

Learning Tree International, Inc.
Fiscal Year 2015 First Quarter Conference Call

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

February 10, 2015

Good Afternoon.

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.

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 2015, which ended January 2, 2015. Max Shevitz, our President, will then provide some forward-looking information about our second quarter of fiscal 2015 and our future plans. After those remarks, we'll open the floor for questions and discussion.

Forward Looking Statement Disclaimer:

As a reminder, the statements contained herein that are not historical facts are forward-looking statements based on management's current expectations and beliefs concerning future developments and their potential effects on Learning Tree. Such statements involve inherent risks and uncertainties, many of which are difficult to predict and are generally beyond the control of Learning Tree. There can be no assurance that future developments affecting Learning Tree will be the same as those anticipated. Learning Tree cautions readers that a number of

important factors could cause actual results to differ materially from those expressed in, or implied or projected by, such forward-looking statements. Investors should not put undue reliance on these forward-looking statements, since they are based on key assumptions about future risks and uncertainties. Some of the factors 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
- The U. S. Government's ability to continue to resolve its budgetary issues and avoid disruptions such as government shutdowns and sequestration.

Learning Tree is not undertaking any obligation to update forward-looking statements contained herein to reflect future events, developments or changed circumstances.

In order to help the reader assess the factors and risks in our business that could cause actual results to differ materially from those expressed in the forward looking statements, we discussed in the 2014 Form 10-K, those risks in Item 1A, "Risk Factors". Please read the 2014 Form 10-K,

including Item 1A, which is filed with the SEC and available at the SEC's Internet site (www.sec.gov).

First Quarter Results

Before discussing our results, 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 to better align our external financial reporting with the way we operate our business. Since all of our courses have a duration of five days or less, and 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. Accordingly, our first quarter of fiscal 2015 ended on January 2, 2015 and encompassed 13 weeks, while our first quarter of the prior fiscal year ended on January 3, 2014 and encompassed 14 weeks. Both first quarters had the same number of holiday closure weeks with the net result being our first quarter of fiscal 2015 had one less week of revenue partially offset by one less week of expense.

Now let me summarize some key line items from our first quarter of fiscal 2015:

- Revenues in our first quarter of fiscal 2015 were \$27.2 million, compared to revenues of \$32.0 million in our first quarter of fiscal 2014;
- Our gross profit percentage in our first quarter was 43.8% of revenues, compared to 45.8% in our same quarter of fiscal 2014;
- Operating expenses in our first quarter of fiscal 2015 were \$13.1 million, compared to \$13.7 million in our first quarter of fiscal 2014;

- Loss from operations for the first quarter was \$1.2 million, compared to income from operations of \$0.9 million for the first quarter of fiscal 2014.
- Net loss for the first quarter of fiscal 2015 totaled \$1.2 million compared to net income of \$0.7 million for the first quarter of fiscal 2014.

First Quarter Revenue and Participants

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

In our first quarter of fiscal 2015 our revenues of \$27.2 million were 15.0% lower than our revenues of \$32.0 million in the same quarter of fiscal 2014. This principally resulted from a 9.0% decrease in the number of participants and a 5.9% decrease in the average revenue per participant when compared to the same quarter of the prior fiscal year. The decrease in the number of participants compared to the same quarter of our prior year was primarily due to the one less training week in the first quarter of fiscal 2015 as compared to the first quarter of fiscal 2014. The decrease in the average revenue per participant was caused by a change in participant mix among our product offerings and also by changes in foreign exchange rates. Revenues were negatively impacted by approximately 2.9% quarter over quarter as a result of changes in foreign exchange rates.

Overall, during our first quarter of fiscal 2015, we trained a total of 16,104 course participants, compared to 17,698 course participants in our same quarter last year. Compared to our first quarter of fiscal 2014, during our first quarter of fiscal 2015:

- Attendee-days of IT training decreased by 13.3% to 33,061 from 38,123;

- Attendee-days of management training decreased by 11.5% to 21,762 from 24,586; and
- Total attendee-days of training were 54,823, a decrease of 12.6% from 62,709 in our first quarter of fiscal 2014.

First Quarter Operations

Next, I'll discuss our operations in our first quarter of fiscal 2015 and how they compare with our same quarter of fiscal 2014.

During our first quarter of fiscal 2015, we presented 1,332 events, a 10.7% decrease from the 1,492 events conducted during the same period in fiscal 2014.

Cost of Revenues. Cost of revenues was 56.2% of revenues in our first quarter of fiscal 2015 compared to 54.2% in our first quarter of fiscal 2014, and our gross profit percentage accordingly was 43.8% compared to 45.8% in our prior year. The change in cost of revenues as a percentage of revenues in our first quarter of fiscal 2015 primarily reflects the 5.9% decrease in revenue per participant that was partially offset by a 3.1% decrease in cost per participant. The decrease in the cost per participant is primarily the result of a 1.9% increase in the average number of participants per event and the favorable impact on expenses from changes in foreign exchange rates. 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 2015, course development expense decreased by \$0.1 million to \$1.8 million compared to \$1.9 million in the same quarter

of fiscal 2014. Course development expense was 6.5% of revenues in our first quarter of fiscal 2015 compared to 6.0% in the same quarter of fiscal 2014.

In our first quarter of fiscal 2015, we introduced four new IT course titles and one new management course title. We retired three IT course titles in our first quarter. Our library of instructor-led courses numbered 181 course titles at the end of our first quarter of fiscal 2015 compared with 182 course titles at the same point a year earlier. At the end of our first quarter of fiscal 2015, we had 118 IT course titles in our library, compared with 121 IT course titles at the end of our first quarter of fiscal 2014. Our library included 63 management course titles at the end of our first quarter of fiscal 2015, compared to 61 a year earlier. The number of course titles I just described excludes the 1-Day courses, as none were scheduled in the first quarter.

Sales and Marketing Expense. In our first quarter of fiscal 2015 our sales and marketing expense decreased by \$0.2 million to \$6.0 million from \$6.2 million in the same quarter last year. The decrease was driven primarily by the favorable impact of foreign exchange rates on the expenses incurred by our foreign subsidiaries when compared to the first quarter of fiscal 2014.

General and Administrative Expense. G&A expense during our first quarter of fiscal 2015 was \$5.3 million, a \$0.3 million decrease from the \$5.6 million spent in our first quarter of fiscal 2014. The decrease primarily resulted from lower personnel costs and the favorable impact of foreign exchange rates.

Income (Loss) from Operations. In our first quarter of fiscal 2015, we recorded a loss from operations of \$1.2 million, or negative 4.5% of revenues, compared to income from operations of \$0.9 million, or 3.0% of revenues, in the same quarter of our fiscal 2014.

Other Income and Expense. In our first quarter of fiscal 2015, we had other income of \$0.2 million compared to other expense of less than \$0.1 million in the first quarter of fiscal 2014, both primarily from foreign exchange gains or losses.

Pre-Tax Income (Loss). Pre-tax loss in our first quarter of fiscal 2015 was \$1.0 million compared to pre-tax income of \$0.9 million in our first quarter of fiscal 2014.

Income Taxes. Income tax expense for our first quarter of fiscal 2015 was \$0.2 million, the same as in our first quarter of fiscal 2014. The tax expense for our first quarters of fiscal 2015 and 2014 are primarily for foreign taxes.

Net Income (Loss). Net loss for our first quarter was \$1.2 million, compared to net income of \$0.7 million in our first quarter of fiscal 2014.

Liquidity and Capital Resources

During our first quarter of fiscal 2015, the total of our cash and cash equivalents decreased by \$1.8 million to \$29.2 million at January 2, 2015. This decrease primarily resulted from capital expenditures of \$1.4 million, and the effects of exchange rate changes on cash and cash equivalents of \$0.5 million.

I will now turn the call over to Max Shevitz our President, to discuss some current developments and the outlook for our second quarter of fiscal 2015.

Outlook

We continue to see a decline in bookings on a year over year basis for our European operations. North America bookings, which in prior quarters produced gains offsetting the declines in Europe, have slowed to levels approximating the prior year period. In addition, our second quarter historically is our slowest quarter based on seasonality, and the strengthening of the U. S. dollar against the functional currencies of our subsidiaries continues to negatively impact our results of operations when compared to prior period results.

As we discussed on our last conference call, we recently began running a series of pilot, AnyWare™ based, “1-Day Express Boot Camp” instructor-led courses, on topics ranging from Scrum and Agile to Big Data, Cyber Security and other rapidly advancing technologies. The pilots of the initial 1-Day courses occurred in January and provided excellent feedback from the invited attendees. These 1-Day events are intended to provide participants with an intensive overview of an important technology, together with practical, hands-on experience and skills that will enhance their knowledge and understanding. We are continuing to develop and evaluate additional 1-Day courses.

As previously disclosed, we continue to seek a strategic transaction involving our French subsidiary, Learning Tree International SA, which transaction may include the sale of the French

company or its business. The financial outlook for the second quarter of fiscal 2015 does not reflect the consummation of any disposition or other strategic transaction involving our French subsidiary, if any.

Second Quarter Fiscal 2015 Financial Guidance

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. If the exchange rates of January 30, 2015 remain constant for the remainder of our second quarter of fiscal 2015, we would expect changes in foreign exchange rates to unfavorably affect revenues by about 6.9% in our second quarter when compared to our same quarter of fiscal 2014. To the extent that the U.S. dollar continues its rise against the functional currencies of our foreign subsidiaries, we would expect to experience further negative impact to our second quarter 2015 revenues. As a large percentage of our overhead costs are U.S. dollar based, we would expect the corresponding positive impact to expense to be substantially less.

Second Quarter Number of Weeks. Due to our use of the 52- or 53- week fiscal year, our second quarter of fiscal 2015 will have 13 weeks as compared to the second quarter of fiscal 2014 which had 12 weeks.

Second Quarter Revenues. For our second quarter of fiscal 2015, we currently expect revenues of between \$23.0 million and \$24.0 million, compared to revenues of \$25.0 million in our second quarter of fiscal 2014.

Second Quarter Gross Profit. We expect a gross profit percentage in our second quarter of fiscal 2015 of between 32.4% and 33.1% compared to 37.2% in our second quarter of fiscal 2014.

Second Quarter Operating Expenses. We expect overall operating expenses for our second quarter of fiscal 2015 to be between \$15.0 million and \$15.5 million, compared to \$13.6 million in the same quarter a year earlier.

Second Quarter Income (Loss) from Operations. As a result of the above factors, we expect to incur a second quarter operating loss of between \$7.0 million and \$8.0 million compared with an operating loss of \$4.3 million in our second quarter of fiscal 2014.

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

Second Quarter Pre-Tax Income (Loss). Overall, we expect to report pre-tax results for our second quarter of fiscal 2015 of between a loss of \$7.0 million and a loss of \$8.1 million, compared with a pre-tax loss of \$(4.4) million in our second quarter of fiscal 2014.

Effective Tax Rate. The valuation allowance against deferred tax assets in the U.S. makes our effective tax rate subject to significant fluctuation depending on small changes in our pre-tax income. As a result, we no longer provide guidance on our next quarter's effective tax rate.

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

Thank you. Over the past 40 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.