

Learning Tree International, Inc.
Fiscal Year 2014 First Quarter Conference Call

Remarks by
Max Shevitz, President and David Asai, Chief Financial Officer

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For your convenience, we have posted the text of today's prepared remarks in the Investor Relations section of our website. Go to: www.learningtree.com/investor.

Good Afternoon. I am David Asai, Chief Financial Officer of Learning Tree International. First I will read the disclaimer on forward-looking statements and then discuss our performance in our first quarter of fiscal year 2014, which ended January 3, 2014. Max Shevitz, our President, will then provide some forward-looking information about our second quarter of fiscal 2014. After those remarks, we'll open the floor for questions and discussion.

Forward Looking Statement Disclaimer:

As a reminder, except for historical statements, the matters addressed in this conference call are forward-looking statements. Please do not put undue reliance on these forward-looking statements, since they are based on key assumptions about future risks and uncertainties.

Although we believe that our assumptions are reasonable, inevitably some will prove to be incorrect. As a result, our actual future results can be expected to differ from those discussed in this call, and those differences may be material. We are not undertaking any obligation to update forward-looking statements.

To help you assess the major risks in our business, we have identified many, but not all, of them in Item 1A of our 2013 Form 10-K. Please read those risk factors carefully. Some of the factors discussed in our 2013 Form 10-K that could affect us include risks associated with:

- Changing economic and market conditions;
 - The timely development, introduction, and customer acceptance of our courses;
 - Competition;
 - International operations, including currency fluctuations;
 - Technology development and new technology introduction;
 - Efficient delivery and scheduling of our courses;
 - Adverse weather conditions, strikes, acts of war or terrorism and other external events;
 - Attracting and retaining qualified personnel.
 - Reliance on key vendors for technical services and support
- and
- Continued uncertainty over the U. S. Government's ability to resolve its budgetary issues and avoid further disruptions such as government shutdowns and debt ceiling limits.

First Quarter Results

Now let me summarize our results of operations from our first quarter of fiscal year 2014 compared to our first quarter of fiscal 2013:

- Revenues in our first quarter of fiscal 2014 were \$32.0 million compared to revenues of \$33.3 million;

- Gross profit declined to 45.8% of revenues, from 50.7%;
- We reduced operating expenses by \$4.5 million. Operating expenses were 42.8% of revenues compared to 54.8% of revenues;
- Net income totaled \$0.7 million compared to net loss of \$1.4 million; and
- Income per share on a diluted basis was \$0.06, compared to a loss per share of \$0.11.

In addition, the following are key balance sheet items at January 3, 2014 compared to September 27, 2013:

- Cash and cash equivalents increased to \$27.8 million compared to \$26.6 million.
- Net working capital (current assets minus current liabilities) increased to \$3.3 million compared to \$1.7 million.

First Quarter Revenue and Participants

Now let's discuss our first quarter results in more detail.

First, I would like to remind everyone that we follow a 52- or 53-week fiscal year. This means that our year-end and quarter-end dates are on the Friday nearest the end of the calendar quarter. This method is used in order to better align our external financial reporting with the way we operate our business. Since all courses have a duration of five days or less, and all courses begin and end within the same calendar week, under the 52- or 53-week fiscal year method all revenues and related direct costs for each course event are recognized in the week and the fiscal quarter in which the event takes place. Our fiscal year 2014 will end on October 3, 2014 and will comprise 53 weeks. In addition, the number of weeks in each quarter for fiscal year 2014 will vary. The first quarter of fiscal 2014 which ended January 3, 2014 had 14 weeks, the second quarter of fiscal 2014 will have 12 weeks, the third quarter of fiscal 2014 will have 13 weeks,

and the fourth quarter of fiscal 2014 will have 14 weeks. The change for the first and second quarters will mainly impact expenses as there is no change in the number of available training weeks as compared to the same quarters in fiscal year 2013 due to the Christmas and New Year holidays. The additional training week for fiscal year 2014 will occur in our fourth quarter. Every quarter of fiscal year 2013 was comprised of 13 weeks.

Revenues for our first quarter of fiscal 2014 of \$32.0 million were 3.8% lower than our revenues of \$33.3 million in the same quarter of fiscal 2013. This principally resulted from a 7.8% decrease in the number of participants that was partially offset by a 3.5% increase in the average revenue per participant when compared to the same quarter of the prior fiscal year.

Overall, during our first quarter of fiscal 2014, we trained a total of 17,698 course participants, compared to 19,189 course participants in our same quarter last year. Compared to the first quarter of fiscal 2013, during our first quarter of fiscal 2014:

- Attendee-days of IT training decreased by 6.3% to 38,123 from 40,688;
- Attendee-days of management training decreased by 9.5% to 24,586 from 27,165; and
- Total attendee-days of training were 62,709, a decrease of 7.6% from 67,853 in the first quarter of fiscal 2013.

The decrease in the number of participants was primarily due to a decline in the number of courses delivered onsite at client locations, and the elimination of participants attending under a special, more-heavily discounted passport program, which started in our fourth quarter of fiscal 2012 and largely ended June 30, 2013. The elimination of these discounted passport sales and the

favorable shift in mix between higher priced courses at our education center and courses delivered onsite at client locations largely accounts for the increase in average revenue per participant. Revenues from customers who purchased courses under our U.S. Government General Service Administration (“GSA”) contract schedules were \$1.2 million lower for the first quarter of fiscal year 2014 compared to the first quarter of fiscal year 2013. Changes in foreign exchange rates did not materially impact revenue quarter over quarter.

First Quarter Operations

Next, I’ll discuss our operations in our first quarter of fiscal 2014 and how they compare with our same quarter of fiscal 2013.

During our first quarter of fiscal 2014, we presented 1,492 events, a 3.3% decrease from the 1,543 events conducted during the same period in fiscal 2013.

Cost of Revenues. Cost of revenues was 54.2% of revenues in our first quarter of fiscal 2014 compared to 49.3% in our first quarter of fiscal 2013, and our gross profit percentage accordingly was 45.8% compared to 50.7% in our prior year first quarter. The change in cost of revenues as a percentage of revenues in our first quarter of fiscal 2014 primarily reflects a 5.6% increase in cost per participant that was partially offset by the 3.5% increase in revenue per participant. The increase in the cost per participant was driven primarily by the apportionment of the fixed costs related to our education centers over a lower participant base and a 4.6% reduction in the average number of participants per course. Costs of revenues for the first quarter of fiscal year 2013 were negatively impacted by \$0.4 million in costs related to Hurricane Sandy.

Changes in foreign exchange rates do not materially affect our gross profit percentage, since exchange rate changes affect our cost of revenues by approximately the same percentage as they affect our revenues.

Course Development Expense. During our first quarter of fiscal 2014, we reduced our course development expense by \$0.2 million to \$1.9 million compared to \$2.1 million in the same quarter of fiscal 2013. Course development expense was 6.0% of revenues in our first quarter of fiscal 2014 compared to 6.3% in the same quarter of fiscal 2013.

In our first quarter of fiscal 2014, we introduced six new management course titles, and we retired two IT course titles and five management course titles.

Our library of instructor-led courses included a total of 182 titles at the end of our first quarter of fiscal 2014 compared with 193 titles at the same point a year earlier. At the end of our first quarter of fiscal 2014, we had 121 IT titles in our course library, compared with 120 IT titles at the end of our first quarter of fiscal 2013. Our library included 61 management titles at the end of our first quarter of fiscal 2014, compared to 73 a year earlier.

Sales and Marketing Expense. In our first quarter of fiscal 2014, we reduced our sales and marketing expense by \$1.6 million to \$6.2 million from \$7.8 million in the same quarter last year. The reduction was primarily achieved through a reduction in direct marketing costs and a decrease in personnel expenses as a result of reduced staffing levels.

General and Administrative Expense. G&A expense during our first quarter of fiscal 2014 was \$5.6 million, a \$2.7 million decrease from the \$8.3 million spent in our first quarter of fiscal 2013. The decrease was due primarily to \$1.9 million of non-recurring expenses incurred in the first quarter of fiscal year 2013 that included a restructuring charge related to the closure of our Los Angeles, CA offices and costs incurred by a special committee of our Board of Directors to evaluate two proposed offers and any other expressions of interest to acquire the company. Lower salary and benefit costs from reduced staffing levels also materially contributed to the lower G&A expense in the first quarter of fiscal 2014 compared to the same quarter a year earlier.

Income (Loss) from Operations. In our first quarter of fiscal 2014, we recorded income from operations of \$0.9 million, or 3.0% of revenues, compared to a loss from operations of \$1.4 million, or negative 4.1% of revenues, in the same quarter of our fiscal 2013.

Other Income and Expense, Net. During our first quarter of both fiscal years 2014 and 2013, other expense was less than \$0.1 million.

Pre-Tax Income (Loss). Pre-tax income in our first quarter of fiscal 2014 was \$0.9 million compared to a pre-tax loss of \$1.4 million in our first quarter of fiscal 2013.

Income Taxes. Our tax provision for the first quarter of fiscal 2014 was \$0.2 million, compared to a provision of less than \$0.1 million in our first quarter of fiscal 2013. The tax provision for the first quarter of fiscal 2014 reflects estimates for foreign taxes and U.S. state taxes.

Net Income (Loss). Net income for our first quarter was \$0.7 million, or 2.3% of revenues, compared to a net loss of \$1.4 million, or negative 4.3% of revenues in our first quarter of fiscal 2013.

Liquidity and Capital Resources

During our first quarter of fiscal year 2014, our cash and cash equivalents increased by \$1.2 million to \$27.8 million at January 3, 2014 from \$26.6 million at September 27, 2013. This increase primarily resulted from cash provided by operations of \$1.6 million, partially offset by capital expenditures of \$0.4 million.

I will now turn the call over to Max Shevitz our President.

Outlook

In developing our forward-looking outlook for our second quarter of fiscal 2014, in addition to our usual metrics, we have taken the following additional factors into consideration.

Since the U.S. Government began sequestration in 2013, our U.S. operations have experienced a substantial reduction in the amount of net bookings under our GSA contracts. Combined with the impact of continued weak European economies, this has resulted in a decrease in our worldwide total net enrollments. In addition, the severe weather we have recently experienced at our East Coast education centers has negatively impacted both, attendance at courses in our second

quarter of fiscal 2014 and new enrollments we've taken for the second quarter and future quarters.

With the introduction of our AnyWare Learning Centers™, we have expanded our distribution channels for our courses in order to make attendance more convenient and cost effective for our customers. We have found that this enhancement of our delivery channels has resulted in a slightly shorter buying cycle; our clients are shortening the average time from initial enrollment in a course to their actual attendance. This shorter buying cycle has somewhat reduced our visibility for future enrollments and has made forecasting future financial results somewhat more difficult.

Finally, our second quarter is historically the lowest revenue quarter of our fiscal year.

With all of this in mind, I will now discuss our guidance for the second quarter of fiscal 2014.

Second Quarter Fiscal 2014 Financial Guidance

Second Quarter Revenues. For our second quarter of fiscal 2014, we currently expect revenues of between \$22.9 million and \$24.4 million, compared to revenues of \$26.9 million in our second quarter of fiscal 2013.

Second Quarter Gross Profit. We expect a gross profit percentage in our second quarter of fiscal 2014 of between 34.1% and 35.3% compared to 44.8% in our second quarter of fiscal 2013.

Second Quarter Operating Expenses. We expect overall operating expenses for our second quarter of fiscal 2014 to be between \$14.2 million and \$15.0 million, compared to \$15.9 million in the same quarter a year earlier.

Second Quarter Loss from Operations. As a result of the above factors, we expect to incur an operating loss of between \$5.6 million and \$7.2 million for our second quarter of fiscal 2014, compared with an operating loss of \$3.8 million in our second quarter of fiscal 2013.

Second Quarter Other Income (Expense), Net. We expect second quarter other expense, net to be less than \$0.1 million.

Second Quarter Pre-Tax Loss. Overall, we expect to report pre-tax results for our second quarter of fiscal 2014 of between a loss of \$5.5million and \$7.3 million, compared with a pre-tax loss of \$3.6 million in our second quarter of fiscal 2013.

Effective Tax Rate. We have determined that due to the establishment of a valuation allowance against deferred tax assets in the U.S., we will no longer be providing guidance on the next quarter's effective tax rate. This is due to the potential volatility of the effective tax rate as a result of the effect of the valuation allowance.

Effect of Exchange Rates. Because we conduct approximately half of our business in currencies other than U.S. dollars, fluctuations in exchange rates will affect revenues and expenses when translated into dollars. Since both revenues and expenses are generally denominated in our subsidiaries' local currency, changes in exchange rates that have an adverse effect on our foreign revenues are partially offset by a favorable effect on our foreign expenses.

Summary

We continue to monitor the economic indicators for North America and Europe. We are hopeful that the recent U.S. Government budget accord will have a positive result on future net enrollments from our customers who purchase under our GSA Contract Schedule. We continue to invest in our business to better position Learning Tree to capitalize on improvements in the economies of North America and Europe, and we continue to work hard to generate more business and to reduce our costs in order to continue to improve our operating results.

And now we'd like to open the floor for questions.

Thank you. Over the past 39 years, Learning Tree's mission has been to provide technical and business professionals with the skills and knowledge that significantly enhance their on-the-job productivity, and thereby improve the performance and increase the competitive advantage of their employers. We continue to strive to fulfill this mission.