First Quarter 2020 Earnings Call

Prepared Remarks

Jason Terry - Safe Harbor

Thank you. Good afternoon everyone. Welcome to Rosetta Stone's first quarter 2020 earnings conference call. Speaking on the call today will be John Hass, Chairman and CEO, and Nick Gaehde and Matt Hulett, Co-Presidents of Rosetta Stone. Additionally, Tom Pierno, the company's Chief Financial Officer will be available during the Q&A portion of today's call.

We have posted to the Investor Relations section of our website at rosettastone.com, both the earnings release and a slide presentation which accompanies today's call. We've also posted supplemental information and analysis on our website.

I want to remind everyone that as always, there will be elements in today's presentation which are forward looking and are based on our best view of the world and our business as we see them today. These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially. A description of these risks and uncertainties and other factors that could affect our financial results are included in our most recent annual report on Form 10-K and quarterly reports on Form 10-Q. We expressly disclaim any obligation to update or revise any forward-looking statements except as required by law.

Today's presentation and discussion also contains references to non-GAAP financial measures. The full definition, GAAP comparison, and a reconciliation of those measures are available in the aforementioned presentation and press release.

I will now turn the call over to John.

John Hass - CEO

Good afternoon and thank you for joining us today.

We would like to begin by thanking all of the first responders and healthcare workers in our communities on the frontlines of the COVID-19 pandemic. We would also like to thank the teachers, administrators and HR professionals working incredibly hard to adapt to challenges they couldn't have envisioned even two months ago.

Slide 3 - Q1 Financial Highlights

Closer to home, we are incredibly proud and thankful for the Rosetta Stone team. As shown on **slide 3,** while transitioning, in the most important part of the quarter, to an entirely remote work environment, the team delivered a terrific Q1, highlighted by year-over-year bookings growth of 20%, and incredibly meaningful new initiatives to support customers in this time of uncertainty and suffering. Today's call will focus on the impact of COVID-19 on our business and our response to it as we support our customers and learners.

Bookings growth in Q1 was led by Consumer Language which grew bookings by $6.7 million, or 42% over the same period a year ago. To put this in perspective, this was 14% higher than Q4 2019, which has always been our strongest quarter seasonally.

As I mentioned in the March call, Consumer Language was having a strong quarter even before COVID-19 began to affect people's daily life in the United States. During the last few weeks in March, we saw an additional increase in sales which we attribute to people using their "shelter in place" time at home to learn a new language.

Bookings growth was also strong in our K-12 Literacy segment. Literacy bookings grew by 22% over Q1 2019. Because it is a small new business quarter, Q1 in Literacy is typically a period in which we don't see much growth, so we were happy to start the year well, especially given the disruption in most U.S. schools during March.

Total revenues for the quarter were $47.2 million, an increase of 6% from Q1 2019. Revenue growth naturally lags bookings growth. This lag was increased in Q1 by the fact that the majority of our Consumer bookings were from our Lifetime product. While the LTV of Lifetime product sales is the highest in our Consumer portfolio, and is realized immediately, as it is paid up-front, we recognize the bookings as revenues over 24 months, so their impact on Q1 revenue was relatively small. We expect Lifetime sales, which produce high upfront cash receipt, but longer revenue recognition, will continue to be a significant portion of Consumer Language bookings this year.

Net income in Q1 was a loss of $6.2 million, while adjusted EBITDA was positive $1.2 million. Our ending cash balance was $35.1 million, on operating cash outflow of $3.5 million. Remember that Q1 is a seasonally low sales quarter for us, while expenses are more consistent throughout the year. Each of these measures exceeded guidance.

In a moment we will walk through our segment financial results in more detail, but I want to begin by highlighting a few of our COVID-19 related initiatives that are providing real value to learners and demonstrating the relevance of Rosetta Stone and Lexia in this new world. Please turn to **slide 4.**

Slide 4 - Supporting Learners

In a few short weeks following our March 11th earnings call, everything changed and our business changed with it. To give you one example, as of our last earnings call, 1,500 U.S. schools had announced partial closures due to COVID-19. As of Wednesday, April 8th, only four weeks after the call, school closures had risen to 124 thousand, over 90% of all schools in the U.S., and 15 states had indicated they would remain closed until the end of the school year. That is now up to 44 states.

In response, the team introduced new offerings in every part of the business that directly addressed customers' needs. In each case, providing free, expanded learning opportunities that were substantive and meaningful. Among other things, we have offered,

- Unlimited site licenses for every existing K-12 literacy and language customer for the rest of the school year, along with the necessary services to support these schools and their teachers, students and parents. This offer has been made available to districts that represent almost half of the K-12 public school population in the United States.
- A free 3-month student license through our Consumer Language business to support families whose children were now learning from home.
- And we provided all of our Enterprise and Consumer Language customers who had software-only licenses, free access to group tutoring for three months.

Broad access to learning experiences that were directly responsive to the needs of our customers. All rolled out in a few short weeks, despite not being on our roadmap as we entered March.

We were able to do this for three reasons. First, all of our products are built for, or well suited to, remote learning. Secondly, we have relationships with our customers based on trust and years of providing solutions that work, that created demand for these learning options when they were offered. And finally, we have an incredible team that came together to serve customers, even as they adapted to new situations themselves. Nick and Matt will share more detail on each of these initiatives in a few moments. Please turn to **slide 5.**

Slide 5 - Four Takeaways

You should take four things from today's call. We are off to a strong start in 2020, as demonstrated by the 20% year-over-year bookings growth in Q1. Rosetta Stone, in both our Language and K-12 businesses, is setting the standard in our areas helping customers adapt to the impact of the pandemic. While the world, including ours, has become more uncertain, we remain optimistic about 2020 in our Literacy and Consumer Language segments. Finally, we are determined to use this period to ensure that Rosetta Stone will be even better positioned as a leader in learning, in a post-COVID-19 world.

Nick and Matt will build on each of these themes.

Now let me turn the call over to Nick to talk about our K-12 business. Nick.

Nick Gaehde – Co-President

Thanks John. Please turn to **slide 6.**

Slide 6 - Literacy Financial Overview

In our Literacy segment, revenue in the first quarter was $17.5 million, an increase of 18% over the same period in 2019. Bookings were $5.5 million in Q1, an increase of 22% over the same period in 2019. Our bookings growth in the quarter was primarily driven by higher new and renewal sales in our direct channel. Q1 is our smallest quarter each year, and will be this year, but we are happy to be off to a strong start.

Please turn to **slide 7**.

Slide 7 - Strong Renewal Rates + New Business = ARR Growth

Annual reoccurring revenue, or ARR, grew 16%, in Q1 compared to last year. ARR is driven by our ability to maintain and grow the dollars we receive from existing customers and through new sales.

Retention and renewal rates within the quarter were affected by our decision to support our K-12 customers as they dealt with the impact of COVID-19. Because schools are dealing with very disruptive changes to the way they educate and administer, we made the decision to leave licenses on for customers even as license periods came to an end, and not to push customers to pay immediately. Reported retention and renewal rates may be effected during 2020 by these actions we are taking to support schools in response to the pandemic. For example, we could have higher than normal retention rates, because we aren't turning schools off at their license end date, and lower than normal renewal rates, because we aren't requesting immediate payment. Over time we expect this to normalize.

Please turn to **slide 8** and I will talk about how we are supporting learning for our customers in this time of change.

Slide 8 - Learn From Home Program

As John mentioned, the speed with which schools were closed and forced to move to remote learning was incredible and not something they were equipped for. We understood this would be a difficult transition for our customers and moved quickly to support them. On March 13th, we announced a program called Learn From Home, through which every existing customer could receive a free unlimited site license to any of our curriculum products and our Educator Professional Development platform, Lexia Academy, until the end of this school year. To maximize impact, we defined customer broadly to include any district where we have a presence, no matter how big the district or how small our presence and the response was terrific.   Please turn to **slide 9.**

Slide 9 - Learn From Home Response

As you can see on this slide, since its introduction seven weeks ago approximately 9,600 schools took advantage of this free offer and either upgraded to site licenses from seat licenses, or began their relationship with us with a site license through the Learn From Home program. To put the number of schools in perspective, this brings us to more than triple the number of whole school site licenses we were supporting before this crisis began.

Within these schools we have seen approximately 2.8 million student accounts being created and over 800 thousand students already using these licenses. That's 800 thousand children where home access to learning through our solutions is being made possible through the program. And, the students who are using Core5 from home are showing a 60% increase in progress in terms of activities completed. We are partnering with schools to continue to maximize access to our programs and support student learning. Next **slide please.**

Slide 10 - Support for Schools Impacted

The effort to stand up and support this program was significant. During March and early April, we reached out to every customer with a formal offer, and set up landing pages for them to apply. We began to post to social media sites and sent out emails with information to support parents, as well as teachers, as students moved to learning from home. And we set up new resource pages, including making all of our skill builders, the thousands of worksheets for students that are usually only available to a teacher through myLexia, more accessible to teachers, and even available directly to parents, for home use. It has been particularly encouraging to see the teacher engagement with our solutions has actually grown in this crisis, as they have been able to rely on the data and information provided through myLexia to understand the progress of their students and the areas where they need support.

This support has been critically important to the success of the program.

Next **slide please**

Slide 11 - Building Strong Relationships

Offering free licenses to customers is relatively easy. Supporting them in a way that provides real value to schools and their learners is extraordinarily difficult. I believe we are setting the standard for schools during this crisis and enhancing our reputation in the marketplace, as a result. In fact, Newark, New Jersey on its school district's website, added a thank you to Lexia for supporting them through the *Learn From Home* program.

Please turn to **slide 12**.

Slide 12 - Learn From Home Expansion Opportunity

Ultimately, we'd like to continue our new or expanded relationship with these customers. As we have seen over the years, and talked about a number of times, our single biggest growth opportunity is to expand in the schools and districts where we already have a presence. Today we are used in districts that represent approximately 48% of the total U.S. public school population. Currently, we serve approximately 11% of students, with the other 37% of students creating the expansion opportunity as we either move schools from seat licenses to whole school site licenses, or expand into other schools in a district.

Historically, we have leveraged our demonstrated efficacy with students we serve in a district to drive expansion opportunities. Now, in addition to this information, we have 9,600 schools that have participated in the Learn From Home program in either an expanded or new relationship. We are very focused on this initiative. Please turn to **slide 13.**

Slide 13 - Federal Funding to Support Schools

Another factor that can support growth this year is the increased funding provided through the Department of Education as part of the CARES Act. Through the CARES Act, over $13 billion is being distributed to states through Title I formulas. This is in addition to the approximately $14 billion that had already been delivered to states through their annual Title I allocation in the fall of 2019 and we expect will occur again in the Fall of 2020. According to the Act, these funds must be spent by states within a year or returned to the Department of Education. In many cases these funds may be used to replace decreased funding at the state and local levels as tax revenues shrink or are deferred. But we do expect there will be funding available for our solutions, especially as districts look to enhance their remote learning capabilities in response to the pandemic. Please turn to the next **slide**.

Slide 14 - Positioned Well for the Future

Overall we remain optimistic about the year despite all of the issues created for our schools by COVID-19. More than ever, schools are looking for solutions that deliver personalized learning, give teachers the data they need to inform instruction and can support learning in a virtual environment.

Texas, for one, looks very promising. Especially for PowerUp, as part of the Texas secondary school literacy adoption program that began this year.

Outside of Texas we expect net new business to be more difficult this year because of the impact of COVID-19, as customers are less likely to have the time or the inclination to try something new as they deal with the issues confronting their schools. So the best opportunities are likely to be in expanding our existing districts. We are fortunate to have a broad, nationwide presence with significant expansion opportunities in our current customer base.

Looking forward, as we emerge from this crisis, we fully expect that our solutions will be better positioned than ever before. Why will school districts choose our programs over others? As educators address the learning gap that has occurred during this time of transition and school closures they will need programs and partners that have a proven track record for accelerating learning. Research has shown that our solutions can close the literacy gap, and this will be a critical need this coming Summer and Fall. Our blended learning solutions adapt well to supporting home learning, as students continue to be able to work in our programs, while teachers have real time access to the results to drive instruction and feedback. We believe, and have witnessed during the crisis, that maintaining the personal connection between the student and their teacher is critical. We will do more to support this environment, especially because we know schools are already looking to improve and expand their contingency planning for times like this, which, for some, could come again this Fall.

Our proven ability to provide great outcomes for learners, whether they are in their school or at home, will be especially important if, as we expect, school budgets next year come under pressure as a result of decreased local tax revenues. Because, now more than ever, they can see our solutions work.

Please turn to **slide 15.**

Slide 15 - Rosetta Stone English Update

We announced on the year end call in March, that our new K-6 emergent bilingual program, Rosetta Stone English, had successfully entered its beta phase. As a reminder, emergent bilinguals are the fastest growing student population today, expected to represent 25% of all students in 2025. We introduced the program in approximately 30 schools, with over 2,000 students in eight states, including California, Texas, Florida and North Carolina. In many cases, as schools closed, our beta program was cut short. We continue to support some schools in remote learning, and actually added a large charter school system to the beta after they closed their physical locations.

Fortunately, even with the disruption, we were able to collect sufficient data samples in the key areas we were looking to test, to allow us to move forward with our planned commercialization this summer for the 2020/2021 school year. We are excited to add this new solution to our K-12 portfolio later this year.

And with that, I would now like to turn the call over to Matt to update you on our Language businesses.

Matt Hulett – Co-President

Thank you Nick. Please turn to **slide 16.**

Slide 16 - Consumer Language Segment Financial Overview

We had a terrific start to the year in our Consumer Language business driven by the increased value we are providing learners, and more recently, a desire among many to use their time at home during the pandemic to learn a new language. Bookings in Consumer Language in Q1 were $22.6 million, a 42% increase over the first quarter of 2019.

Consumer revenue grew 5% in the quarter to $16.1 million. Revenue growth naturally lags bookings growth. This effect increased in Q1 because a large portion of our bookings were from our Lifetime product where we recognize revenue over two years. More on this in a moment.

Please turn to slide 17.

Slide 17 - Enterprise and Education Segment Financial Overview

Enterprise and Education bookings in Q1 were $5.5 million, a decrease of $2.1 million. The decrease was driven entirely by lower bookings in the Enterprise portion of the segment, including a $550 thousand de-booking of a sale from last year that the customer cancelled in Q1 2020 because it is winding down its operations. The bookings for the K12 Education Language portion of this segment were flat to the prior year.

E&E segment revenues were $13.6 million, a decrease of 6% versus Q1 of 2019, reflecting the lower Enterprise bookings.

As the most economically sensitive part of our company, we expect the Enterprise Language portion of this segment to be negatively affected by the dramatic impact on businesses of the COVID-19 crisis, and the international response to it.

In many ways our Enterprise customers look at language learning as critical support for the way in which they conduct their work. But in other cases, language learning is viewed as an employee benefit. In this environment we expect renewals for these customers to come under pressure. We also expect new sales to be more difficult with corporate learning budgets under pressure and HR teams' focus diverted to supporting new work dynamics in their teams.

Please turn to **slide 18** and we will take a closer look at the performance in Consumer Language.

Slide 18 - Consumer Performance

As we said during the year end call, Consumer Language was off to a strong start, even before we began to see any significant uplift from people wanting to learn a language while sheltering at home. Remember that the World Health Organization didn't declare COVID-19 a pandemic until March 11th, almost halfway through the last month of the quarter. The improvement we were seeing has been driven by our Lifetime product which is attractive to a distinct customer segment that wants to commit to learning a new language, but is put off by finite subscription offers that are at odds with the investment in time they know will be required.

You will recall that in February we significantly upgraded our long-term subscription offerings. For the first time, for all subscriptions 12 months and longer, including Lifetime, learners have access to all of the 25 languages in our catalog with a single purchase. We call this Rosetta Stone Unlimited. This has significant perceived value for learners, even though, based on our experience, few learners purchase more than one language over time.

We did this because, as the price leader in the market, the more value we can add to our products to drive additional sales the better off we will be. At a typical price of $189 to $199 paid upfront, the product is very attractive for us even relative to the LTV of other SKUs.

Sales of these Lifetime subscriptions drove an increase in the average initial sales price from $96 in the first quarter of 2019 and $119 in the fourth quarter of 2019, to $134 in the first quarter this year.

North American direct to consumer and global app store net LTV added grew 25% over Q1 2019 and, because of Lifetime sales, significantly more of this LTV was paid upfront. This is what makes our Consumer Language business so attractive - the ability to earn a meaningful positive cash return on our marketing costs almost immediately. Because we sell a learning product, we don't keep subscribers as long as SaaS-based consumer companies in some other areas. But because our offering has high perceived value, we are able to realize significant payment up front, rather than through monthly subscriptions over an extended period of time.

Slide 19 - Response to COVID-19

Turning to **slide 19**, while Q1 was off to a good start, we clearly saw the impact of changed behavior related to shelter at home orders as we went through March.

In response to this, we made a decision very early to support the families affected by school closures by providing free three month subscriptions to any child in school. Absolutely no strings attached. All a parent had to do was enter their email and the name of their child's school.

The response has been tremendous. At this point nearly 350,000 thousand parents have signed their children up for the program. And while we can be certain there has been some abuse of the program, our daily sales tracking would tell us it has not been significant. We are thrilled to be supporting these kids and their families during this time.

We are also pleased with the wonderful press the program has generated. As shown on the slide, we have had prominent mentions on *The Today Show, CNN* and the *BBC*, and in *People Magazine*, *USA Today*, *Forbes* and *Oprah Magazine* and dozens of other publications. In fact, so far this year we have generated over two billion media impressions.

This is helping us to achieve one of our main goals in the Consumer business this year - to make our brand relevant again, not just well known. As I have said before, our biggest competition in the United States language market is the fact that many people don't know we have a digital product. Being prominently in the public eye with our offering for kids, and all of the other media we have garnered as publications have generated what to do in your time at home lists, has been a big help in re-introducing our iconic-brand, that we believe will provide lasting benefits.

Please turn to **slide 20.**

Slide 20 - Continued Product Innovation

In late March, we introduced another service for our Consumer Language subscribers to add value to our offerings. For a limited time, we announced that we would provide unlimited group tutoring to any paid subscriber. We did this both to support our learners and to begin to test more fully the use of video-based language instruction as a supplement to our core software offering.

Like Nick in our K-12 business, I believe that the best educational results come from when you blend what software and a human each do best. Allowing software to support the learning of rules and repetitive tasks that is required in learning a new language, while a tutor provides the tailored support and confidence building that is so important to success.

In Q2, we have begun to introduce new product offerings that lean into our strategy of combining the best of software with access to human instruction, what we refer to as adaptive blended learning. Our approach, leveraging Rosetta Stone's pioneering digital tutoring technology and operating infrastructure can be a unique competitive advantage versus software-only solutions. We believe we could see an increased demand for digital only solutions, including online tutoring, especially since offline schools are literally not available to learners around the world. We are proceeding carefully in order to understand what is most appealing to learners and will evolve our offering as we receive feedback.

While our Consumer Language business is being helped at the moment by a desire among people to put the additional time they have at home to good use, I believe we can benefit from this period over the long term. This is an opportunity to reshape the perception of Rosetta Stone among customers from the well known, but CD box-based, language company, to the most innovative, responsive language learning company in the marketplace.

In the meantime, we are very happy with the start of the year in our Consumer Language business and are excited to continue to introduce new innovations to build on the incredible value we offer learners.

With that let me turn it over to John to discuss guidance.

John Hass - CEO

Thanks Matt. Please turn to **slide 21**.

Slide 21 - Factors Impacting Guidance

I want to walk you through the factors impacting our guidance, almost all of which are related to COVID-19. Bottom line, since March, forecasting the business through this time has become more uncertain. Consequently, while unlike many others, we are continuing to provide guidance, we have introduced or broadened existing guidance ranges to better take into account the additional uncertainties we are seeing, in some cases to the upside.

Before walking through the factors impacting each segment, it is important to reiterate a few things that benefit us across the company during this unprecedented time.

First, we were able to quickly move all of our employees to working from home. We did this in the middle of March and the team has adjusted exceptionally well.

Secondly, all of our products can be sold, delivered and used remotely, including from home, and with full support for both the learner and their teacher in K-12, or their administrator in K-12 or in Enterprise. These aspects help us tremendously right now. Now let me walk through the key aspects we see influencing each segment this year.

The risks in K-12 include the fact that, as Nick said, we expect creating new bookings from new customers will be more difficult this year, as schools and districts deal with the disruption and focus on solutions already in place and the expectation that budgets could be cut in the future.

And while we expect renewals to be strong, payment in some cases may be delayed. We saw this in the first quarter as schools dealt with adapting to working from home.

On the positive side, as I said, we expect our underlying renewal rate when the year is complete, will again be strong as customers lean into what they know. We also believe there is significant opportunity for growth within this existing customer base, especially as schools look to broaden their contingency planning options in the event school closures continue into the Fall. In some cases we anticipate this will be supported by the relationships and goodwill we have built through our Learn From Home program. It may also be helped by the incremental funding provided by the Federal Government through the CARES Act. Overall, we are fortunate to have a broad customer base and the marketing, sales and customer success organizations to support them in a time when scale and a large installed base matters.

Finally, we also expect Texas will be a positive for us this year. In some cases, because Texas is an eight year adoption, this will include multi-year deals that are paid upfront. While this will support bookings and cash in 2020, the impact of multi-year deals on revenues will be smaller.

In Enterprise Language, we believe our offering, because of the efficiency of our blend of software and online tutoring, is well positioned in a relative sense to those companies that focus on offline tutoring solutions. That said, the severe economic recession we are already in will hurt our Enterprise business in the interim. Like most other business service offerings, Enterprise Language will be affected by the disruption impacting organizations globally. We expect this will depress both new and renewal sales.

In Consumer Language, the underlying risk is an economic downturn that is prolonged, and which causes consumer discretionary spending to decrease meaningfully. In addition, on a GAAP basis, the success of our Lifetime product has meant that relatively less of the bookings we realize in 2020 will be recorded as revenues within the year. Lifetime revenues not recognized this year, will have a positive effect on 2021 and 2022 revenues.

On the positive side, and there are a number of things that make us optimistic, the amount of execution work that we have done to position the Consumer business in a place where we can once again play offense was largely complete late last year. We saw terrific acceleration in the business in Q4 and that continued in Q1; this impact was being felt even before the effects of COVID-19 in the U.S. In addition, the strength of our brand is an asset that we have been better leveraging which enables us to be more top-of-mind for consumers. Our 97% brand awareness is an asset that has been helpful for our business as consumers look for activities to occupy their time. In addition, since we have been extremely efficient on faster marketing payback channels, we can better manage our variable costs which are especially important in a challenging macroeconomic cycle. In the meantime, we continue to benefit from consumers' desires to learn a language from home and the improved value we are providing through products like our Unlimited Lifetime offerg.

On balance, we remain optimistic about the outlook in 2020 for Literacy and the K-12 portion of our E&E segment, as well as Consumer Language. Please turn to **slide 22.**

Slide 22 - Guidance

Turning to guidance and starting with revenue, we now expect consolidated revenue for the year to be $186 to $194 million, down slightly at the high end and with a wider range from our previous guidance of $189 to $195 million.

Let me unpack that, first with Literacy revenue, where we are maintaining the high end at $72 million, with a low end now of $69 million - down slightly from our prior low-end of $70 million - reflecting the uncertainty, particularly around new business bookings, that I just discussed. To be clear, this is not yet evident in our pipeline, but we believe it is appropriate to be more conservative. This corresponds to a full year Literacy bookings growth rate of 25% at the high end - no change from our prior guidance - but a low end growth rate of 18%, down from 20% previously, again on uncertainty around new bookings growth.

Turning to our Language business, the further pressure we now see in the Enterprise portion of E&E is expected to be partially offset by strength in Consumer. For our E&E segment, we now expect full year revenue to be a range of $50 to $53 million - down from our prior guidance of $53 to $55 million - on bookings of $41 to $46 million - down from our prior guidance of $52 to $54 million. As I noted, we believe the Enterprise portion of our E&E segment is the most vulnerable part of our business to impacts from the COVID-19 pandemic, and so right now it is the only business we see having the potential for meaningful dollar bookings and revenue reduction relative to our prior outlook.

In Consumer, on the other hand, we are raising our full year revenue guidance to a range of $67 to $69 million, up by $1 million on both ends from our prior guidance on raised guidance for full year Consumer bookings of $75 to $78 million, up from $67 to $69 million previously - an increase of $8.5 million at the midpoint, which translates to 15% growth year-over-year. We are continuing to see stronger than originally planned Consumer performance in Q2, but aren't ready to predict that it will continue in the second half of the year.

As Matt noted, the stronger consumer demand we are seeing is primarily for our Lifetime subscriptions, which makes the lag between bookings and revenue growth longer. We also expect to see increased sales and marketing spend this year in Consumer Language as we lean into the opportunity to drive bookings and build brand relevance. While we expect most of this spend will have a relatively fast payback on a cash basis, for GAAP it will be expensed as incurred, while revenue will be recognized over as much as two years in the case of our 24-month and lifetime products.

Turning to profitability, we are improving our guidance for full year net loss to a loss of $22 to $24 million, from our prior guidance of a loss of $25 to $27 million. We are also raising our guidance for full year adjusted EBITDA to approximately $5 to $8 million - up from $3 to $5 million previously - and raising the high end of our guidance for operating cash flow, which is now expected to be $14 to $18 million, up from $14 to $16 million.

The reason why the higher expected profitability we are now guiding to does not fully show up in our guidance for operating cash flow is due to an assumption that we could see slower collections of accounts receivable, either because we proactively offer our customers more time to pay, or they simply pay slower than normal. We continue to expect capital expenditures to be approximately $17 million and that we will be approximately cash flow breakeven for the year. As we reflect the current uncertainty in our bookings and revenue outlook, we will continue to be mindful of our expenses as the year progresses. Please turn to **slide 23.**

Slide 23 - Q2 Guidance

Given the general level of uncertainty, we have decided temporarily to provide guidance for the quarter we are in, in addition to the full year. We hope this provides a little more clarity.

We continue to see strong performance in Q2 in Consumer Language. We also expect to see year-over-year growth in our K-12 Literacy segment. On the downside, we expect weakness in the Enterprise portion of the E&E segment.

On a consolidated basis, we expect total Q2 revenue of approximately $46 to $48 million, flat to up approximately 5% from last year, a GAAP net loss of approximately $4 million and positive $2 to $3 million in adjusted EBITDA.

Due to our typical first half use of cash, we will again have seasonal borrowings. It is worth reminding everyone that earlier this year we increased the size of our credit facility by 67% to $25 million. While we don’t expect to need the full amount this year, it is helpful to have it available in these uncertain times. As in 2019, we expect to end the year with no debt. Please turn to slide **24.**

Slide 24 - Wrap-Up

We had a great start to the year, with K12 and Consumer Language demonstrating real strength. There is tremendous opportunity in both businesses and we look forward to sharing our progress as the year moves forward and we learn more.

As you know, we believe in the power of adaptive, blended learning. Bringing the best of software and human intelligence together to drive learning. In the response to the pandemic we are seeing acceptance of this approach accelerating in all areas of our business. The belief that software can be an effective method for learning, especially when coupled with human instruction, whether from a teacher or a tutor, in almost all cases today delivered online, but which, in the case of the K12 teacher, will one day soon we hope return to the classroom with a greater appreciation for its importance. In either case, our strategic intent is to provide both the adaptive, personalized software to the learner and the data and information to empower the human instruction of the teacher or tutor.

Ultimately, it is critical that we do everything we can to leave this crisis with a K-12 business that is stronger and more important to its customers, and a Language business that is again viewed as a leader in providing innovative solutions to learners looking to learn a new language. That determination is motivating our decisions today and will continue to do so throughout this crisis. If we do this well, I believe that we will look back at the 60 plus years of Rosetta Stone and Lexia's combined history as preparation for the future of learning. A future that is rapidly becoming today's reality.

With that, operator could you please open the line to questions.