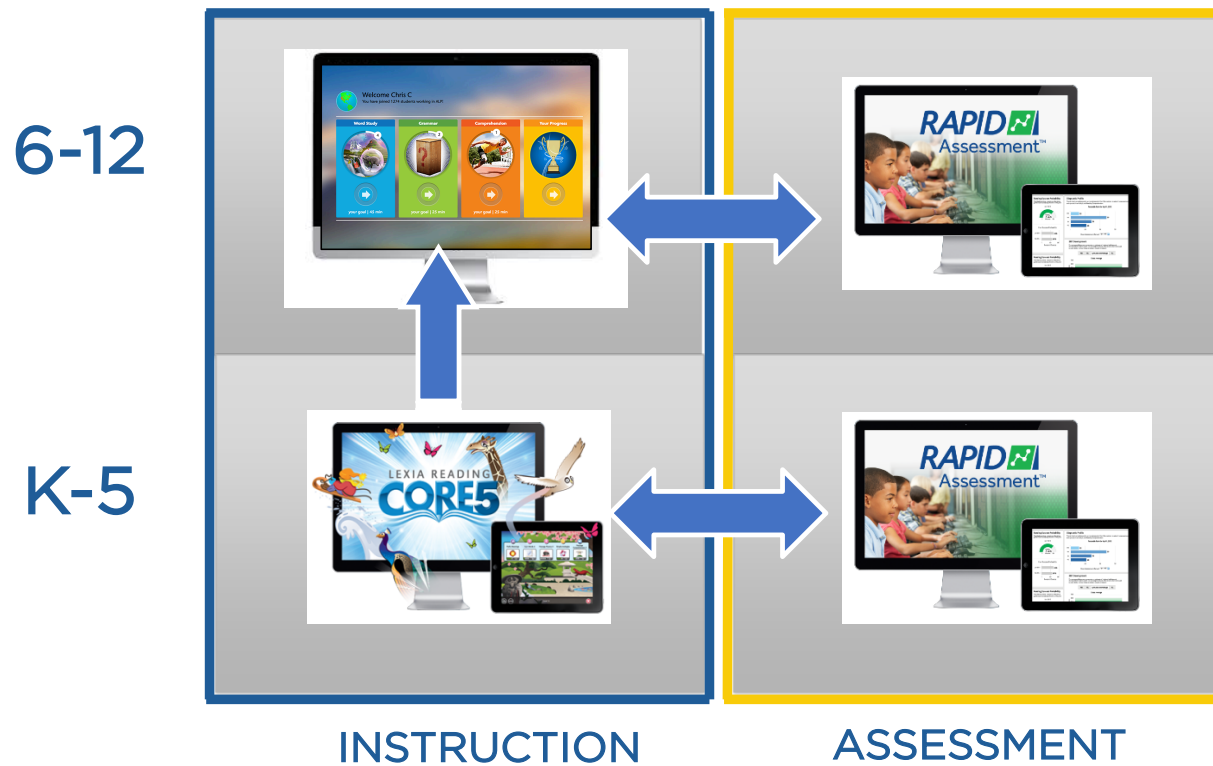
Sales Rep Tenure ¹	% of Total ¹	% of 2-Yr+ Rep Productivity
2 Years+	41%	100%
1 Year - 2 Years	27%	79%
Less than 1 Year	32%	42%

Avg. Expected Direct Production ~\$825K²

¹ At September 30, 2017

² Full year budget quota.

Lexia – Complete Portfolio to Drive LTV



Lexia – Q3 2017 Highlights

\$MM	<u>Q3 2017</u>	<u>Q3 2016</u>
Revenue	\$11.0	\$8.8
Sales	\$24.9	\$17.9

Segment Contribution:

\$	\$0.6	\$(0.4)
%	5%	(4)%

- GAAP revenue increased 26% Y/Y
 - Pro forma revenue growth 17%, adjusting for effect of purchase accounting
- Sales grew 39% Y/Y
- 24% YTD sales growth / Sales through Q3 higher than FY 2016
- Closed largest transaction in history – approx. 190 schools for \$2.3MM
- T.H.E. Readers Journal Choice Awards

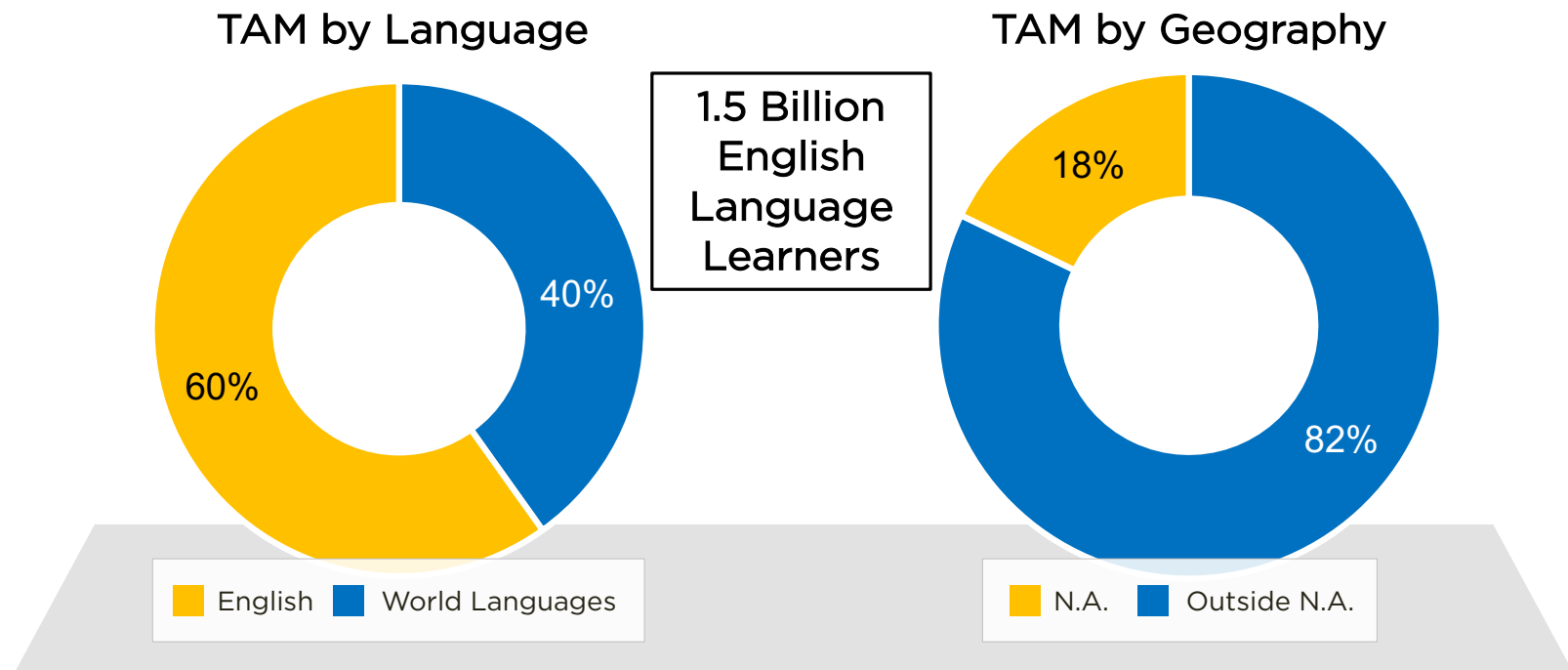
Lexia – Learning Opportunity

- **Significant TAM** – 100K U.S. public schools / 30K U.S. private schools
- **Great Need** – 2/3 of kids reading below grade level
- **Demonstrated Efficacy** – Significant improvement in reading levels; 90%+ retention and renewal rates
- **Broad Reach** – 12K schools in the U.S.¹, ~3 million kids already
- **Productivity Increase** – Increasing sales experience expected to lower CAC
- **Growing LTV** – Soon-to-be-completed Literacy portfolio
- **Emerging Profitability** – Profit increases with scale
- **Other Opportunities** – ELL

¹ Rosetta Stone has previously quoted the North America total.

English the Largest Language Learning Opportunity

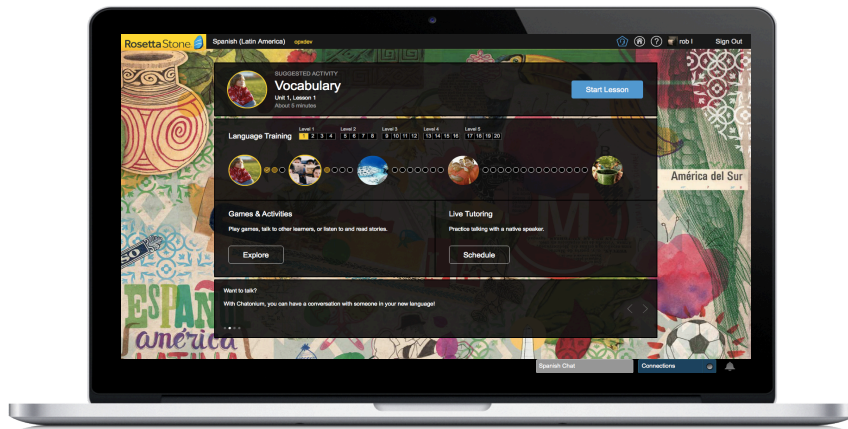
\$4.6 Billion Digital Marketplace in 2020



Investment Focused on English Language

Enterprise

Catalyst Opens English

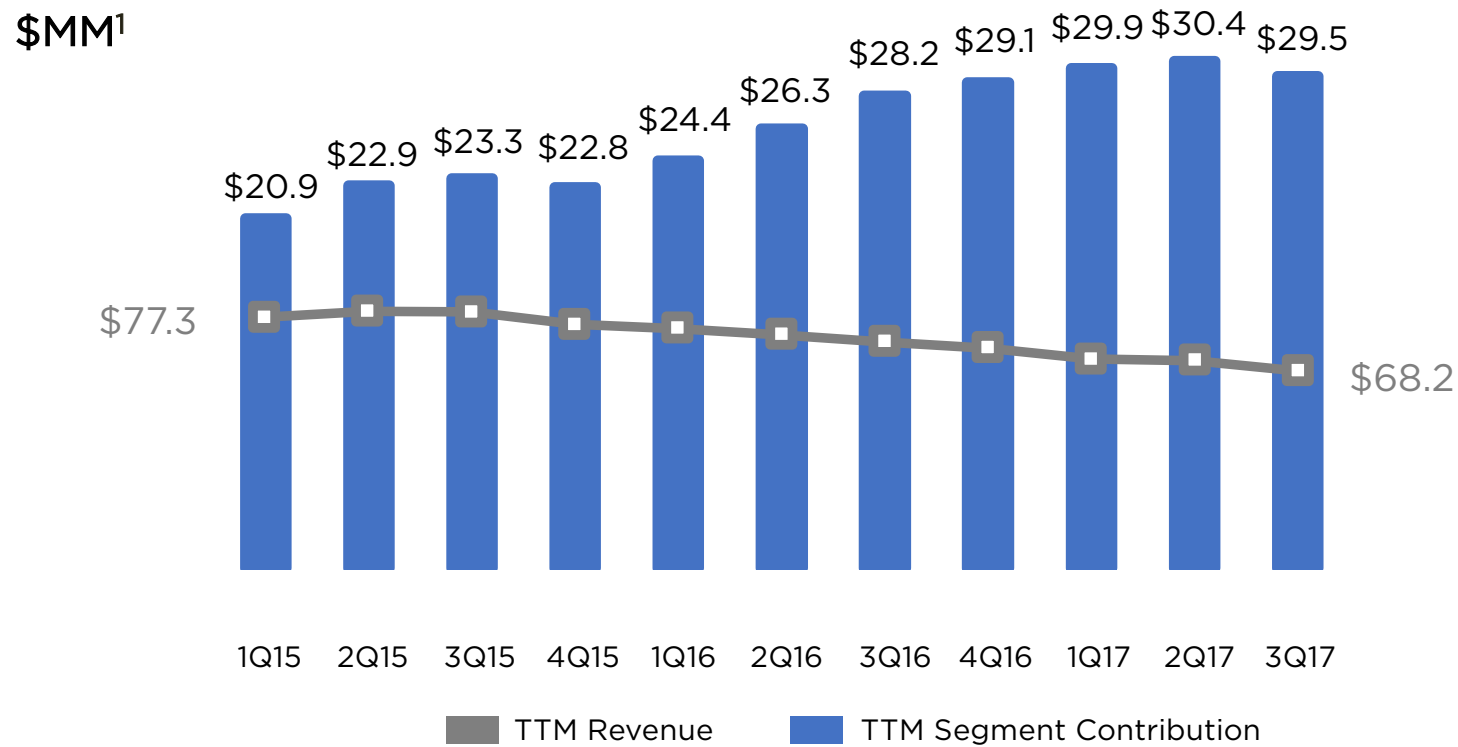


Consumer

Focused on Mobile & Subscription Sales and Partners



E&E Language Focused on Profitability



¹ Data is trailing 12-months ("TTM").

E&E Language Q3 2017 Highlights

\$MM	<u>Q3 2017</u>	<u>Q3 2016</u>
Revenue	\$16.5	\$18.3
Sales	\$19.8	\$24.2

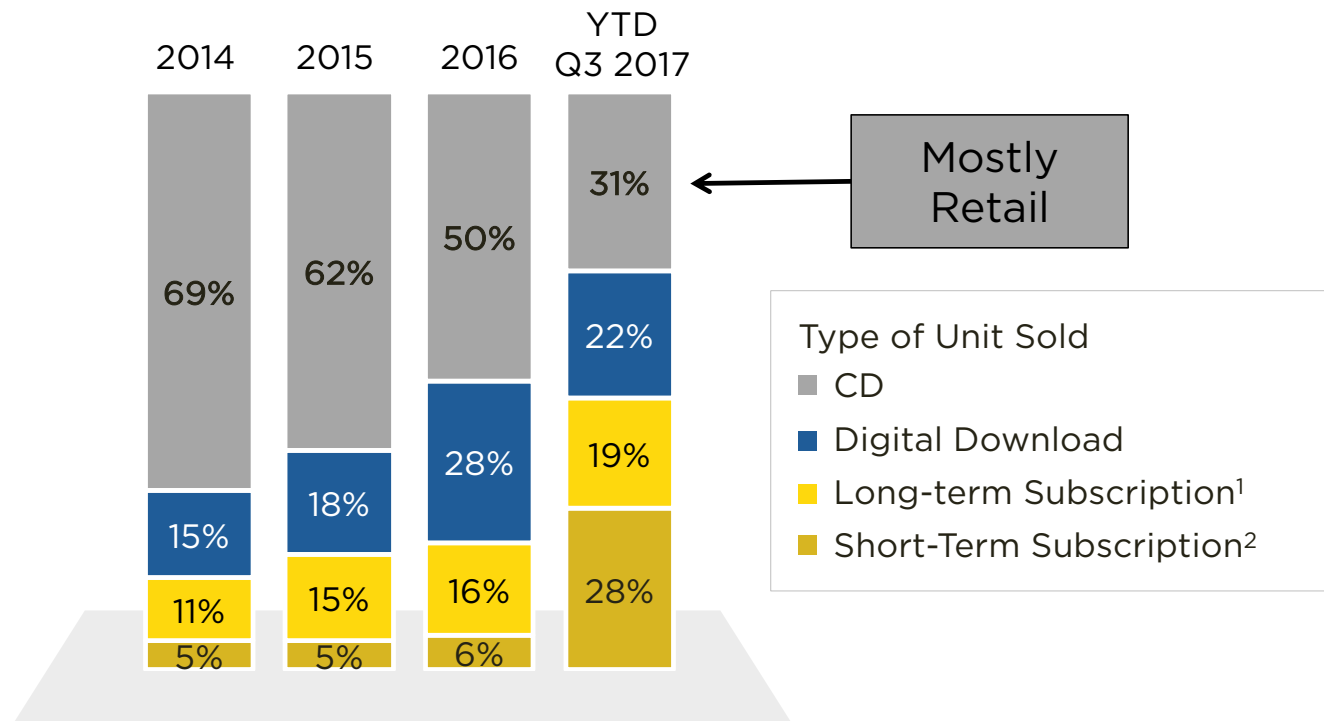
Segment Contribution:

\$	\$7.2	\$8.1
%	43%	44%

- GAAP revenue decreased 10% Y/Y
- Revenue in retained marketplaces down 5% Y/Y
- Sales declined 18% Y/Y
 - Year-ago period included two large multi-year deals totaling approx. \$2.0MM not available for renewal
 - Expected to be primarily timing within 2H 2017
- E&E Language Contribution down \$0.9MM (or 100bps) Y/Y, on lower revenue

Building a Sustainable Consumer Business...

CDs down from 69% to 31% – Soon to Approach 0



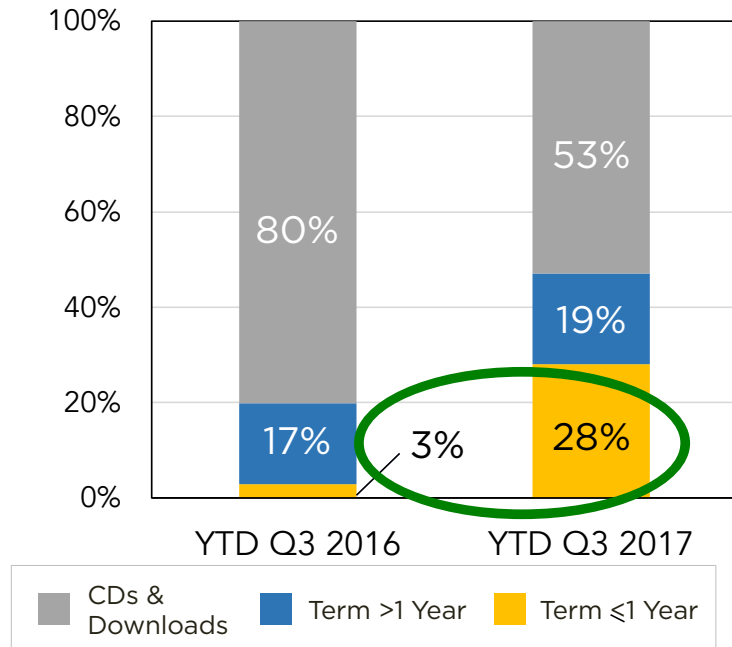
Based on North America Consumer new unit sales for all sales channels.

¹ More than one year subscription term. ² One year or less subscription term.

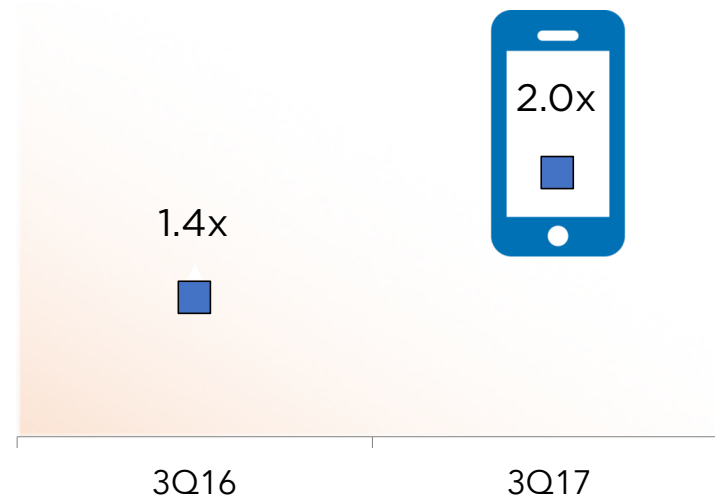
...With a Renewable Portfolio

Shorter-term Subscriptions Driving Improved Economics

Overall Unit Sales up 5% Y/Y¹



LTV-to-CAC Multiple up ~40%²

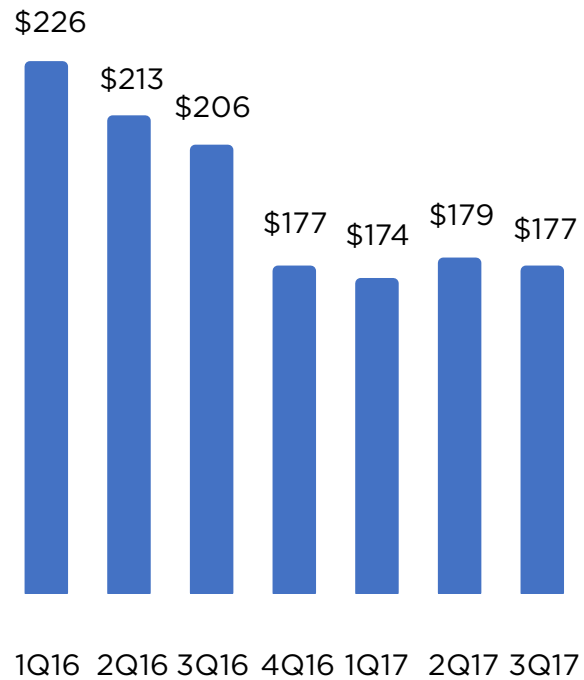


¹ Based on North America Consumer new unit sales for all sales channels.

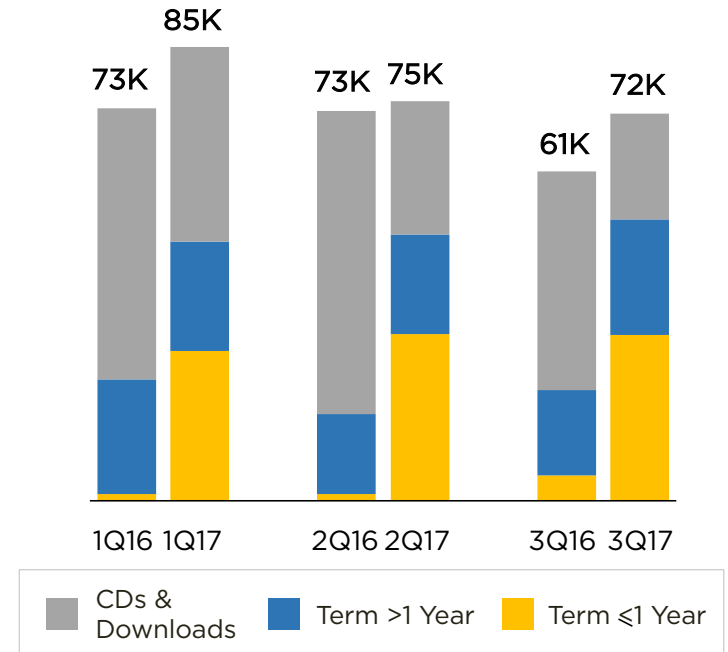
² North America DTC; CAC includes all Sales and Marketing expenses, both Media and non-Media.

Consumer – N.A. DTC Business Stabilizing

Lifetime Value (LTV) – \$/unit

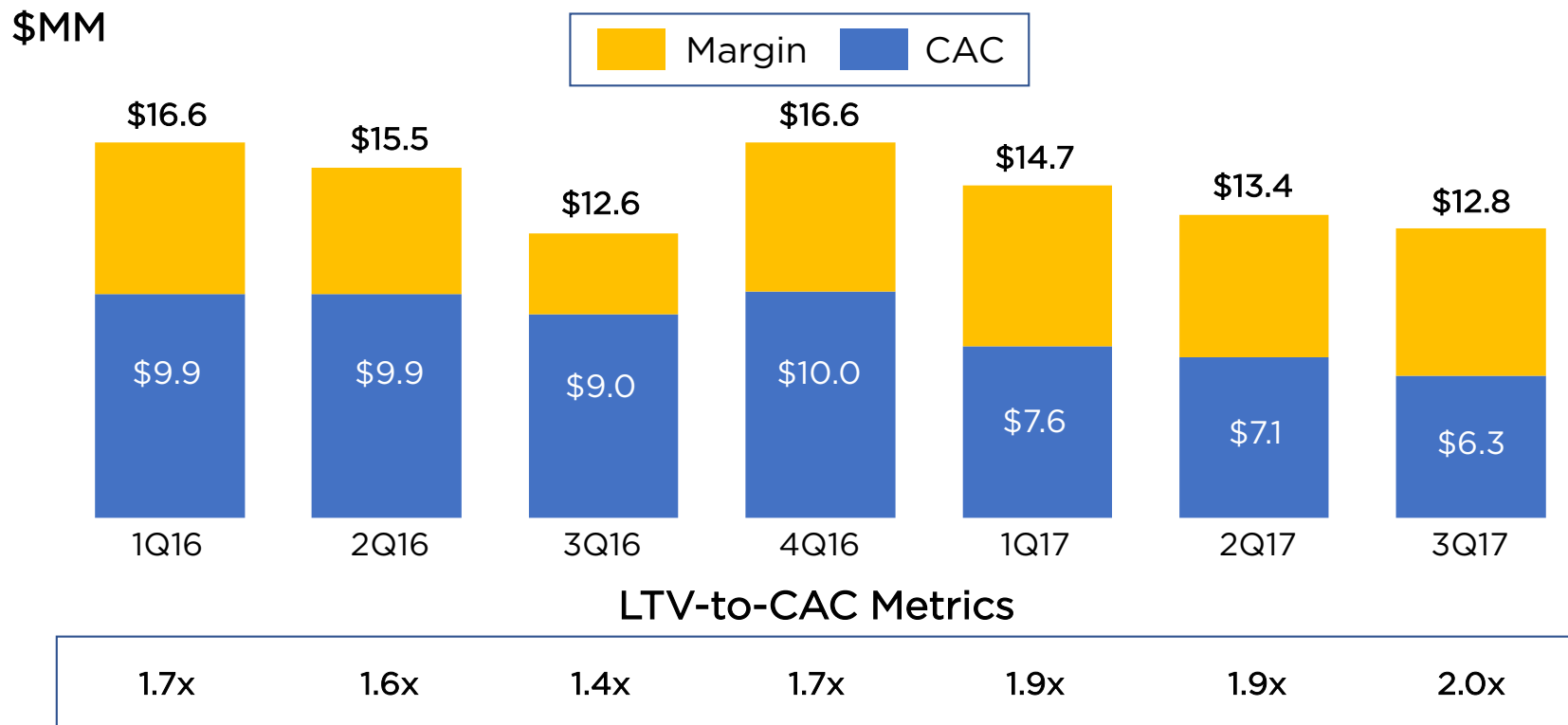


New Unit Sales



Consumer – N.A. DTC Business Stabilizing

Lifetime Value (LTV) and Cost to Acquire (CAC)



Consumer Language Q3 2017 Highlights

\$MM	<u>Q3 2017</u>	<u>Q3 2016</u>
Revenue	\$18.6	\$21.6
Sales	\$17.8	\$19.2
<hr/>		
Segment Contribution:		
\$	\$5.7	\$6.2
%	30%	29%

- GAAP revenue decreased 14% Y/Y
 - SaaS migration (to subscriptions) contributed to the decline
- Sales declined 15% Y/Y, before \$1.5MM from SOURCENEXT
 - Increasing mix of shorter initial duration subscriptions
 - Retail channel partners were preparing for SaaS conversion
- Launched Univision co-branded partnership offering
- Received additional \$1.5MM up-front payment from SOURCENEXT partnership in Japan; YTD payments total \$13.0MM

Rosetta Stone Language Opportunity

- **Significant TAM** – Huge and growing English language learning need; 1.5 billion English learners worldwide¹
- **Iconic Brand** – Iconic U.S. language brand with worldwide reach
- **Serious Outcomes** – Serving genuine needs with 25 years of expertise
- **Recurring Revenue** – Approaching 100%-SaaS business; More predictable, sustainable model
- **Growth Opportunities** – Partnerships (e.g., Univision, SOURCENEXT), Global ESL/EFL (English as a Second or Foreign Language)

¹The British Council estimate.

Consolidated Q3 2017 Highlights

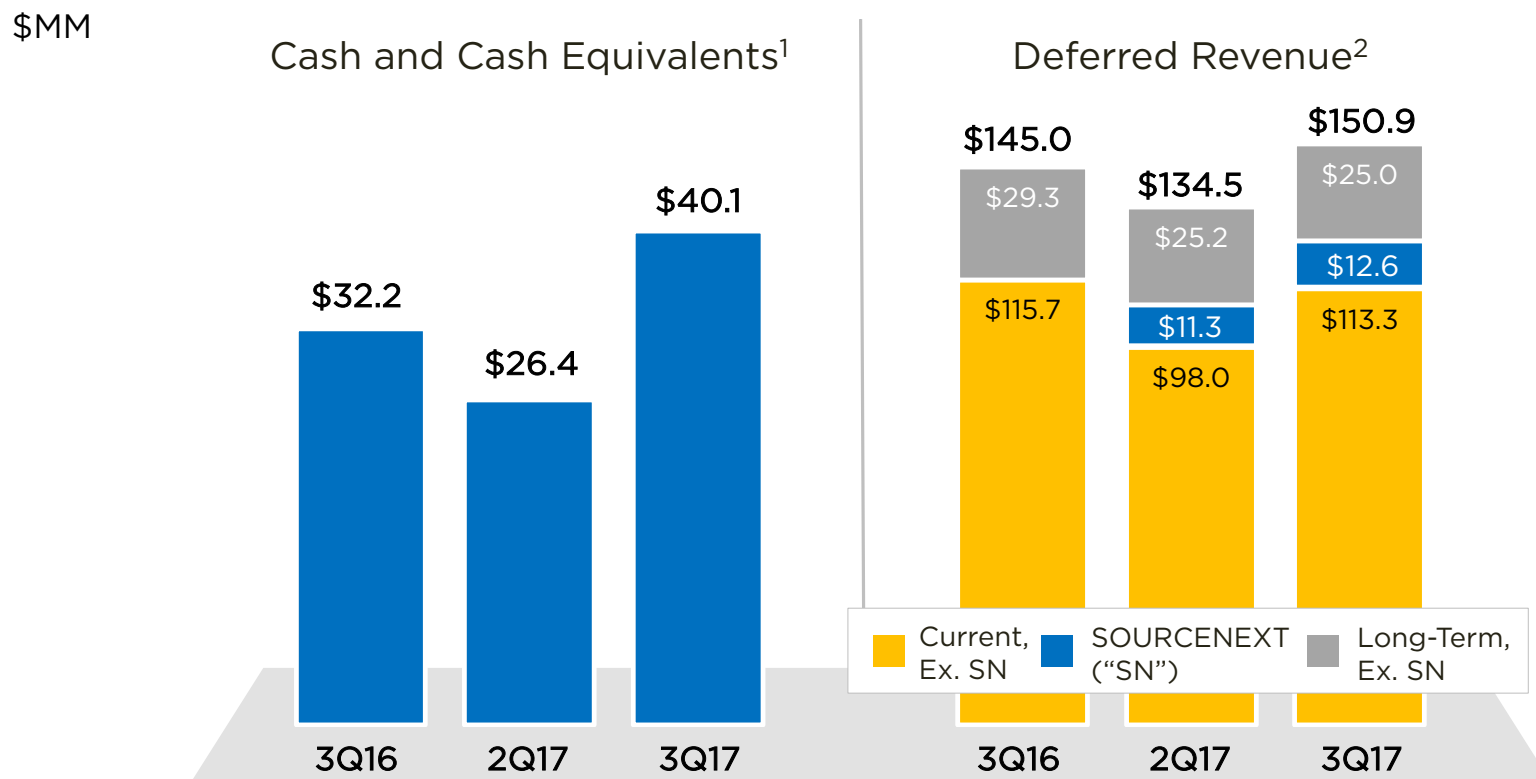
\$MM¹

	<u>Q3 2017</u>	<u>Q3 2016</u>
Revenue	\$46.2	\$48.7
Sales	\$62.6	\$61.3
<hr/>		
Net Loss	\$3.2	\$5.5
per share	\$0.14	\$0.25
<hr/>		
Adjusted EBITDA	\$2.7	\$2.4

- GAAP revenue decreased 5% Y/Y
- Sales increased 2% Y/Y
- Net loss improved \$2.3MM (or 41%) Y/Y, or \$0.11/share (or 44%) Y/Y
- Net Loss and Adjusted EBITDA improved despite a \$1.9MM inventory obsolescence charge in Q3 2017
- The inventory obsolescence charge is not added back to the \$2.7MM Adjusted EBITDA in Q3 2017

¹Amounts in \$MM except per share, which is \$0.00 format.

~\$1.76/Share in Cash and Record Deferred Revenue



¹ Includes \$1.5MM in 3Q17 and a total of \$13.0MM YTD received from SOURCENEXT.

² 3Q17 includes \$12.6MM from the SOURCENEXT transaction, of which \$12.0MM is L-T and \$0.6MM is S-T; 2Q17 includes \$11.3MM from SOURCENEXT, of which \$10.7MM is L-T and \$0.6MM is S-T.

Rosetta Stone Today - 2017 Guidance

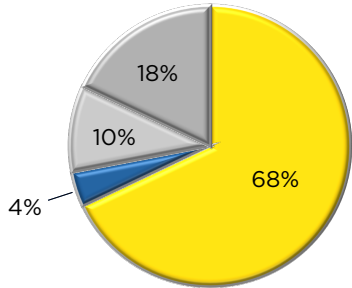
Amounts in \$MM	FY16A	FY17E
GAAP Revenue	\$194.1	Approx. \$184 – \$187
GAAP Net Loss	\$(27.6)	Approx. \$(10 – 12)
Adjusted EBITDA ¹	\$4.4	Approx. \$10 – 12
Capital Expenditures	\$12.5	Approx. \$14
Year-End Cash Balance	\$36.2	Approx. \$44
2H Cash Increase	+\$6.5	Approx. +\$17.6

¹ See Appendix for definitions and reconciliation of GAAP to non-GAAP Financial Measures.

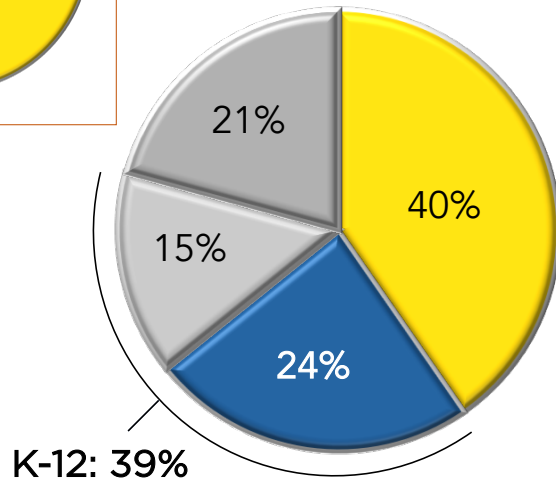
Rosetta Stone Today

Education Becoming our Largest Segment in a More Balanced Business

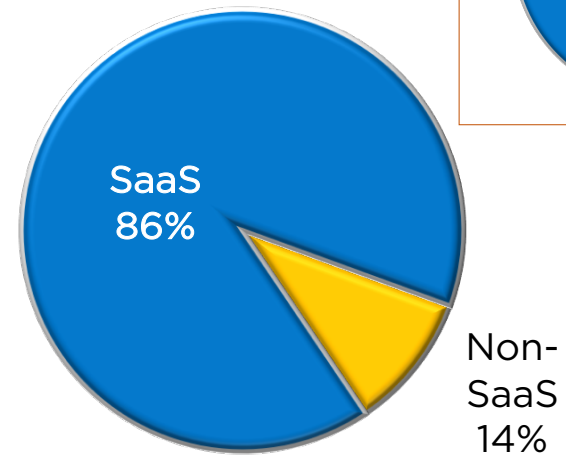
FY14 Revenue Mix



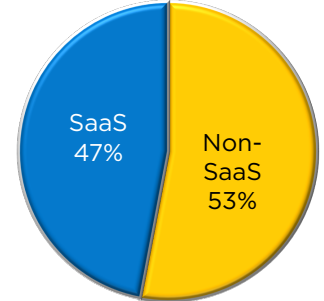
Q3 2017 Revenue Mix



Q3 2017 SaaS Mix¹



FY14 SaaS Mix¹



¹ Based on sales.

Lexia 2020 Outlook

~20% FCF¹ Margins with Growth / ~35% Steady State

\$MM	2016A	Expected Growth	2020E
Revenue	\$34.1	~27% CAGR	~\$85 - \$90
Segment Contribution ¹	\$1.5	~91% CAGR	~\$20
Segment FCF ¹	\$0.5	~145% CAGR	~\$18

¹See Appendix for definitions and reconciliation of GAAP to non-GAAP Financial Measures

Language 2020 Outlook

Target ~25% FCF¹ Contribution Margin

\$MM	2016A	Expected Growth	2020E
Revenue	\$160.0	Roughly Flat	~\$150 - \$155
Segment Contribution ¹	\$29.8	~11% CAGR	~\$45
Segment FCF ¹	\$18.0	~21% CAGR	~\$38

¹See Appendix for definitions and reconciliation of GAAP to non-GAAP Financial Measures

Rosetta Stone Consolidated 2020 Outlook

Targeting 2020 15% Adj. EBITDA and 10+% FCF¹ Margins

\$MM	2017E ²	Expected Growth	2020E
Revenue	\$185.5	~9% CAGR	~\$235
Adj. EBITDA ¹	\$11	~57% CAGR	~\$35
FCF ¹	\$(5) ³	~\$36MM	~\$30
Year-End Cash	\$44	~\$56MM	~\$100

¹ See Appendix for definitions and reconciliation of GAAP to non-GAAP Financial Measures

² Based on current company 2017 full year or year end guidance. Midpoint where appropriate.

³ Before cash received from SOURCENEXT transaction but after certain restructuring and one-time items.

Changing Lives Through Language and Literacy

- Large addressable marketplaces; growing digital share
- Iconic Brand and Expertise in Language and Demonstrated Efficacy in Literacy
- Nearing 100%-SaaS, Recurring Revenue business
- Multiple opportunities for growth
- Growth expected to bring profitability and cash generation



Appendix

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.

Non-GAAP Financial Measures

- **Bookings** (or “Sales”) 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/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 Enterprise & Education Language segments.
- **Segment free cash flow** is Adjusted EBITDA plus the change in deferred revenue, less the change in deferred commissions, less capital expenditures.

Adjusted EBITDA and Free Cash Flow¹

	Amounts (\$000)							
	Quarterly				FY16	Quarterly		
	1Q16	2Q16	3Q16	4Q16		1Q17	2Q17	3Q17
GAAP net income (loss)	\$ (7,507)	\$ (8,978)	\$ (5,452)	\$ (5,613)	\$ (27,550)	\$ 454	\$ (1,135)	\$ (3,231)
Total non-operating (income) expense, net	(1,129)	(816)	(524)	596	(1,873)	(209)	(312)	40
Income tax (benefit) expense	449	(992)	1,793	1,253	2,503	700	782	879
Impairment	0	2,902	1,028	0	3,930	0	0	0
Depreciation and amortization	3,408	3,178	3,226	3,510	13,322	3,075	2,987	3,015
Stock-based compensation	421	1,397	1,639	1,449	4,906	147	1,359	1,552
Restructuring expenses	2,509	2,512	162	10	5,193	780	205	196
Lease abandonment and termination	0	30	0	1,614	1,644	0	0	0
Strategy consulting expense	402	519	458	577	1,956	169	0	0
Other EBITDA adjustments	(117)	304	85	56	328	39	16	248
Adjusted EBITDA	\$ (1,564)	\$ 56	\$ 2,415	\$ 3,452	\$ 4,359	\$ 5,155	\$ 3,902	\$ 2,699

	Amounts (\$000)							
	Quarterly				FY16	Quarterly		
	1Q16	2Q16	3Q16	4Q16		1Q17	2Q17	3Q17
Net cash provided by/(used in) operating activities	\$ (2,546)	\$ (9,879)	\$ 6,479	\$ 7,186	\$ 1,240	\$ 5,769	\$ (10,397)	\$ 17,305
Purchases of property and equipment	(2,586)	(3,348)	(3,694)	(2,886)	(12,514)	(2,313)	(3,080)	(3,510)
Free Cash Flow	\$ (5,132)	\$ (13,227)	\$ 2,785	\$ 4,300	\$ (11,274)	\$ 3,456	\$ (13,477)	\$ 13,795

¹ See Appendix for definitions and reconciliation of GAAP to non-GAAP Financial Measures.

Revenue and Bookings¹

	Amounts (\$000)							
	Quarterly				FY16	Quarterly		
	1Q16	2Q16	3Q16	4Q16		1Q17	2Q17	3Q17
Revenue								
Literacy	\$ 7,577	\$ 7,950	\$ 8,786	\$ 9,810	\$ 34,123	\$ 10,170	\$ 10,370	\$ 11,028
Enterprise & Education ("E&E") Language								
Enterprise	11,044	10,479	11,041	10,554	43,118	9,408	9,914	9,602
North America K-12	7,287	7,011	7,295	7,372	28,965	7,092	7,346	6,927
Total E&E Language	18,331	17,490	18,336	17,926	72,083	16,500	17,260	16,529
Consumer Language	22,094	20,276	21,571	23,942	87,883	21,023	18,275	18,649
Total Revenue	\$ 48,002	\$ 45,716	\$ 48,693	\$ 51,678	\$ 194,089	\$ 47,693	\$ 45,905	\$ 46,206
Booking:								
Literacy	\$ 3,817	\$ 9,433	\$ 17,923	\$ 7,221	\$ 38,394	\$ 5,300	\$ 8,628	\$ 24,878
Enterprise & Education ("E&E") Language								
Enterprise	7,906	8,972	12,553	11,071	40,502	6,034	10,203	9,610
North America K-12	2,877	9,184	11,643	5,438	29,142	2,890	8,354	10,224
Total E&E Language	10,783	18,156	24,196	16,509	69,644	8,924	18,557	19,834
Consumer Language	22,911	18,234	19,203	24,413	84,761	18,495	27,299	17,840
Total Bookings	\$ 37,511	\$ 45,823	\$ 61,322	\$ 48,143	\$ 192,799	\$ 32,719	\$ 54,484	\$ 62,552

¹ See Appendix for definitions and reconciliation of GAAP to non-GAAP Financial Measures.

Reconciliation of Revenue and Bookings¹

	Amounts (\$000)							
	Quarterly				FY16	Quarterly		
	1Q16	2Q16	3Q16	4Q16		1Q17	2Q17	3Q17
Reconciliation of Revenue to Bookings								
Literacy								
Segment revenue	\$ 7,577	\$ 7,950	\$ 8,786	\$ 9,810	\$ 34,123	\$ 10,170	\$ 10,370	\$ 11,028
Segment change in deferred revenue	(3,760)	1,483	9,137	(2,589)	4,271	(4,870)	(1,742)	13,850
Bookings	\$ 3,817	\$ 9,433	\$ 17,923	\$ 7,221	\$ 38,394	\$ 5,300	\$ 8,628	\$ 24,878
Enterprise & Education ("E&E") Language								
Segment revenue	\$ 18,331	\$ 17,490	\$ 18,336	\$ 17,926	\$ 72,083	\$ 16,500	\$ 17,260	\$ 16,529
Segment change in deferred revenue	(7,548)	666	5,860	(1,417)	(2,439)	(7,576)	1,297	3,305
Bookings	\$ 10,783	\$ 18,156	\$ 24,196	\$ 16,509	\$ 69,644	\$ 8,924	\$ 18,557	\$ 19,834
Consumer Language								
Segment revenue	\$ 22,094	\$ 20,276	\$ 21,571	\$ 23,942	\$ 87,883	\$ 21,023	\$ 18,275	\$ 18,649
Segment change in deferred revenue	817	(2,042)	(2,368)	471	(3,122)	(2,528)	9,024	(809)
Bookings	\$ 22,911	\$ 18,234	\$ 19,203	\$ 24,413	\$ 84,761	\$ 18,495	\$ 27,299	\$ 17,840
Total revenue	\$ 48,002	\$ 45,716	\$ 48,693	\$ 51,678	\$ 194,089	\$ 47,693	\$ 45,905	\$ 46,206
Change in deferred revenue	(10,491)	107	12,629	(3,535)	(1,290)	(14,974)	8,579	16,346
Total bookings	\$ 37,511	\$ 45,823	\$ 61,322	\$ 48,143	\$ 192,799	\$ 32,719	\$ 54,484	\$ 62,552

¹ See Appendix for definitions and reconciliation of GAAP to non-GAAP Financial Measures.

Segment Contribution¹

	Amounts (\$000)							
	Quarterly				FY16	Quarterly		
	1Q16	2Q16	3Q16	4Q16		1Q17	2Q17	3Q17
Revenue:								
Literacy segment	\$ 7,577	\$ 7,950	\$ 8,786	\$ 9,810	\$ 34,123	\$ 10,170	\$ 10,370	\$ 11,028
Enterprise & Education ("E&E") Language segment	18,331	17,490	18,336	17,926	72,083	16,500	17,260	16,529
Consumer Language segment	22,094	20,276	21,571	23,942	87,883	21,023	18,275	18,649
Shared services	0	0	0	0	0	0	0	0
Combined Language	40,425	37,766	39,907	41,868	159,966	37,523	35,535	35,178
Total revenue	\$ 48,002	\$ 45,716	\$ 48,693	\$ 51,678	\$ 194,089	\$ 47,693	\$ 45,905	\$ 46,206
Segment contribution:								
Literacy segment	\$ 57	\$ 439	\$ (364)	\$ 1,400	\$ 1,532	\$ 961	\$ 1,591	\$ 582
E&E Language segment	6,297	6,903	8,064	7,818	29,082	7,119	7,357	7,176
Consumer Language segment	5,040	3,934	6,233	6,295	21,502	8,357	6,060	5,683
Shared services	(5,457)	(4,982)	(4,758)	(5,562)	(20,759)	(4,990)	(4,672)	(4,148)
Combined Language	5,880	5,855	9,539	8,551	29,825	10,486	8,745	8,711
Total segment contribution	\$ 5,937	\$ 6,294	\$ 9,175	\$ 9,951	\$ 31,357	\$ 11,447	\$ 10,336	\$ 9,293
Segment contribution margin percentage:								
Literacy segment	1%	6%	-4%	14%	4%	9%	15%	5%
E&E Language segment	34%	39%	44%	44%	40%	43%	43%	43%
Consumer Language segment	23%	19%	29%	26%	24%	40%	33%	30%

¹Please see the Appendix for definitions of non-GAAP financial measures. The Literacy segment was previously a component of the "Enterprise & Education" segment and is comprised solely of the Lexia business. Prior periods have been reclassified to reflect our current segment presentation and definition of segment contribution.



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