Second Quarter 2020 Earnings Call

Prepared Remarks

Safe Harbor - Eunice Han

Thank you. Good afternoon everyone. Welcome to Rosetta Stone's second quarter 2020 earnings conference call. Speaking on the call today will be John Hass, Chairman and CEO, and Nick Gaehde, Co-President 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. Just a note before I begin that Matt is under the weather and is not able to join us on the call.

I would like to begin by thanking everyone on the Rosetta Stone team who during difficult and tumultuous times delivered an exceptional second quarter whose overarching theme was a commitment to supporting learners with the high quality solutions and support they needed. Whether by providing free licenses and the implementation resources to ensure a good experience with our K-12 solutions through our Learn From Home program, or by providing a free three month Consumer offering for students, you put learners first.

Please turn to **slide 3**.

Slide 3 - Q2 Financial Highlights

As shown on the slide**,** the team delivered a strong Q2, highlighted by year-over-year consolidated bookings growth of 41%, including bookings growth of 59% in our Literacy segment, and 92% in Consumer Language. We ended the quarter with $31 million in cash and no debt, versus approximately $11 million in net cash, before $10 million in debt at the end of June last year.

Growth in Q2 was led by Consumer Language, which grew bookings $13.4 million to $27.9 million. This was more impressive because in prior years Q2 has been a seasonally slow quarter in Consumer Language without the traditional catalysts that we have in Q1, with New Year's resolutions, or later in the year with back-to-school and holidays.

Clearly, our Consumer results in Q2 were lifted by the learn from home phenomenon resulting from the coronavirus pandemic, but we also benefited from the strong alignment of our product offerings with customers who want to make the commitment to learning a language. I will walk through this in more detail in a moment.

Bookings growth in our Literacy segment was stronger than we expected earlier in the quarter. Literacy bookings grew 59% to $19.2 million, or $7.1 million over the second quarter in 2019.

Q2, while it has become relatively smaller in recent years, is still important as schools use funds from the ending school year to prepare for the upcoming year, and in some cases this year, have had access to incremental Federal funding through the CARES Act.

Growth in the quarter was driven by a few things. First, we have not seen the slowdown in renewals that we were concerned about earlier in the year as our customers faced the uncertainty created by the pandemic. Secondly, we have seen strength in Texas, particularly for PowerUp, as districts work through their secondary literacy adoption. We also saw expansion in existing districts nationwide helped by follow through from our Learn From Home program. Recall that this is the program we put in place to provide unlimited site licenses to any of our K-12 curriculum solutions to existing customers for the remainder of the 2019-2020 school year to help with the immediate move to remote learning brought on by near universal school closures. Finally, while we focused on expanding relationships in existing districts, we saw bookings in new districts as leadership, who in some cases we have been talking with for a few years, accelerated decision making to prepare for an uncertain beginning to the upcoming school year.

On a consolidated basis, total revenues for the quarter were $49.2 million, an increase of 7% from Q2 2019. Revenue growth naturally lags bookings growth and that was the case in Q2 as we built deferred revenue. Deferred revenue grew $10.1 million on a sequential basis to a second quarter record $174.1 million at the end of June.

Net income in Q2 was a loss of $3.6 million, while adjusted EBITDA was positive $4.1 million. And of course we are seeing bookings not only show up on the balance sheet in deferred revenue, we are seeing it in cash. Our ending cash balance was $31.3 million, on roughly breakeven operating cash flow and we now expect strong cash flow generation for the full year.

In a moment we will walk through our segment financial results in more detail, but I want to begin by highlighting the underlying factors that influenced growth in Q2. Please turn to **slide 4.**

Slide 4 - We Address Big Societal Needs

Underpinning all of our businesses is the fact that we address areas of great need. While other K-12 technology providers are also benefiting from the demand for remote capable learning solutions, we are well positioned given our expertise in the largest area of K12 education - teaching children to read. A fundamental skill with lifelong implications. And during the second quarter customers again demonstrated that they value the ability to learn a second language and wanted to use the extra time they had at home for self-improvement in this area. Please turn to **slide 5.**

Slide 5 - Positioned for the Future of Learning

It's clear that during a period when districts and schools are looking for solutions that can move smoothly from supporting classroom instruction to delivering high quality learning at home, and adult language learners want flexible access to learn at their own time and place, that our solutions are especially well positioned. Our products provide personalized instruction that travels with the learner. And as learners use our products their teachers or administrators have real time access to their progress, and in the case of our K-12 products, to specific intervention materials to help in their areas of need. We are continuing to work to make our products even better suited to remote learning in areas like providing more support for parents of K-12 students or access to virtual tutors in our Language businesses. I am extraordinarily proud of the work the team has done to turn Rosetta Stone into a business that produces high quality learning outcomes. Please turn to **slide 6.**

Slide 6 - Four Takeaways

You should take four things from today's call.

We said we were off to a strong start after Q1. And we were confident enough about the year that we maintained, and in some areas, improved guidance as many others understandably stepped back from providing guidance at all. Based on Q2 performance and our expectations for the rest of the year, we remain confident and are improving our outlook today.

Second, the underlying reason we are optimistic about the year is that we have worked hard in each of the businesses to set the standard in helping learners and educators adapt to the impact of the pandemic - and our efforts are being noticed and rewarded.

Third, our response has produced significant growth in Consumer Language and is leading to real opportunities in our K-12 business through the remainder of 2020.

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. A world that we believe will align with our strengths as a learning company.

Please turn to **slide 7.**

Slide 7 - Consumer Language Segment Financial Overview

Our Consumer Language business was exceptionally strong in Q2 with bookings of $27.9 million, or growth of 92% versus the same period in 2019. This growth was driven by both the increased value we are providing learners and a desire among many to use their time at home during the pandemic to learn a new language.

Consumer revenue grew 9% in the quarter to $17.7 million. The natural lag between bookings growth and revenue growth continued to increase in Q2 because a large portion of bookings were from our Lifetime product where we recognize revenue over two years.

Please turn to **slide 8.**

Slide 8 - Enterprise and Education Segment Financial Overview

Enterprise and Education bookings in Q2 were $12.2 million, a decrease of $3.2 million. The decrease was driven by lower bookings in both the Enterprise and Education portions of the segment. As expected, the Enterprise business continued to feel the effect of tightened and refocused corporate learning budgets. The year-over-year comparison was also negatively affected by the fact that we signed a $1.3 million multi-year paid upfront contract with an Enterprise customer in the second quarter of 2019. The bookings for the K-12 Education Language portion of this segment were also down relative to last year but were consistent with our expectations coming into the year.

E&E segment revenues were $13.6 million, a decrease of 6% versus Q2 of 2019, reflecting the lower bookings in recent periods.

As the most economically sensitive part of our company, we expect the Enterprise Language portion of this segment to continue to be negatively affected by the dramatic impact on businesses of the COVID-19 crisis and the international response to it. That said, we are seeing a little more stability recently and look forward to helping our customers scale their language learning while reducing costs and improving outcomes.

Because of the lower volume this year than originally expected, we instituted cost cutting, including furloughs, related to our Enterprise business which is reducing operating expenses by approximately $4 million on an annual basis in the segment and across shared support groups.

I would also remind you looking forward to Q3, in 2019 we executed a $7.4 million custom content contract that will not repeat this year. In fact, when I walk you through our outlook for 2020, the numbers I will reference for Enterprise assume no custom content bookings in 2020, as Native American tribes that have been the largest customers for this work, have been especially hard hit by the pandemic.

Please turn to **slide 9** and I will walk you through performance in Consumer Language.

Slide 9 - Consumer Language Highlights

Q2 was an extraordinarily strong quarter in Consumer. In fact, we have never seen Q2 grow sequentially versus Q1, just as we had not previously seen sequential growth in Q1 versus Q4, as we saw earlier this year.

Consumer Language growth was due in part to the popularity of our Lifetime product, which adds incremental bookings on a per unit basis as it raises both the initial sales price and the expected lifetime value of the average customer. The growth in Lifetime began with its introduction on the web in Q4 of last year, and accelerated with the introduction of access to all of our languages in a single subscription - a product we call Rosetta Stone Unlimited, in February of this year.

Lifetime is a natural and appropriate product in a segment of the learning marketplace where committed learners know that learning a second language is difficult and takes time. While short term subscriptions make sense for a learner with a temporary need or are unsure about their commitment.

The growth we were seeing from better execution, accelerated at the very end of Q1 and through Q2 due to the work-from-home trend related to the C-19 pandemic. Consumers were looking for activities, past times, and skills they could do at home during the extended period of quarantine. Given the near convergence of the introduction of Rosetta Stone Unlimited and the onset of the pandemic it is impossible to precisely understand how much of our growth in Q2 can be attributed to this effect, but it was clearly significant.

The highlights of our work to improve unit economics are clear on this slide. As you can see both the average initial sales price and the expected lifetime value of our products, has grown over the past few quarters due to the success of the Lifetime product. And not only is Lifetime driving more lifetime value per learner than short-term subscriptions, it is turning that value into cash faster because it is paid upfront.

In addition, due to the higher ASPU and concentration of our Lifetime offer with consumers as well as the increase in unit volume due to the demand for our products, we saw strong marketing efficiency metrics. Our LTV to CAC in Q2 was 2.3x. Overall we spent 18% more in CAC year-over-year while delivering 92% higher bookings growth. Remember, though that Q2 last year included a $1.5 million brand market test which had a low in period return. In total, net LTV added grew by 232% year-over-year.

Please turn to the **next slide** and I will walk through Rosetta Stone Unlimited Lifetime in a little more detail.

Slide 10 - Lifetime Unlimited

Learning a language is difficult. Meaningful gains take continued practice and all too often life gets in the way. This is one of the reasons why subscription-based consumer language learning inherently has low retention rates.

Learners that want to be effective and proficient in a second language understand this. For over 27 years Rosetta Stone's brand and product promise has been to support learners that truly want to learn a language. Stepping back we see the marketplace in two broad camps: "trying" and "committed". "Trying" customers dabble in language learning or have a short-term need, while "committed" learners understand the time required to succeed. For the "trying" customer we offer a three month subscription to a single language at an attractive price. But our efforts are targeted to build comprehensive and effective solutions for "committed" learners where access to lifetime learning, even at a relatively high price, works to relieve the time pressure that comes with learning a language and makes the decision to commit easier.

As we have mentioned consistently over many months, our consumer business is focused on generating the highest LTV across the broadest number of learners. "Committed" learners are a valuable and large segment of this marketplace. Of the roughly 180 million U.S. adults with access to the internet research suggests roughly two-thirds have some interest in learning a second language and that roughly one-half of those adults are excited by the prospect of learning a language because of what it could do for their lives. That is a group of approximately 60 million customers. Within this group we believe about one-third are deeply committed to learning a language and would believe that a long-term or Lifetime product is the best fit for their needs. That's a target audience for Lifetime of over 20 million people in the U.S. alone. We have sold Lifetime subscriptions to only roughly 1% of this segment, which is one of the reasons why we see so much opportunity in this part of the marketplace.

I would also note that we aren't the only self-improvement brand that has realized the fit between learner needs and a lifetime product offering. Look, for example, to the meditation, brain training and fitness worlds, as well as other language providers, for similar offerings.

Next **slide please.**

Slide 11 - Continued Focus on Product Value

We continue to focus on improving the experience for a learner when they use our programs. A few weeks ago this was recognized by PC Magazine with a perfect 5-star rating as the best premium software in language learning.

We have recently focused on integrating human coaching and tutoring in conjunction with our world-class pedagogy. In Q2 we introduced "Live Lessons" which integrates expert digital video instruction by our own in-house coaching organization into our products. This enables consumers to have an immersive and efficacious experience.

We also continued to expand our content efforts by integrating new capabilities into our products. Our video lessons are integrated into our consumer products for real-time access wherever and whenever learners are learning. In addition, we have integrated our speech recognition into these lessons so that consumers can incorporate live speech practice into on-demand feeds.

In addition, we are more aggressively marketing our live group tutoring capability. We believe that the integration of human intelligence and personalized software, or as we call it adaptive blended learning, is the best way for someone to learn a new language.

Bottom line, it's been a busy three months for Matt and the team which we believe will lead to long-term benefits for our Language business. With that I will turn the call over to Nick to talk about our Literacy segment.

Please turn to **slide 12.**

Slide 12 - Literacy Segment Financial Overview

Literacy segment revenue in the second quarter was $17.8 million, an increase of 18% over the same period in 2019. Bookings were $19.2 million in Q2, an increase of 59% over the same period in 2019. Our bookings growth in the quarter was driven by both higher new and renewal sales in our direct channel with strong contributions from Texas and some early benefits from our Learn From Home program.

Please turn to **slide 13**.

Slide 13 - Strong Renewal Rates + New Business = ARR Growth

Annual recurring revenue, or ARR, grew 19% compared to the end of Q2 last year. While strong, ARR growth was lower than bookings growth in Q2 largely because of the impact of the multi-year deals in Texas where total new bookings in the state in Q2 were approximately $3.7 million. The annual recurring revenue added from these deals was approximately $500 thousand as some districts chose to use adoption dollars and enter into eight-year paid up front contracts, and a portion of the bookings were attributable to training which we do not include in ARR. As the growth we expect in the larger second half of the year broadens beyond Texas, we expect ARR growth to accelerate along with it.

Renewals in the quarter were strong, driven by upsells to existing customers lifting the trailing twelve month renewal rate to 104%. Based on our work with customers we believe unit retention will be strong as well, but the rate within the quarter was positively distorted by our decision to support customers, in part through our Learn From Home program, as they dealt with the impact of COVID-19 by not shutting off access when their licenses expired. Consequently, we are not reporting what would not be a meaningful retention rate for Q2, but intend to do so again following Q3.

Please turn to **slide 14** and I will talk about how we supported our customers in this time of dramatic change.

Slide 14 - Learn From Home Program

As you know, schools were closed and forced to move to remote learning with incredible speed and little preparation. We understood this would be a difficult transition for our customers and moved quickly to support them.   As we discussed on our first quarter call, 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 the 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. The response was terrific with approximately ten thousand schools signing up and using our programs. This increased the total number of active schools during the program period by approximately 12%. This is quite impressive for one quarter in a business that has been around for over 36 years. And importantly, it increased the number of unlimited school site licenses we were supporting by almost three times.

Our mission then was to support this rapid acceleration of new schools and expanded relationships. We committed from the beginning to provide the resources needed to ensure that our programs were implemented well with the necessary training to use them. This time is difficult enough for educators and administrators and our goal is to ease their burden, not add to it. This approach served us well.

The Learn From Home program has now ended and our focus has turned to continuing our partnership with as many of these schools as we can, converting them to paying customers as they manage the uncertainties of school schedules in the Fall.

Please turn to **slide 15.**

Slide 15 - Q2 Growth Drivers

As John said, bookings growth in Q2 exceeded our expectations. A number of factors contributed to our performance in Q2.

Our Learn From Home program and the imperative for schools to build more comprehensive remote and hybrid learning programs for this school year had a broad positive impact on the quarter and will continue to benefit us this year. In effect, Learn From Home accelerated priorities already in place for 2020, including scaling our historical pilot program and expanding our existing customer relationships through relevance, support and high customer satisfaction. While all of the districts that participated in the offer were by definition already customers, the broad exposure that Learn From Home created to our products, similar to an intensive national pilot, and the significant goodwill it created, is helping us now as schools look to build their remote learning plans.

We are also happy with the results of the account segmentation strategy we implemented at the beginning of the year. The restructuring has focused our field based sales leaders and account reps on larger new and renewal opportunities, while moving smaller accounts and opportunities to inside account managers. This change is driving the focus to convert and expand the larger opportunities we are creating, while more efficiently managing smaller customers.

In addition, we continue to benefit from the growing power of our K-12 portfolio. Not only are Core5 and PowerUp great products in their own right, our ability to bring both to a district expands the problems we can help schools solve and leads to more strategic conversations often resulting in larger, more systemic implementations. By the end of June, over three thousand customers were using more than one of our products, up from approximately 350 at the same time two years ago.

Finally, as I mentioned, we have seen strength in Texas, especially associated with their secondary school adoption.

Please turn to **slide 16**.

Slide 16 - K12 is Well Positioned to Meet Emerging Needs

Underpinning our ability to meet the needs of districts facing the challenge to provide high quality learning whether remotely, in person or in a hybrid approach are six key factors. First, our solutions offer a flexible implementation model that allows both the student facing software and the data and information provided to teachers to seamlessly move from classroom to the home and back again. And our products aren't just easy to use, they are proven to be effective. More on that in a moment. Especially as standardized assessments were being canceled, our ability to provide real time data on student performance and insights into skill gaps through our Assessment Without Testing capability, was critical to teachers and administrators in this remote learning environment. And when students are at risk of falling behind, our solutions are able to quickly close gaps through personalized and targeted instruction. We are also finding that our ability to facilitate meaningful interactions between students and teachers using our lessons is highly valued at a time when these interactions are being strained. Finally, when the importance of the teacher has never been more clear, providing remote professional learning opportunities through Lexia Academy, the learning portal for educators, has been key.

As this slide makes clear, our ability to provide an excellent learning experience goes well beyond offering software that can be logged into at home.

Please turn to **slide 17.**

Slide 17 - Demonstrated Efficacy

Our proven ability to provide great outcomes for learners will become even more important if school budgets come under pressure as a result of decreased local and state tax revenues. Because, more than ever, districts will demand an educational return on the investment they are making.

To that end, during Q1 we were thrilled that research supporting the efficacy of our flagship solution, Core5, received a rating of Strong from Evidence for ESSA, one of the leading resources educators consult to determine if educational programs adhere to federal efficacy evidence standards. The Strong rating for Core5 reinforces the robustness of Lexia's efficacy evidence portfolio, which includes over 20 peer-reviewed research studies.

Very few edtech providers offer programs that have earned Strong ratings at both the elementary and secondary level. Of those few that have, the Evidence for ESSA analysis estimates that Lexia's programs have the largest impact on student reading outcomes in both elementary and secondary grades, as measured by average effect size.

Please turn to **slide 18** for an update on Rosetta Stone English.

Slide 18 - Rosetta Stone English Update

I am happy to let you know that we have officially launched Rosetta Stone English for sale for the 2020-2021 school year. When the team began work on this groundbreaking solution we had an aggressive plan to release RSE this Summer and have now met that goal even with the beta interrupted by the pandemic. We are very proud of Rosetta Stone English which is innovative in so many ways, including its focus on oral language development and the real time reporting it provides teachers and administrators that have historically been limited to only understanding progress through annual or twice-yearly standardized tests. We are especially proud of the cultural, racial and other forms of representation present in the student facing product and our asset approach to education. In Rosetta Stone English we honor the native language of the learner as an asset, rather than looking at the lack of English language skills as a deficit.

While sales of RSE this year are primarily focused on renewing our elementary school customers that are currently using our existing Rosetta Stone Foundations solution, we are very excited about the opportunity we see going forward for RSE to meet the needs of this large and growing population of learners, especially now with school closures disproportionately impacting these students

With that, I would now like to turn the call back over to John to walk through guidance for the year.

Thank you Nick. Please turn to **slide 19.**

Slide 19 - 2020 Guidance

Turning to guidance and starting with revenue, we now expect consolidated revenue for the year to be $190 to $200 million, on total bookings of $216 to $229 million. That would be 7% higher than 2019 at the midpoint on revenue and 13% higher on bookings.

In the Literacy segment we are raising our revenue guidance to a range of $72 to $76 million, an increase of $3.5 million at the midpoint. We are raising our full year Literacy segment bookings outlook to $87 to $93 million, up from approximately $81 to $86 million previously. This represents bookings growth of 27% to 36% over 2019.

The factors impacting our outlook for the Literacy segment include the opportunities to expand relationships with existing customers, in part created by the Learn From Home program, and the need both existing and new customers have for solutions to support remote or hybrid learning. This is being helped by our ability to follow through on a growing number of large opportunities as a result of the strategic sales account realignment announced earlier in the year. Finally, we will see additional bookings in Texas during the second half, but the majority of the Texas impact likely came in Q2. We still expect net new business in new districts to be more difficult in

2020 than we might have otherwise seen before the pandemic. We have focused our marketing and sales efforts in line with the belief that existing customers are a greater opportunity for us this year.

Looking into 2021, we see opportunities to drive growth as districts develop a deeper appreciation for the efficacy of our solutions, but a variety of factors may lower our bookings growth rate. We are seeing in 2020 an acceleration in new and upsell business growth driven by districts' urgent need to plan for fully remote or hybrid learning. We don't know if this same level of urgency will persist next year. In addition, a somewhat larger than typical dollar amount of our contracts in the Literacy segment this year have been multi-year in nature driven by adoption sales in Texas. We do not expect this level of multi-year adoption bookings to continue next year. Finally, although we like our relative positioning within ed tech, if school budgets are reduced because of declining tax revenue, K-12 education providers will be negatively impacted.

Turning to our Language business, in Consumer we are raising our full year revenue guidance to a range of $69 to $72 million as we now expect full year Consumer bookings of $88 to $92 million, up from $75 to $78 million previously, and $67 to $69 million at the beginning of the year. This guidance assumes that year-over-year bookings growth slows in the second half of 2020 compared to earlier in the year, and that marketing efficiency declines in the back-half as the positive impact from people learning while quarantined at home fades. We also expect Consumer's year-over-year bookings growth in the back-half to be lower as we lap the original introduction of the Lifetime product on the web which began to ramp up in Q4 of 2019.

At the bookings midpoint this translates to 36% growth for the full year.

With the success of Lifetime Unlimited, the majority of the bookings performance this year will be recognized as revenues in 2021 and into 2022. And while we will benefit from this revenue in future years, we expect bookings next year to be negatively impacted relative to this year as people return to work and the quarantine driven sales we are seeing this year fades.

The strength we are seeing in other parts of the business this year will be partially offset by the pressure we continue to see in our Enterprise and Education Language segment. While K-12 Language Education is performing in line with our expectations and Enterprise has seen some stability more recently, we are expecting full year revenue to be in a range of $49 to $52 million - $1 million lower on each end versus our prior guidance, on lower Enterprise bookings due to the impacts from the pandemic. Recovery in Enterprise will be tied in part to a recovery in the economy.

Turning to profitability, we are improving our guidance for full year net income to a loss of $20 to $22 million, raised from our prior guidance of a loss of $22 to $24 million. We are also raising our guidance for full year adjusted EBITDA to approximately $8 to $12 million - up from $5 to $8 million previously. The stronger than previously expected bookings we are seeing this year are not directly turning into significantly better GAAP performance in 2020 because, while bookings are recognized as revenues over the life of the underlying subscriptions and contracts, expenses are largely recognized upfront. This includes variable compensation for our noncommissioned employees where we are accruing potential bonus payments at a higher rate than last year due to the performance we expect in 2020 relative to 2019. This higher accrual will be offset during the year by lower operating expenses as we have been diligent in managing costs during the pandemic, including the cost action discussed earlier, and certain other costs, like travel, have been naturally lower.

We are raising our guidance for operating cash flow to $29 to $34 million, up from $14 to $18 million previously. The improved outlook for operating cash flow is largely due to the higher bookings delivered in the first half of 2020 by the Consumer segment, and the expected higher bookings in the Literacy segment throughout the year. This guidance continues to assume 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 have not yet seen this in a material way but would like to be prepared if it occurs.

We expect capital expenditures to be approximately $16-17 million and that we will have approximately $13-17 million of cash flow after cap ex this year.

We expect a year end cash balance of approximately $55 to $60 million with no debt.

Please turn to **slide 20.**

Slide 20 - Q3 Guidance

Like last quarter, we have decided temporarily to provide guidance for the quarter we are in, in addition to the full year. We hope this provides more clarity during a tumultuous year. We expect strong year-over-year bookings growth in Q3 in our Literacy segment as districts seem to be accelerating decision making to prepare for a variety of back-to-school scenarios. Our performance quarter-to-date and the current pipeline make us comfortable with our outlook for Q3 in Literacy. We also anticipate good bookings performance in Q3 in Consumer Language, although year-over-year growth rates will decline relative to the first two quarters as the impact of the people learning from home in quarantine declines. On the downside, we will have a significant year-over-year bookings decline in the E&E segment driven by the Enterprise portion of the business largely due to the absence of the $7.4 million custom content deal signed in Q3 2019, as well as ongoing impacts from the pandemic.

On a consolidated basis, we expect total Q3 revenue of approximately $48 million, up approximately 5% from last year, a GAAP net loss of approximately $7 million and positive $2 million in adjusted EBITDA.

Please turn to slide **21** and I will wrap up.

Slide 21 - Wrap-Up

Despite, and in some cases, because of, the challenges created by these difficult times, the team had a strong first half to 2020, producing good financial performance while demonstrating a continued commitment to helping learners.

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 reinvigorated and a leader in the space.

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