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PRESENTATION

Frank Milano

Good afternoon, and welcome to the Rosetta Stone Third Quarter 2017 Earnings Conference Call. I'm joined today by our Chairman, President and Chief Executive Officer, John Hass; and our Chief Financial Officer, Tom Pierno. John will discuss the current state of the repositioning of the business and its strategic direction going forward and briefly discuss the financial results for the quarter. We will then open the call to questions.

I want to note that we have posted prepared remarks containing more detailed financial information and analysis to our Investor Relations website to provide shareholders and analysts more detail to help understand and analyze our results in conjunction with our earnings release, conference call and supplemental earning slides. These additional prepared remarks will not be read on this conference call.

The earnings release went out after the market close and is available on our website at www.rosettastone.com. In addition, we have posted a slide presentation that accompanies today's call to our website.

In keeping with the safe harbor statement on Slide 2, I will remind everyone that today's presentation contains forward-looking statements within the meaning of the applicable securities laws. Forward-looking statements can be identified by nonhistorical statements that often include words such as believes, expects, estimates or similar words as well as future-looking words such as will, should or may. These statements may include, but are not limited to, statements related to our business strategy, financial guidance or projections related to our business and other plans, objectives and related estimates and assumptions. Forward-looking statements is neither a prediction nor a guarantee of future events or circumstances and, 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. We expressly disclaim any obligation to update or revise any forward-looking statements except as required by law. You are encouraged to read our cautionary statements, risks and uncertainties more fully described in the company's filings with the SEC, including those described under the sections entitled Risk Factors in the company's most recent periodic filings.

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 the 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 of our financial reporting before making any investment decision.

I will now turn the call over to John.

Arthur Hass - *Rosetta Stone Inc. - Chairman, CEO & President*

Thank you, Frank, and good afternoon, everyone. I look forward to walking you through a summary of our third quarter results. But as this is our last earnings call during 2017, we wanted to focus on our progress in transforming the Rosetta Stone and the opportunities we see going forward. To help in doing this, I will walk through a slide presentation that is shared through our webcast. We have also posted a presentation to our website. As Frank said, we have separately posted a detailed discussion of our third quarter and year-to-date financial results in a format I'd expect you will find useful.

Let me start by asking you to turn to Slide 3 in the presentation. To understand the direction of Rosetta Stone today, it is useful to remember where we were just as few short years ago. In 2014, the year before we began to reposition the business, at almost 70% of revenues, Rosetta Stone was predominately a consumer language business driven by heavier and heavier discounting to maintain unit sales in order to produce revenues, the majority of which were nonrecurring.

We were also overly complicated and expense-burdened. Since 2014, we have done many things to restructure and change the nature of our business that, as stated on Slide 4, all of our efforts have been in pursuit of a singular financial objective: to build a profitable and growing recurring revenue business, as simple as that.

To achieve this, turning to Slide 5, our first step was to significantly reduce the expense base of the company. At those of you that's ever followed these calls over the last few years now, we have been successful in doing so, taking over $100 million of expenses out of the business from 2014 to 2016 to reductions of 25% of one every major expense category. These reductions have continued, and this quarter marks our 11th consecutive quarter of year-over-year operating expense improvement, putting us on track to taking out total expenses of at least $115 million by the end of this year versus 2014. So we've been getting our costs under control. As importantly, while we were making these reductions, we were investing heavily in Lexia, a business that presents a wonderful ongoing recurring growth opportunity. In order to realize Lexia's potential, we have been building out a full suite of leading literacy products and the direct sales force to sell them, more than doubling the headcount of this business to do so.

I have been asked why we have so much confidence in this opportunity. My answer is that our conviction is driven by many things, but it rests on the firm foundation of learner need and our unquestioned ability to serve that need extraordinarily well.

As shown on Slide 6, Lexia serves a huge segment. There are approximately 100,000 public schools in the United States. And the U.S. K-12 education marketplace is estimated to be $670 billion in size, with e-learning taking a growing portion. And we are fighting our way in as we already have a very large presence actively serving over 12,000 schools in the United States alone and working with over 3 million students on an annual basis.

And our focus on literacy serves the area of greatest need. 2/3 of U.S. students in the fourth and eighth grades are nonproficient readers. And sadly, reading proficiency is the best predictor of academic success as struggling readers account for 60% of students who drop out or fail to graduate on time. None of these matters, however unless we can meet the needs of schools and their students. And our adaptive assessment in personalized instruction programs do this extraordinarily well.

As shown on Slide 7, Core5, our curriculum product for children of all abilities in kindergarten through fifth grade has extensive third-party published efficacy studies, the gold standard in research. One demonstration of that efficacy is a national analysis completed this year of a geographically and ethnically representative sample of over 700,000 students that used Core5 as prescribed, where the number of students reading 1 or more levels below grade level fell from 53% at the beginning of the year to approximately 11% at the end of the year.

Lexia's ability to significantly improve reading retainment can produce life-changing results for students, their schools and communities, providing a high return on future time [and no] scarce educational resource and the monetary investment of our schools. How does the efficacy of our solutions for learners translate into results?

First, as shown on Slide 8, Lexia's retension rates are extraordinarily high that ranged from 90% to 96% over the last year in North America. When Lexia wins a customer, it doesn't tend to lose them. Critically, Lexia's strong customer retention, ability to expand within the existing schools and districts and a growing new customer base has led to strong growth in Lexia's annual recurring revenue, which has more than doubled since the beginning of 2015, reaching $42 million by the end of the third quarter.

So our investment in Lexia is working. How are we going to sustain our strong growth? First, on Slide 9, we are investing in the direct sales force and the resources to make this team successful and productive. We announced our switch to a primarily direct sales force towards the end of 2015. Consequently, most of Lexia's salespeople have been with us 2 years or less and, in many cases, are in their first full school selling season with Lexia. This is important because experience shows us that salespeople become more productive the longer they are with us.

On Slide 9, we lay out the average production of Lexia salespeople that have been with us from 1 to 2 years and the average production of those people that have been with us less than a year, indexed to the average production of a salesperson that has been here 2 years or more. You can see that the average salesperson who has been with us between 1 and 2 years is expected to produce this year almost twice what the average salesperson is expected to produce who has been with us less than a year and that these salespeople continue to become more productive with time. To put this in context, today, almost 60% of our salespeople have been with us less than 2 years. So there is an opportunity as the team matures. In the interim, the sales force as a whole is already very productive as the average expected production this year is approximately $825,000 each.

The other way we will drive growth is through the completion of our literacy curriculum and assessment portfolio. On Slide 10, Core5 serves the largest portion of the K-12 literacy category, kindergarten through fifth-grade literacy instruction. And we expect Core5 will remain the primary driver of our business going forward.

But there's a large opportunity for us outside of K-5 curriculum. In 2016, we finished the introduction of our literacy assessment program, RAPID, which is used by schools 3 times a year as a form of assessment and screener. In early 2018, we will expand our literacy portfolio with the introduction of a brand-new program for adolescents in grades 6 through 12. The number of those eighth-grade students I talked about earlier who are still reading below grade level and are at great risk, this product will serve them. With this introduction, I believe we will have the best portfolio of reading curriculum and assessment products in the marketplace, providing our customers a full solution for their literacy needs in Lexia cross-sell and upsell opportunities not previously available.

The investment we have been making in Lexia produced strong third quarter results as shown on Slide 11. Revenues grew 26% in the third quarter. And sales in the seasonally strong back-to-school quarter representing approximately 50% of expected sales this year grew 39% versus the third quarter of 2016. A portion of this was the movement of renewals from the second to the third quarter that we said you should expect when we reported Q2 results. Overall, year-to-date sales growth was a healthy 24% through September, which is on track with our multiyear outlook. In fact, with the completion of the third quarter, we have already surpassed total sales for all of last year.

In September, Lexia also post the largest deal in its history, a 2.3 million state-level contract representing approximately 190 schools.

Lexia's contribution in the third quarter after direct expenses, including research and development but before corporate overhead, was positive $600,000 compared to negative $400,000 in the same period last year. Driven by revenue growth, it was partially offset by higher expenses related to the investments we have been making. Finally, for the second year in a row, the THE Journal's Readers' Choice Awards, which is determined by education professionals, recognized Lexia as a top school technology. This year, in an open-ended question, Core5 was voted the platinum winner with top technology implemented by schools in the past year, ahead of second-place finisher, Google Chromebooks. Core5 was also named the best reading program and the best adaptive personalized learning tool.

So why do we continue to focus attention and capital on Lexia? To summarize, on Slide 12, because it is a phenomenal investment opportunity. We have superior products aligned to serve a big category with great need and room to grow as we increase the productivity of our sales force and the lifetime value of our customers through a broader portfolio of literacy products. And as I will discuss, we expect our growth will increasingly produce the scale to better leverage our expense base and produce substantial profitability over the next few years.

Moving to our language business. We see meaningful opportunities here, too. As you can see on Slide 13, the digital language instruction category is large and growing, expected to reach $4.6 billion by 2020 as it continues to take share from a $50 billion overall worldwide language marketplace.

The marketplace where people learn in English represents by far the single largest language opportunity, with most of these people living outside the U.S.

To position ourselves for this opportunity, we first had to restructure and reposition our language businesses. An important step, as shown on Slide 14, is to revitalize our product offering. In enterprise, this meant growing together all of our content in a single place and offering the appropriate learner and administrator tools for a world-class product. In consumer, this requires rebuilding our mobile offering where most growth is expected and where innovation will continue to be focused in the future.

Our E&E business has been a SaaS business for a number of years already, but imperative here has been to simplify and improve the profitability of this business. To do this, we have closed offices and reduced the direct sales force in geographies and in customer lines that did not have sufficient margins. As shown on Slide 15, while this has created a smaller business, contribution in the trailing 12 months ended September 2017 increased 27% from the same period in 2015 prior to the actions I just described. Improved profitability has been and will continue to be our goal.

On Slide 16, we have laid out the financial results for the E&E segment in the third quarter. Sales in the quarter declined by $4.4 million in total and $3.6 million in our ongoing direct sales geographies. This comparison is primarily the result of 2 factors. First, the year-over-year comparison was impacted by the absence of 2 large multiyear deals totaling approximately $2 million, signed in the third quarter 2016 but were not available for renewal this year. In addition, we expect a meaningful portion of this decline will be timing within the second half of the year as a number of expected renewals and new deals move to the fourth quarter. Total revenues in the business was $16.5 million compared to $18.3 million in the period last year, primarily due to the rightsizing actions over the last few years, while contribution before shared language R&D was $7.2 million compared to $8.1 million in the same period last year.

In Consumer, our efforts have been focused on increasing subscription-based sales and on our mobile product capability. In fact, we are being recognized for our mobile efforts. The Mobile UX Awards honored us with an award for best productivity in utilities app on the iOS platform. As a result, as shown on Slide 17, CD sales have fallen from almost 70% in total unit sales in 2014 to 31% through the third quarter this year. We expect our remaining CD sales to come through an end shortly as most remaining sales are through retail partners who will be switching to subscription models over the rest of this year and early next year.

Broadening our subscription portfolio is one way we have done this. Over the last year, we have added, for the first time in our history, shorter-term subscriptions to our portfolio of offerings. On Slide 18, we lay out more clearly the shift in consumers sales from products that have no or a low likelihood of renewing, including TVs and digital downloads and subscriptions of more than a year to subscription sales with initial terms of 1 year or less. As you can see on the left-hand side, shorter-term subscription sales grew from almost nothing to the third quarter of 2016 to 28% of unit sales so far this year. By offering shorter subscriptions of a lower initial cost, we broadened the funnel, opening us up to people who want to learn what -- at Rosetta Stone, but historically have not been willing to pay a higher upfront price. As shown on the right-hand side, the bigger funnel is allowing us to make our working marketing dollars go further, lifting expected lifetime value to cost of acquisition by approximately 40% from 1.4x in the third quarter last year to 2.0x in the third quarter this year.

Let me walk you through in more detail how this is happening, and why it is important for you to understand. As you can see on the left-hand side at Slide 19, after the introduction of a broader portfolio of initial subscription terms at the end of 2016, we have been able to stabilize our expected lifetime bookings per unit this year in the direct-to-consumer portion of our business. When I refer to lifetime bookings, I'm referring to the value of both the initial sale and the expected future renewals. To put this in context, you might remember that quarter-after-quarter price decreases in the Consumer business to drive unit volume used to be the norm. We will still price promotionally during peak seasonal periods, but I believe the overall stability of our lifetime value per unit has improved. On the right-hand side of Slide 19, you can see that new unit sales on our direct-to-consumer business have increased each quarter this year relative to the same quarter last year even as we decreased marketing spend. We currently expect a decrease in Q4 2017 unit sales over last year as we are managing our marketing spend tightly. But these 2 factors, the recent stability in lifetime unit economics and modestly increasing unit sales, drive what you would expect.

As shown on Slide 20, improving overall economic value in our DTC business each quarter this year versus the same quarter last year is measured by the difference between LTV created and the cost to create that LTV. In the third quarter, this was driven by both a small increase in year-over-year LTV created and a substantial reduction in our cost of acquisition.

Now we are deferring a greater portion of the realization of the benefit of our sales both on a GAAP basis, as we switch from perpetual to subscription products; and in an economic basis, as we switch from longer-term to shorter-term products. We wanted to provide you more visibility as these dynamics will continue to be important in 2018, it's a substantial portion of our business in 2017, but still perpetual and still based on the sale of longer-term subscriptions. But as we go through this transition, I want you to know that I am happy with the performance of the Consumer segment, and I like the trade of deferring realizations in order to generate similar total value at a lower cost, along with the added benefits of greater stability and predictability. The next step is to find ways to scale the business as the economics improve.

On Slide 21, you can see that, as expected, Consumer revenues declined 14% on a continued shift to subscription sales, which defers revenue recognition from perpetual sales where revenue is recognized at the time of sale. Sales declined 15%, excluding the $1.5 million payment and SOURCENEXT related to the long-term licensing deal signed earlier this year. This decrease was the result of the significant increase in short-term subscription sales, which pushed out the realization of a portion of the LTV of these customers, and lower orders from our retail partners as they prepared for the change to a subscription in a box model. Contribution from the Consumer business was down about $500,000 as we took a $1.9 million noncash charge for the return of CD boxes at a number of our retail partners as we prepare for the box change. Before this charge, contribution would have increased approximately $1.4 million year-over-year, reflecting decreased marketing cost. Finally, in Consumer, we were excited to formally launch our new co-branded partnership with Univision during the quarter.

Moving to Slide 22. With a restructured and refocused business and a big opportunity of primarily English language learners where our iconic American brand has resonance, I see a larger opportunity for us in the language segments than we are currently realizing. We are focused on serving genuine needs whether the learner is a child in a classroom, an employee in the office or a learner at home. The language business will soon be 100% SaaS-based, and we see growth opportunities with partnerships and in the global English learning category as a whole.

Our consolidated financial results are shown on slides 23 and 24. Revenues decreased 5% as growth in Lexia was offset by declines at our language businesses driven by the continuing effect of the restructuring and repositioning. Sales overall increased in the quarter, while our loss per share was cut roughly in half driven by a $4.4 million decrease in operating expenses, our 11th consecutive quarterly decrease. The Q3 net loss improved $2.3 million or 41% year-over-year. Adjusted EBITDA was $2.7 million or approximately 6% of revenue, representing an increase of approximately $300,000 from 2016.

Finally, on Slide 24, we ended the quarter with a very strong balance sheet, no debt, and $40.1 million of cash, which equates to approximately $1.76 per share. That cash balance reflected $13.8 million in free cash flow in the third quarter as it continued to emerge as our most important quarter driven by our K-12 businesses. We ended the quarter with just over $150 million of deferred revenue, our highest level ever, with approximately $114 million of debt balance being recognized as revenue over the next 12 months.

As described on Slide 25, our financial outlook for the year has improved. With the strong third quarter behind us, we now expect Lexia sales to be up between 23% and 25%, which is towards the high end of the previously stated range. The revenue guidance for Lexia is also up slightly at just over $43 million. We expect E&E revenue to be closer to $68 million for the year as the delay in sales and somewhat lower bookings will lower revenue recognition this year. We are increasing our revenue expectation for Consumer to approximately $75 million, which is up from between $70 million and $72 million previously. And we now expect total revenues to be in the range of between $184 million and $187 million, which is up from between $182 million and $185 million previously. We are decreasing our expected GAAP net loss to between $10 million and $12 million, which is an improvement from between $13 million and $15 million previously, and we expect positive adjusted EBITDA to now be in the range of between $10 million and $12 million, which is up from between $8 million and $10 million previously. Finally, we still expect cash to be approximately $44 million as cash generation slows in what has become a smaller quarter for us and as we incur cash costs related to our transition to subscription sales in the retail channel.

Before we look ahead, let me level set where we are now. As shown on Slide 26, the Rosetta Stone of today is very different from the Rosetta Stone of 2014. In addition to our reduced cost base, our business mix has changed significantly, with Lexia now accounting for almost 1/4 of our revenues, up from only 4% in 2014 and with K-12 in total quickly becoming our single largest customer base. And our revenue mix is now approaching the 100% subscription-based revenue model. We have more work to do to achieve our objective of being a profitable, growing and recurring revenue business and we are well on our way. Where can this take us?

As shown on Slide 27, by 2020, we expect Lexia to be an $85 million to a $90 million revenue business, which is consistent with our previously stated $100 million sales outlook, constituting over 35% of total revenues with adjusted EBITDA margins of 20% even as we continue to invest in what we expect will be strong future growth. If growth were to slow at some point beyond 2020 and our current investment approach were to change, the business could operate at significantly higher margins than we are projecting here.

On Slide 28, while we currently expect the revenues of our language businesses to be roughly flat on a combined basis, we believe we can improve the profitability of the business significantly with adjusted EBITDA of approximately $45 million or 30% and free cash flow of approximately $38 million or 25%.

On Slide 29, we provide the same outlook on a consolidated basis. We expect to increase adjusted EBITDA to be approximately $35 million and free cash flow to improve to around $30 million by 2020, representing margins of 15% and 13%, respectively. And in keeping with our full year 2017 outlook for $44 million in cash at year-end, we believe we will produce approximately $56 million of incremental cash through year-end 2020, leaving us with almost $5 a share in cash and no debt by the end of that year. While I do not believe the board would allow excess cash to remain idle, this outlook does not assume any return of cash either through dividends or share repurchase.

In summary, on Slide 30, we are changing lives through language and literacy, whether it is giving a kid a chance at success in school and life by helping him read or a company the opportunity to improve their customer relationships through language training. We have the benefit of an iconic language brand and clearly demonstrated category-leading efficacy and literacy. We are rapidly becoming a 100% SaaS recurring revenue business with opportunities for growth across our business lines. And finally, I expect this growth to bring profitability and cash generation as we become the profitable and growing recurring revenue business we set out to be in 2015.

With that, we would be happy to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Alex Paris of Barrington.

Chris Howe

This is Chris Howe sitting in for Alex Paris. I had a few questions, one in regard to the sales efforts for Lexia. Could you perhaps provide some more color on what drove the record bookings? And in follow-up to that, the large transaction that closed for Lexia, how did this come about? And was this a referral? And what's the typical transaction size in terms of number of schools just so I can put it into perspective?

Arthur Hass - *Rosetta Stone Inc. - Chairman, CEO & President*

Chris, it's John. Thank you for your questions. Lexia sales growth -- the third quarter is the most important quarter for all of our K-12 businesses, that's a back-to-school quarter, that's the start of a new fiscal year for a school. We are seeing terrific continuing momentum in that business. And I guess it's reflective of the increasing recognition of the solutions that Lexia provides. The increasing, if you will, maturity of the sales force, which we talked about, which is still relatively new to us, but every day they're in a seat with us is a day better. And I think it's very much reflective of the need to the marketplace. Now we would not expect third quarters to always be that large. There was a shift this year from the second quarter to the third quarter of a business that was originally booked in the second quarter that renewed in the third quarter this year -- it's a business that was originally booked in the second quarter last year that renewed in the third quarter this year, and we expected that. And I think the best way to look at the business is to look at that 24% growth rate year-to-date, which is in line with our full year expectations. And think about that as kind of a very strong normalized growth rate for the year. But growth is being driven by just a very strong business with very strong products. As regards the large single sale invoice, if you will, that is a state that has been a customer of ours in prior years as well. We responded to an RFP for that state.

We were put on the list of companies that can be purchased through that state requisition of funds. We performed well in that last year, we performed much better this year. I believe our performance is the strongest in that state among all of the people that are listed as approved vendors. It's a relationship that we feel very strongly about. And again, I think it's representative of what we can bring to schools and to school districts and to their learnings.

Chris Howe

That's very helpful. And just following up on that, you mentioned the RFP against other companies. Just so I can have a better understanding, what is Lexia's, I guess, moat or significant strength in comparison to its peers in these competitive bidding situations?

Arthur Hass - *Rosetta Stone Inc. - Chairman, CEO & President*

Sure. We think we are priced appropriately, but it's not price. We do not try to be the price leader. At the end of the day, we believe it's efficacy. We believe it's our position as the literacy expert in this space, and we believe it's our ability to go into a school and a district and demonstrate to them that they will have significant improvement in student performance if Core5 is implemented with efficacy and as prescribed in a classroom. And the power then to go back into a district the next year that might have only used it for certain licenses in a school or a school within a district and show them -- and demonstrate to them very clinically the improvement that they saw, the power that gives us to expand our share within a school or expand our share within a district, I think is really one of the great secrets of Lexia and one of the great secrets of our ability to grow and improve the productivity of the sales force is just growth within our existing customer base. At the end of the day, the way you win in K-12 is with a product that looks and demonstrates results, and we believe Lexia does that in the literacy space better than anyone else. And that's the moat that we want to have and the moat that we want to keep.

Operator

(Operator Instructions) The next question is from Bruce Goldfarb of Lake Street Capital Markets.

Bruce Goldfarb

It's Bruce filling in for Eric Martinuzzi. Just a couple of questions. You guys added a new Board of Director, Jessie Woolley-Wilson, on October 16. Is that an indication -- is that going to -- is that -- is this addition tells us of a change about the company's strategic direction?

Arthur Hass - *Rosetta Stone Inc. - Chairman, CEO & President*

Bruce, that's a really good question, and thanks for joining. We lost 3 directors for personal reasons over the last 18 months or so, including 2 that really represented great experience and depth of experience in the K-12 space. And so adding a Director with a great depth in that part of our business was really important to me and to the rest of the board. And so we looked for a Director and honestly believe we found the best possible Director candidate that we could have. Jessie is extraordinarily well known in the K-12 space. She runs a wonderful company herself in the math space, which we kind of look at and think of as the Lexia's math business. She's a very innovative. She's thoughtful. And I think she will add a tremendous amount to the board. And so think about Jesse's addition as a recognition of the fact that our largest customer base as we go into next year is going to be K-12, and having strength on the board in that space is really important.

Bruce Goldfarb

And then, Matt Hulett was announced as President of language on August 8. What changes has he made to accelerate progress at language?

Arthur Hass - *Rosetta Stone Inc. - Chairman, CEO & President*

Yes. No, that's a really good question. I'd say it's a little early. But I think when we next speak to everybody, I am sure that we'll see Matt's stand. Matt been a terrific partner to all of us. I think Matt and Nick Gaehde, who's the President of our literacy business, will be joining us more frequently on these calls going forward and will be spending more time out with the investors as well. I want you to know them both. The real opportunity we have with Matt is not just his terrific background, but the fact that he will be overseeing the language business as a whole that I think our -- the most important thing that we can do for investors is make sure that all of the investment that we spend on your behalf is allocated as well as it can possibly be, whether that's product investment dollars, marketing dollars, et cetera. And Matt's ability now to kind of ground-up look at the language business as a whole, I think is, in a very clinical way, is going to be really helpful in driving that business going forward. Again, I am really very, very happy to see and feel very optimistic about the Consumer business right now, which is a -- it would've been a more difficult statement to have made for over 18 months ago, and we tried to provide some more information about that business on this call than we have previously because I think that's going to be important for the people to understand going forward. And I think that, as an example, is one of the real opportunities Matt has and the team has there, it's to further realize the opportunity we have in that art of the business which, frankly, has had a little less focus over the last couple of years.

Operator

The next question is from Patrick Retzer, a private investor.

Unidentified Shareholder

You've talked about the balance sheet and the strength of the balance sheet with $40 million in cash, no debt, on the way to $44 million by year-end, projected at $100 million in 2020. I heard you touched on how that may be deployed. Can you -- I didn't hear exactly what you said. Can you expand on that a bit?

Arthur Hass - *Rosetta Stone Inc. - Chairman, CEO & President*

Yes. Sure, Pat. And I think the only sworn statement I'd made is I would be -- while we believe we will generate enough cash to leave us with $100 million by the end of 2020 and, no doubt, I would personally be very surprised if that weren't ever to come to pass only because I believe the board and management will be proactive in redeploying that in the way that best serves the interests of shareholders. We have -- actually, we have an open share repurchase authorization. It's somewhat aided. I'm sure we'll be talking to the board about opportunities in the area of share repurchase, in other ways in which that could be deployed, but we're making no commitment at this point. And the other thing to recall with our business and just in terms of timing, and you certainly saw that this year, is it is still a seasonal business. It used to be a fourth quarter business, now it is much more seasonal in the third quarter. We still expect -- I would still expect we'll be a net user of cash in the first half of next year, with strong generation in the last half. And so we'll have to see how that holds together. But we will be -- bottom line, Pat, we'll be good stewards of your capital.

Operator

(Operator Instructions) The next question is from Dan Weston of WestCap Mgmt.

Dan Weston

Just to keep on some previous questions relating to personnel, you guys also made an announcement where you added a couple of professional seasoned veterans to the Lexia team, vis-à-vis Paul Griffin and, I guess, David Rose. John, would you give us a little bit of background, a little more color on who these gentlemen are. They seemed like they had some high-level positions with some of the big boys in the industry and then how the whole relationship kind of evolved where they decided to join Lexia.

Arthur Hass - *Rosetta Stone Inc. - Chairman, CEO & President*

Sure. So maybe just to center on why. So Lexia has really done a wonderful job of building its business, originally, at the classroom level then at the school level and, more recently, at the school in the district level. I would say it has been kind of a guerrilla marketing, if you will. And while we've had a few really important and very satisfying wins at the state level or at the large district level, we believe there is an opportunity for us to further penetrate the large district part of the marketplace and the large urban district part of the marketplace. That is really Paul's background. He's a -- he has been a thought leader and a sales leader in big districts for many, many years now. He was in the midst of retiring from his previous employer. We had the opportunity to bring him in to help us in some of those situations, and we jumped at it. We're really excited to be working with Paul. David comes with a slightly different background. He actually comes out of the Washington, D.C. school district. And if you will, if you think about the fact that we need to be able to open doors and get meetings with the right people, and Paul and other parts of the team can certainly help do that. We believe, going forward, we need to be able to kind of walk through and follow through on that with great depth and understanding of what we can bring to a district. I mean, that's really the role that David will help us play along with other members of that team, it's kind of that follow-through with a district or with a state where we really go in and we talk in detail about what our products can do and the success that they can bring to students.

Dan Weston

Yes, I appreciate that. And I think one of your previous questioners remarked on your addition of Ms. Woolley-Wilson to the board. I know it's just happened, but is there any conversations going on about maybe potential cross-selling between the 2 of your companies?

Arthur Hass - *Rosetta Stone Inc. - Chairman, CEO & President*

Yes. And Jessie hasn't even joined the board yet technically. We have -- the 2 companies have a very good relationship. There are times when there are opportunities where there might be an RFP that asks for both a response in the math space and the literacy space. Certainly, they would be a first call for us in that regard. And I believe we're very well thought of by a [droid] box or a company as well. I wouldn't anticipate that as really important for us going forward. We're certainly not counting on that, we're just happy to have Jessie as a thought leader on our board.

Dan Weston

Very good. And lastly, and maybe I missed it, but did you make any comments relating to the Univision rollout? And if not, can you give us anything you can in terms of how that all is going and how you expected it versus where it is?

Arthur Hass - *Rosetta Stone Inc. - Chairman, CEO & President*

Yes, so it really just began this quarter -- in the last quarter. It is a new brand, it's a Univision-led brand. It takes a little time, which we certainly expected. It takes time to build that brand awareness and build up the opportunities that we see in that partnership. I didn't disclose any details on it. I don't think we really pointed to. I'm not sure we even have the ability to with our partner. But we feel just as strongly as we ever have about the opportunity in the Hispanic space as a whole and couldn't feel more strongly that we have the right partner in Univision as well.

Operator

The next question is from John Lewis of Osmium Partners.

John Hartnett Lewis - *Osmium Partners, LLC - Managing Partner, CIO, and Co-Founder*

Just a couple of quick questions. One, as it relates to increasing the guidance on consumers, does that have anything to do with the partnership? Or can you explain why you guys are feeling a little bit more optimistic on the Consumer side?

Arthur Hass - *Rosetta Stone Inc. - Chairman, CEO & President*

Yes, I mean I think it goes back to a lot of the stuff that I spoke about and that we expect to continue to speak about, which is we went into this year never having sold shorter-term subscriptions, certainly, in any material way. We ran into this year with the uncertainty of continuing this push from perpetual products to subscriptions generally. And so there was a fair degree of uncertainty. And I think what we are finding is that our success in selling a broader array of subscription products has been good or better than we expected. I think we are finding actually a greater ability to monetize leads in the mobile space that we acquired through the various app stores than we have previously been able to as we've kind of leaned into mobile product capability. And I think there's more opportunity there as well. And so I think we're just getting we're getting -- we're becoming a better subscription consumer company than we were, than we knew we could be. And I think that's really what you're seeing driving the improvement on the Consumer side.

John Hartnett Lewis - *Osmium Partners, LLC - Managing Partner, CIO, and Co-Founder*

During the Investor Day, I think you had 1 slide that specifically highlighted all of your capabilities in terms of the platform you are using, in terms of, I think, it was like customer support with Zendesk, about that slide. Do feel like that you have the right tools to be able to accurately -- and it seems like with improving lifetime value and customer acquisition costs, you do. But how do you feel about your infrastructure to really hone and optimize that Consumer business today?

Arthur Hass - *Rosetta Stone Inc. - Chairman, CEO & President*

Yes, I think it's getting better, John. I don't think it's as good as it will be. Honestly, we were a Consumer packaged goods company selling one-off products for 25 years. And so this is a new muscle for us. Again, I think we're getting much better at it. I think we're very good on web. I think we're getting better in mobile, but that can continue to improve. I think we are getting better at understanding our marketing dollars and how well they're working and where to spend those marketing dollars. And I think you've seen that in the fact that we were able to produce in the third quarter just as much LTV as we did in the third quarter of last year in significantly less marketing dollars. And so I would say we're okay, but we plan to get better.

John Hartnett Lewis - *Osmium Partners, LLC - Managing Partner, CIO, and Co-Founder*

Got you, appreciate that. Do you have any other potential partner opportunities along the lines of Univision? I know you probably couldn't comment on them, but how important is that in your strategy for going after China or other large markets in terms of finding a local partner? Can you give any thoughts on where you are there?

Arthur Hass - *Rosetta Stone Inc. - Chairman, CEO & President*

Yes. I probably can't give any color on where we are, what I can say directly to your question is it's very important to our strategy, to the point where the board saw fit to make it part of my compensation longer-term, and Tom's and Sonia's as well. We are focused on that. We believe those opportunities exist. They take time. Even the ones that we have announced took significant time. But we are focused. We believe those opportunities are there, and we'll continue to work on them. And when we have something to announce, we certainly will.

John Hartnett Lewis - *Osmium Partners, LLC - Managing Partner, CIO, and Co-Founder*

Great. My last one is on Lexia. I know you have 2 new products in the marketplace or soon-to-be in the marketplace, that's 6 through 12 in assessments. Can you give us any color on what that will do to your addressable market and when they'll be in the marketplace?

Arthur Hass - *Rosetta Stone Inc. - Chairman, CEO & President*

Sure. So RAPID was completed last year, and is in the marketplace. It is a product that by its nature is very, very sticky, one that is adopted. But because of that, it also takes a little longer to sell. And so schools and districts are a little more reticent to change their assessment provider. And so again, that's just -- I'd say can be a somewhat harder sell. The great news is we have Core5 to lead, and people trust us. The other thing that will be, I think, very helpful is we will be introducing our adolescent literacy product in the beginning of next year, which will target 6 through 12. That creates both -- 2 new opportunities for us. One, we think that is that market, in and of itself, is a very large market for us. It is not the size of the K-5 literacy market course where kids are learning to read, that is when the vast majority of the money is spent in the market, but it is an important market. And we think it's a market that we can serve very, very well. The other thing that's interesting about that market is there is less penetration in the assessment area in 6 through 12. And so we think as our adolescent literacy curriculum product is adopted, we have the opportunity to sell RAPID, the assessment product, into that part of the market space as well. And so it's a really interesting opportunity to take this -- it's going to begin to create a virtuous circle -- cycle, if you will, and provide an entire portfolio of products to districts (inaudible) before. And we think, in a way, that leads the market.

Operator

The next question is from Charles Frumberg of Emancipation.

Charles Iver Frumberg - *Emancipation Capital LLC - Founder, Managing Member, and Portfolio Manager*

Just a quick question, I received an email this week from -- highlighting Alexa Skills just for Amazon. And Rosetta was showed up as one of really only a few, maybe 5, apps that they were -- whatever the word is, advertising or emphasizing. Can you talk about that a little bit? And can you talk about Alexa generally?

Arthur Hass - *Rosetta Stone Inc. - Chairman, CEO & President*

Sure, Charlie. So we -- first of all, they are a very important partner of ours, they're a very important retail partner of ours. We have done some other innovation products with them in the past in terms of being featured on other mobile products of theirs. And we thought it was important to participate with them in this. And we don't see that currently as a large sales opportunity, if you will. To the extent that they feature various Alexa products in the fourth quarter, and we're part of that, that will certainly be helpful. You might have also noticed that they're trying to build a subscription platform through that as well. And they're, I think, a long way from having that to a place where it's a robust market. And so I think in an independent way, this is a large opportunity for us yet, but it maintains a very important relationship with us with certainly the leader in the retail industry.

Charles Iver Frumberg - *Emancipation Capital LLC - Founder, Managing Member, and Portfolio Manager*

Does it give you some cross benefits though, I mean, from -- at least from your marketing teams as getting good housekeeping feel of the global from Amazon? I mean, it does have some -- more than a little traction in the overall market.

Arthur Hass - *Rosetta Stone Inc. - Chairman, CEO & President*

You bet. Yes, absolutely. We have really good relationships with Amazon, with Apple, with Google, and we're happy with all of those. But you bet, it's being aligned with companies like Amazon who have a demonstrated ability to monetize and to introduce new market-leading technology is something that we're always really excited to do. They work very closely with us on this. We work closely with them on this. I'm very proud of the team for putting this together in a pretty short period of time. Anybody that owns one of the products should try it. It's a really very elegant solution. And it's fun. It's a great introduction to language learning for folks, and we think it resonates beyond, and hopefully will drive people to our more traditional subscription mobile products.

Operator

I will now turn the call back to management for any closing remarks.

Arthur Hass - *Rosetta Stone Inc. - Chairman, CEO & President*

Well, just thank you to all of you. I know this presentation was a little bit longer than the typical presentation. It will not be this long going forward. But we wanted to take the opportunity to introduce some new metrics to try and provide some context around the story for everyone in where we are and where we think we can take this business going forward. I do think we will continue to lean into some of what we've shared with you tonight going forward, and we look forward to continuing to drive this story in months and years to go. So thanks for your time tonight, and I look forward to speaking to many of you over the next few days.

Operator

This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.
