Rosetta Stone

Fourth Quarter 2015 Earnings Call

March 14, 2016

Prepared Remarks

Frank Milano:

Good afternoon and let me welcome you to the Rosetta Stone fourth quarter 2015 earnings conference call. I am joined today by John Hass, our Interim President and Chief Executive Officer, and Tom Pierno, our Chief Financial Officer. John and Tom will discuss the operations and financial results for the quarter and we will open the call to questions after our prepared remarks.

Our fourth quarter earnings release went out after the market close and is available on our website at www.rosettastone.com. In addition, we have posted the slide presentation that accompanies today's call to our website, which you should find helpful as we discuss results and the outlook for 2016.

In keeping with the Safe Harbor statement on Slide 2, I will remind everyone that certain statements will be made today which are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Given the uncertainties of forward-looking statements, our actual results may differ materially from anything we say in these forward-looking statements. We can give no assurance as to their accuracy and we assume no obligation to update them. We also use non-GAAP numbers in our presentation. For further information on the definitions of those numbers, the GAAP comparisons, and their reconciliation to GAAP numbers, as well as risks and uncertainties that could cause our actual results to differ, please read the company's SEC filings, earnings release and presentation, including the paragraphs beginning with the words, "Caution on Forward-Looking Statements" and "Non-GAAP Financial Measures," which are available on our website under the "Investor Relations" tab.

Now, as I turn the call over to John, I ask that you please turn to slide 3. John?

John Hass, Chief Executive Officer:

Thank you, Frank.

I assumed this job in April of last year with three overriding goals – to bring greater focus to our business, to allocate our investment dollars effectively and to reduce sharply our overall operating costs.

To this end, we have concentrated our Consumer business on passionate language learners in the U.S., exited geographies and retail marketplaces that were not productive and left or found partners for other initiatives that added complexity and were not central to our strategy.

We focused investment on building our Lexia business by broadening and enhancing its product line and expanding its direct sales force. And in E&E Language, we introduced the Beta for the next generation of our Language Learning Suite for Enterprise. Importantly, we used this focus to guide approximately $65 million of annualized expense reductions announced throughout the year. I would like to thank the entire team at Rosetta Stone for working to achieve these goals.

Our successes in 2015 underscore what can be achieved and has strengthened our resolve to find other ways to enhance our concentration and push cost reductions even further.

On our last earnings call, I mentioned that we were conducting a review of our E&E Language strategy and cost structure. Today, we are announcing a restructuring of our E&E Language business to more tightly focus on our core Enterprise and K-12 markets in the U.S. and northern Europe and to reduce and flatten our development and support structure to create a more profitable E&E business with the capacity to grow.

If our plans are fully realized, we will exit our direct sales presence in almost all of our non-U.S. and non-northern European markets and instead will operate through partners in those geographies, if appropriate. We will also look to consolidate our R&D

infrastructure with the initiation of processes to close our development operations in France and China. If our intentions are realized, we expect to make severance payments and incur other costs associated with the restructuring of approximately $5-6 million. In addition, while the timing is uncertain, these intended actions are expected to provide approximately $19 million in annualized cost reductions.

The potential in our E&E Language business is significant and is best realized if we concentrate in the right markets with the right resources.

Following Tom's review of the fourth quarter 2015 results, I will walk you through our businesses and share my thoughts on the operating strategy of each one – so that you understand, as we do, where we are today and what remains to be done. I will concentrate on Lexia and our Consumer and Enterprise and Education Language businesses. I won't go into detail on Fit Brains other than to note that we follow a simple strategy – push to grow bookings while driving towards long-term profitability. Finally, I will update you on the resolution of our CEO search and discuss certain changes in Board leadership.

I will now turn it over to Tom.

Tom Pierno, Chief Financial Officer:

Thank you, John, and good afternoon everyone.

I will begin with a review of the Q4 highlights:

- Total revenue declined 27% year-over-year. Consumer segment revenue declined 42% and was partially offset by a 6% increase in E&E segment revenue, driven by the benefit of purchase accounting impacts on prior period revenue as well as bookings growth at Lexia. Foreign currency had an adverse impact that reduced total revenue in the quarter by $1.0 million, or approximately 1%.
- Consumer segment contribution margin percentage more than doubled year-over-year to 25% in 4Q15, even as revenue declined

- Bookings at Lexia in 4Q15 grew 32% and revenue was up 94% year-over-year, which also included the benefit of purchase accounting impacts on prior period revenue. This growth was accomplished even as Lexia ramped up many new reps to expand its direct sales force
- Excluding impairment and lease terminations in both periods, operating expenses declined $19.7 million (or 27%) year-over-year, which helped reduce the net loss to $11.4 million, or 52-cents per diluted share, a 47% improvement year-over-year in dollars terms and a 49% improvement year-over-year on an earnings per share basis, and
- We ended the year with $47.8 million in cash and cash equivalents, which represented a sequential quarterly increase of $13.4 million

Turning to slide 5, total revenue was $58.0 million, down 27% year-over-year. The decline was driven entirely by lower Consumer revenue that was partially offset by a $1.4 million (or 6%) increase in E&E segment revenue.

As shown on slide 6, E&E segment revenue grew 6%, or up 8% on a constant currency basis, and once again the education portion of this business accounted for more than 50% of total revenue.

On slide 7, we have provided a further breakdown of Lexia bookings and revenue. Lexia's enhanced suite of literacy products produced strong demand and sustained renewals, as evidenced by Lexia's 32% bookings growth over the same quarter last year. In addition, the recent expansion of the direct sales force is going well. Lexia had fourth quarter revenue of $7.2 million, up $3.5 million (or 94%) year-over-year driven by the strong growth in bookings. For the full year, bookings and revenue grew 46% and 121%, respectively, to $33.9 million and $21.9 million, respectively. As a reminder, the fourth quarter and full year revenue growth rates reflect the benefit from purchase accounting, which had the effect of lowering prior-year revenue; going forward, the expected rate of revenue increase, while still strong, will decline as we lap the impact of purchase accounting largely through the end of 2016.

Turning to slide 8, revenue in the Consumer segment totaled $31.7 million in the fourth quarter, down 42% year-over-year, primarily due to the lower volume resulting from reduced media spend, partially offset by a higher return on our marketing dollars.

In addition, the year-over-year comparison in Consumer revenue also reflects the Company's deliberate shift in mix – from CD and downloaded product sales toward more streaming 24-month subscriptions sales, which are recognized as revenue ratably over the entire subscription period rather than taken into revenue immediately. It is important to understand that because our Consumer subscriptions are paid up-front and are priced similar to our perpetual products, there is no change to the timing of cash receipt or total value we receive from a subscription sale – only the way in which it is accounted for under GAAP. From a cost standpoint, subscriptions sold directly through our website do not require physical inventory and they save us the expense of packaging and distribution. For these reasons, we prefer subscription sales even while the shift has and will continue to impact revenue recognition and Adjusted EBITDA.

We expect the trend in Consumer subscription sales to accelerate in 2016 as customer preferences continue to move towards mobile experiences. We have prepared a similar slide for the expected change in 2016, which we will discuss later when we provide guidance. It is important to understand the revenue and net earnings impact of this mix shift as we intend to move all of our Consumer business in this direction over the next 18 months or so.

Please turn to slide 9. The Consumer segment contribution margin percentage increased year-over-year for the 3rd consecutive quarter, and more than doubled year-over-year to 25% in the fourth quarter of 2015. In addition, Consumer segment contribution dollars increased $1.6 million, or 25% year-over-year, even with the shift in product mix. Our return on media increased from 2.6-times in 4Q14 to 2.8-times in 4Q15, reflecting improved media efficiency. Also, the average selling price per S5 unit on our website during the important holiday period was $194 in 2015, compared to $188 in 2014. The E&E segment contribution margin percentage also increased year-over-year, and was 37% in the fourth quarter of 2015.

The chart on slide 10 depicts the year-over-year comparison for sales and marketing, research and development, and general and administrative expenses. The almost $20 million year-over-year decrease in fourth quarter operating expenses contributed to a total reduction of $48.3 million (or 24%) since the Restructuring Plan was announced in March 2015 compared to the same 9-month period in 2014. We believe this demonstrates the progress we are making against the $65 million cost savings target previously announced. John has already updated you on further efficiency initiatives we have identified as part of the Enterprise language restructuring.

Lastly, before we turn to the balance sheet, we recorded $5.9 million of non-cash impairment charges in the fourth quarter. Of that total, $5.6 million was to impair the goodwill associated with Fit Brains, which – as John discussed – we are now operating according to a simple strategy: grow bookings, while driving to long-term profitability, without significant cross-marketing to our language customers, resulting in a slower expected growth rate than previously projected.

Turning to slide 11, we ended the year with zero debt and $47.8 million of cash and cash equivalents, which was at the high-end of our cash guidance. That balance represented a sequential increase of $13.4 million compared to September 30, 2015, and was favorably affected by two non-recurring factors -- $1.6 million in proceeds from the sale of a building, and a $0.6 million tax refund.

Deferred revenue increased on both a sequential and year-over-year basis to $142.7 million at year-end 2015. Of the total deferred revenue balance, $106.8 million (or approximately 75%), was short-term and will be recognized as revenue over the next 12 months. As our E&E business is now almost all SaaS-based and as our Consumer business moves increasingly to subscription sales, we would expect deferred revenue will continue to grow on an annual basis, creating a larger base of booked business for the company going forward.

The non-GAAP highlights of the business can be found on slide 12. Revenue-based Adjusted EBITDA improved $5.1 million year-over-year to positive $1.6 million in the fourth quarter 2015, compared to negative $3.5 million in the fourth quarter last year.

The Company's reduction in operating expenses was the primary driver of the improved Adjusted EBITDA performance.

The seasonality in the Company's cash flows – which has historically been characterized by a net use of cash in the first half and positive cash generation in the second half – continued in 2015, and we expect the same trend to continue going forward.

Free cash flow declined $4.1 million year-over-year, to $12.1 million in the fourth quarter 2015, compared to $16.2 million in the fourth quarter last year. Net cash provided by operating activities was $13.7 million in the fourth quarter 2015, compared to $18.7 million in the same quarter last year. The decrease primarily reflected the smaller contribution from the change in deferred revenue, largely due to lower Consumer bookings. Capital expenditures, which primarily relate to capitalized labor on product and IT projects, totaled $1.6 million, down from $2.5 million in the fourth quarter last year.

That completes my portion of today's call. If you would please turn to slide 13, I will now pass it back to John.

John Hass, Chief Executive Officer:

Thank you, Tom.

The principle that ties our businesses together is a focus on two primary foundations of learning – Language and Literacy. As our mission statement says - ***We change people's lives through the power of Language and Literacy education***.

Given the progress that we've made over the past year, I want to take a moment to update you on our key priorities and strategies for 2016. Let me start with our literacy business - Lexia.

As shown on slide 14, the critical importance of literacy is well understood. It has been estimated that every student that doesn't graduate high school costs our economy on average $260,000. And yet, as a society, we are failing at one of the greatest predictors of high school graduation – whether or not someone is reading at an appropriate level early in life. We know, for example, that according to the 2015 NAEP results, approximately 64% of 4th graders fail to read at a proficient level.

The good news is that, as a society, we recognize the problem and are willing to invest to address it. Estimates indicate that the total literacy curriculum marketplace in the U.S. is approximately $1.7 billion, of which one-third is in the form of e-learning. The total assessment segment, which we serve through our new RAPID literacy assessment product, is approximately $3.1 billion, of which the formative assessment segment is approximately $700 million. Critically, we believe the digital segments are growing faster than the marketplace overall, as we see a continuing shift away from print. Our place in this growing digital space is well grounded - Lexia was founded over 30 years ago to use computers for literacy intervention in the classroom, and it has developed a documented record of delivering results.

As you can see on slide 15, Lexia is extraordinarily well positioned through its suite of subscription-based English literacy learning and assessment solutions. Core5, our pre-K through 5 explicit, systematic and personalized literacy-learning product is the heart of our solution today. We offer a tailored learning experience that blends with teachers in the classroom where we have extremely high customer satisfaction as evidenced by our 90+% annual renewal rates.

And critically, the engagement students have with our product drives outcomes, as highlighted once again in a recent independent analysis by LEAP Innovations. LEAP Innovations is a nonprofit organization that serves as a national hub for a new, collaborative ecosystem of the best and brightest education innovators, digital entrepreneurs, and thought leaders committed to reinventing education in our country. The LEAP Innovations Pilot Network was created by LEAP to identify the most promising innovations, piloting these innovations with educators and students in the classroom, and evaluating the results.

As reported by LEAP, during the 2014-2015 school year pilots, Lexia Reading Core5 was used by more than one thousand third through fifth grade students in 63 classrooms in the Chicago Public Schools. The use of Core5 closed the reading gap for black students, more than closed the gap for Hispanic students and closed the reading gap by more than half for impoverished students. Achieving outcomes like these, that directly address the issues of literacy and its ties to completing high school, over and over again, across the country drives our team every day.

As shown on slide 16, outcomes like these also keep our retention high and drive growth. With 1.5 million students actively using Lexia products in December, we have more than doubled the number of kids we are serving versus what it was just two years ago when we acquired Lexia.

We will continue to invest heavily in this high-growth, high-renewal business in 2016. As shown on slide 17, we are building a direct sales force at Lexia that will drive the significant majority of our sales this year. We are accelerating the development of both a new adolescent reading program for middle and high school students, and the extension of our RAPID assessment product with the completion of the Kindergarten through second grade portion. When completed, we will be able to offer fully aligned digital literacy assessment and learning tools for children from Kindergarten through the 12th grade – a prospect we are very excited about. Finally, we will continue to build-out our implementation services business that delivers incremental sales, and just as importantly, because teachers are better trained to utilize our tools, helps produce better outcomes for students and higher renewals for us.

Let me turn now to our language businesses and begin with Consumer on slide 18.

Rosetta Stone was a first mover in digital language learning and to this day is synonymous with language learning in social media, on television and in pop culture broadly. This presence and our concentration on the passionate learner who is motivated, results-focused and willing to pay for a quality language learning experience that gets them speaking faster, continues to generate huge interest among consumers.

In 2015 alone, we had 1.4 million web demos, over 2 million mobile app downloads, and in excess of 675,000 product purchases. Clearly, there is strong demand from consumers for a premium-learning product that can help people reach their goals.

While we continue to command a leading position in the Consumer language learning market, new entrants and other forces have forced us to tighten our focus. Slide 19 shows that in 2015 we began to adapt to this reality by substantially reducing our costs and more tightly focusing our media spending. We knew bookings and revenue would come down, along with reduced media spending and the absence of sequential price promotions. However, in 2015 we managed to hold contribution dollars flat as lower sales were offset by an increasing contribution margin as operating costs were reduced and return on media spend grew by 10% for the year. While we expect margins to decline going forward, in large part due to our product mix transition – I am very pleased with the results of these initial efforts.

So what are our plans for 2016 for Consumer language? We see a business that continues to provide us meaningful opportunity.

First, we are making carefully selected product investments that will be noticeable to the consumer. I mentioned our mobile app was downloaded over 2 million times in 2015 – in the second quarter of 2016, we expect to release a fully updated mobile app, a preview of which is shown on slide 20. The new app will feature a much improved customer experience to make it more engaging and improve sales conversion.

Second, turning to slide 21, we are excited that the work in refocusing Consumer in 2015, coupled with the release later this year of E&E's next generation Language Learning Suite for Enterprise, will allow us to pursue a more optimized marketing strategy for Consumer. The differentiation created by the release of the new enterprise product will allow us to appropriately relax the constraints on Consumer pricing during peak promotional periods, in order to broaden the appeal of our product and capitalize on our continued brand strength. Following these traditional promotional periods, we will look to reset price back to a higher level, rather than follow the historical pattern of large sequential declines.

We believe our Consumer business was impacted in the fourth quarter of 2015 by our decision to maintain near-constant price levels during the peak year-end holiday period, when shoppers look for greater value – especially online, between cyber-

Monday and the gift-giving holidays. With more clearly differentiated products serving our Consumer and E&E segments, this will be less of an issue in the future.

We also plan to adjust the suggested retail value of our Consumer products during 2016. In the ordinary course of business, we periodically review our suggested retail value and make adjustments as appropriate. This is not a price reduction, but the suggested retail value adjustment will lead to a one-time, permanent reduction in bookings, earnings and cash as we price protect the inventory in channel at invoiced retailers. Our current estimate is that the one-time reduction in bookings and earnings will be between $4 and $5 million, with a slightly lower cash impact.

In the end, let me be clear. Consumer will remain tightly focused on one thing – optimizing to generate profitability and cash flow. Every investment, whether it is in media or product, will continue to be measured against this priority.

Let me turn now to our Enterprise and Education Language business, which begins on slide 22. The overall language learning marketplace worldwide is massive and a growing portion of that marketplace is being served digitally. Our core E&E markets of Enterprise and K-12 digital language learning are well over a $1 billion in size with a number of attractive characteristics.

Rosetta Stone was also an early mover in the e-learning portion of the E&E marketplace, but we lost some of our advantage as competitors entered the business and we did not respond with an integrated and complete product that was truly differentiated from our Consumer product and more properly aligned with an Enterprise customer's needs. In addition, the Company's early success led to a number of distribution investments that have proven to be unprofitable in hindsight. In 2016 we will address both of these issues.

Let me start, on slide 23, with an update on the next generation of our Language Learning Suite for Enterprise. The initial Beta was launched in December and we are planning a commercial product release later this year. We are extremely pleased that the early feedback from users and customers has been very positive.

When released, the Language Learning Suite will streamline the sales, pricing and product experience while also adding critically needed assessment and placement capabilities. It offers a simple, more modern, metrics-driven suite of tools that are results oriented and provides a more defined learning path for our full range of content from beginner to Advanced English for Business while continuing our advantage in other world languages. The improved benefits to our constituents – adult learners, learning administrators and buyers – are many, and the Beta testing will help to ensure their feedback is incorporated into the commercial release of the product. We will also be taking the necessary steps to retire the legacy-based products and platforms, which will ultimately allow us to reduce costs and improve development efficiency and speed to the marketplace, but does require upfront investments to achieve.

Let me turn now to slide 24 to review the key steps in E&E Language that we began in 2015 and are accelerating in 2016, in addition to the release of our new product.

We announced in March of last year that Enterprise and K-12 would be the focus of our Language business and over the course of the past 12 months we worked to implement this. For example, we shut down our U.S. higher education group and folded its renewals into our Public Sector Group (which targets governments and non-profit organizations). We formed a deal desk to ensure that new customer relationships fit our focus and are priced appropriately – and we walk away from deals when they do not.

While these changes, along with currency headwinds, adversely impacted E&E Language revenues in 2015, we believe that even greater focus and efficiency is needed. As in our Consumer Language business, it is critical that our sales and marketing, research and development and other support dollars are spent where they can earn the highest return.

Consequently, we are initiating the appropriate processes to exit our direct distribution presence and close offices in a number of non-U.S. markets where we have not yet achieved scale and right-size the E&E Language business overall; specifically, our offices in China, Brazil and France. Our primary direct focus will be the U.S. and northern Europe, while we will seek to build other geographies through resellers. I am pleased that we have already entered into agreements with partners to support our current business and sell new business in Brazil and Mexico. Assuming no benefit from potential partners, direct bookings in the geographies we intend to exit totaled approximately $9 million in 2015. If our plans are realized, we will also stop doing development work in France and China.

In total, if our intentions are realized, these actions will result in a reduction in force of approximately 150 people, or approximately 17% of our full-time workforce, and the closing of 3 significant offices, leading to annualized cost savings when fully implemented of approximately $19 million. As it will take time to exit certain geographies the full benefit of these changes will not be realized until later this year and as we head into 2017. To achieve these intended reductions, we currently expect to make severance payments and incur other costs associated with the restructuring of approximately $5-6 million.

Our objective is to improve profitability so we can better fund the future growth we expect in our E&E Language business. Going forward, E&E Language will be leaner and more efficient, and will continue to have the benefit of a growing marketplace, a great brand and, by the fourth quarter, a fully released, new, better-aligned product.

We've made considerable progress over the past 12 months, but there is a substantial amount of work, both in generating revenue and reducing costs, that remains. Given the significance of some of the changes being pursued, the uncertain timing of their realization, as well as the broader than usual range of potential outcomes in Consumer, as we drive to greater subscription sales, we will not be providing detailed full year 2016 guidance at this time. I will, however, talk about what we expect for the first quarter and overall trends for the full year, and will, of course, keep you informed of our progress as we move through the year.

Starting on slide 26, in the first quarter of 2016 – which I remind you is the seasonally smallest of the year across all of our businesses from a bookings perspective – we expect revenue of approximately $47 million, a decline of $11 million entirely due to the Consumer segment, which was operated for most of the prior-year quarter under the old strategy of spending heavily to drive unit penetration, partially offset by growth in E&E revenue, driven by Lexia.

We expect the quarter to benefit from our previous cost reduction actions, which are expected to more than offset the lower revenue – narrowing our net loss by approximately $9 million year-over-year, to a first quarter net loss of approximately $11 million. Similarly, we expect Adjusted EBITDA to improve by approximately 50% year-over-year, to negative $3 million.

As it regards the year overall, you should expect 2016 to be a year in which we continue to take the necessary actions and make the appropriate investments, to position our business for profitable growth.

As outlined on slide 27, we expect Lexia to continue its momentum as the direct sales force becomes more seasoned and productive through the year. We will also continue to invest heavily in new product development and supporting the growth of this very attractive, high-renewal business that we believe can produce $100 million of bookings with strong margins in four to five years. For 2016, Lexia revenues are expected to grow to approximately $33 million, which represents revenue growth of 50% for the year, on bookings of approximately $41 million, up 20% for the year.

On slide 28, while underlying bookings will remain strong, Consumer revenue and segment contribution are expected to be down meaningfully for the year, due to the lower year-over-year comparison in the first quarter of this year versus last year's first quarter, under our old marketing approach and, importantly, due to the two transitional factors I mentioned previously – the continued shift in mix to more subscription sales that will directly reduce reported GAAP revenues and earnings during the transition, as well as the adjustment to our suggested retail value.

While we attempt to estimate on this slide the year-over-year impact on reported revenues of the change in product mix, almost all of which also flows through to reported earnings, as most expenses are realized in the period incurred, the full effect is most easily understood in the comparison of bookings, which are expected to be approximately $106 million in 2016, versus the revenue we expect to recognize of approximately $79 million. This difference more clearly defines the impact on revenue and earnings of not only this year's change in product mix, but the change that has been occurring in recent years. The good news is that as we complete the transition by the end of next year, we will have a more stable future Consumer revenue and earnings base.

In the meantime, Consumer will continue to be a cash generator and will deliver an improved product and mobile experience to our customers as we move through 2016.

On slide 29, we expect sales in E&E Language to decline if the process we have initiated results in what we intend and we exit certain marketplaces that while unprofitable, produce bookings for us today. We expect E&E Language revenues of approximately $70 million on bookings that total a little under that for the year. The profit contribution from this business should improve in 2016 as we realize a portion of the expected cost savings. But, as I mentioned, the full impact of the cost reductions will take time and, in certain cases, will trail the decrease in bookings limiting the benefit this year.

We currently estimate we will end the first quarter with cash of nearly $40 million. I further believe we will be approximately operating cash flow break-even over the following nine months, before considering the cash uses in that period related to the E&E Language restructuring and the Consumer suggested retail value adjustment previously discussed, which will result in a lower ending cash balance for the year. Additionally, we anticipate the historical seasonal pattern of first-half cash usage followed by late second-half cash generation to continue in 2016.

A few minutes ago I touched on the initial goals I had when I joined Rosetta Stone almost a year ago. Going forward, we believe that as we successfully implement the changes described today, and others we will make throughout the year, and move into next year, we expect Rosetta Stone will be a Company with sales growth and positive annual cash flow that should be 10% of revenue and growing in 2018 and beyond. We expect reported revenue-based profitability will lag somewhat as we need to complete the conversion of Consumer to a full subscription business and as the recognition of revenues in our fast-growing Lexia business begins to catch up to its underlying bookings.

Moving to slide 30, the strategy and changes I reviewed with you today are not reached easily. Whether it is the investments made to grow Lexia, the hard push to a full subscription-based SaaS model in Consumer, or the restructuring of E&E Language to increase focus and build a business that can grow profitably, they are difficult internally and create a business where the financial results for 2016 will be complicated. But we believe they are the right decisions to build a growing and profitable Rosetta Stone.

Finally, let me finish with an update on our CEO search and related board matters.

The board and I have decided that the best way for Rosetta Stone to maintain the momentum of our turnaround is for me to remain as President and CEO. I look forward to continuing to work with the broad team across the company in this role. I am also happy that Al Angrisani, whose relationship with the Company began when I became Interim CEO, will continue to work closely with us, focusing on driving further and deeper cost reductions, building cash and growing the E&E Language business.

Let me turn now to a few matters related to our board. In addition to my role as President and CEO, I will become board chair. Finally, I want to take this opportunity to thank Marguerite Kondrake, who recently retired from the board, and Laura Witt who will be retiring following our annual shareholders meeting in a few months, for their years of dedicated service to the Company.

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