Learning Tree International, Inc.

First Quarter Fiscal Year 2017 Conference Call

Remarks by
Richard Spires, Chief Executive Officer
and David Asai, Chief Financial Officer

February 9, 2017

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. I am joined today by Richard Spires, our CEO and Magnus Nylund, our COO. First I will read the disclaimer on forward-looking statements and then discuss our performance in our first quarter of fiscal year 2017, which ended December 30, 2016. Richard Spires will provide forward-looking information about our second quarter of fiscal 2017, and our expectations for the remainder of fiscal year 2017. After those remarks, we'll open the floor for questions and discussion.

Forward Looking Statement Disclaimer:

As a reminder, there are statements in this presentation that are not historical facts and are forward-looking statements within the meaning of the federal securities laws. These forward-looking statements, including the second quarter 2017 financial performance guidance, are based on management's current expectations, assumptions, available information 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 discussed in our annual report on Form 10-K filed with the SEC that could affect us include risks associated with:

- Ability to obtain additional liquidity in amounts and on terms acceptable to the Company;
- Ability to reverse our trend of declining year over year revenues, and maintain liquidity;
- Ability to successfully implement our new strategies to increase revenue and to achieve our cost reduction goals;
- Competition;
- International operations, including currency fluctuations;
- Attracting and retaining qualified personnel;
- Intellectual property, including having to defend potential infringement claims;
- Implementation of partnerships with third party providers of courses and or course material;
- Efficient delivery and scheduling of our courses;
- Technology development and new technology introduction;
- The timely development, introduction, and customer acceptance of our products;
- Changing economic and market conditions; and

- Adverse weather conditions, strikes, acts of war or terrorism and other external events.

Learning Tree is not undertaking any obligation to revise or update forward-looking statements contained herein to reflect future events, developments or changed circumstances after the date of this presentation, unless otherwise required by law.

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, please read our first quarter report on Form 10-Q and our 2016 annual report on Form 10-K, as amended on Form 10-K/A, including Item 1A, which is filed with the SEC and available at the SEC's Internet site (http://www.sec.gov).

I must 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. The first quarter of fiscal years 2017 and 2016 were both comprised of thirteen weeks.

First Quarter Results

Now let me summarize some key line items from our first quarter of fiscal 2017:

- Revenues in our first quarter of fiscal 2017 were $18.6 million, a decrease of 7.8%, compared to revenues of $20.1 million in our first quarter of fiscal 2016;
- Our gross profit percentage in our first quarter was 42.9% of revenues, compared to 41.1% in the same quarter of fiscal 2016;

- Operating expenses decreased in our first quarter of fiscal 2017 to $8.5 million, compared to $10.5 million in our first quarter of fiscal 2016.
- Net loss for our first quarter of fiscal 2017 was $0.4 million compared to a net loss of $2.3 million for the first quarter of fiscal 2016; and
- Loss per share on a diluted basis for our first quarter of fiscal 2017 was $(0.03), compared to a loss per share of $(0.17) in our first quarter of fiscal 2016.

First Quarter FY 2017 Revenue and Participants

In the first quarter of fiscal 2017, our revenues of $18.6 million were 7.8% lower than our revenues of $20.1 million in the first quarter of fiscal 2016. This principally resulted from an 11.1% decrease in the average revenue per participant partially offset by a 3.7% increase in the number of participants when compared to the first quarter of fiscal 2016. The decrease in the average revenue per participant was caused primarily by lower average revenue from the implementation of periodic pricing promotions and strategies, and changes in foreign exchange rates, which negatively impacted revenues by 4.8%.

Overall, during our first quarter of fiscal 2017, we trained 13,374 course participants, compared to 12,901 course participants in the first quarter of fiscal 2016.

First Quarter FY 2017 Operations

Cost of Revenues. Cost of revenues was 57.1% of revenues in the first quarter of fiscal 2017 compared to 58.9% in the first quarter of fiscal 2016, and accordingly, our gross profit percentage was 42.9% in the first quarter of fiscal 2017 compared to 41.1% in the first quarter of the prior year. The change in cost of revenues as a percentage of revenues in fiscal 2017 primarily reflects the combined effects of the 11.1% decrease in average revenue per participant that was offset by a 13.8% decrease in cost per participant. The decrease in cost per participant is primarily the result of a 10.7% decrease in the cost of revenues and the 3.7% increase in participants. The decrease in costs of revenues reflect lower real estate costs and the impact of our cost reduction program. 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 the first quarter of fiscal 2017, course development expense decreased by $0.5 million to $0.8 million compared to $1.3 million in the first quarter of fiscal 2016. Course development expenses were 4.1% of revenues in the first quarter of fiscal 2017 compared to 6.5% in the prior year's first quarter.

Our library of instructor-led courses numbered 326 course titles at the end of our first quarter of fiscal 2017 compared to 346 course titles at the end of the first quarter of fiscal 2016.

Sales and Marketing Expense. In the first quarter of fiscal 2017, our sales and marketing expense decreased by $1.0 million to $3.6 million from $4.6 million in the first quarter of fiscal 2016. The decrease was primarily due to decreases in direct marketing costs and personnel expenses when compared to the first quarter of the prior year.

General and Administrative Expense. General and Administrative expense during the first quarter of fiscal 2017 was $4.1 million, compared to $4.6 million in the first quarter of fiscal 2016. The decrease was primarily due to reduced personnel expense as a result of our cost reduction program.

Income (Loss) from Operations. In the first quarter of fiscal 2017, we recorded a loss from operations of $0.5 million, compared to a loss from operations of $2.3 million, in the first quarter of fiscal 2016.

Other Income and Expense. During the first quarters of fiscal years 2017 and 2016, we had other income of $0.2 million and $0.1 million, respectively, primarily from foreign exchange gains.

Income Taxes. The tax provisions for the first quarter of fiscal 2017 was $0.1 million the same as the tax provision for the first quarter of fiscal 2016.

Net Income (Loss). Net loss for the first quarter of fiscal 2017 was $0.4 million, compared to a net loss of $2.3 million, in the first quarter of fiscal 2016**.**

Liquidity and Capital Resources

During the first quarter of fiscal year 2017, the total of our cash and cash equivalents decreased by $1.3 million to $7.2 million at December 30, 2016 from $8.5 million at September 30, 2016.

This decrease primarily resulted from cash used in operations of $1.1 million and the negative effects of exchange rate changes on cash and cash equivalents of operations of $0.2 million.

As of and for the first quarter of fiscal year 2017 ended December 30, 2016, we reported an accumulated stockholders' deficit of $15.7 million and we have also reported negative cash flow from operations in the first quarter of fiscal 2017, and for the previous five fiscal years as our revenues have declined each year over year during this period. At December 30, 2016, our capital resources consisted of cash and cash equivalents of $7.2 million. While we have, and will continue to take steps to stabilize revenues and decrease our operating costs on a year over year basis for fiscal year 2017, which we will discuss in more detail shortly, unless we are able to improve our liquidity in the future, there continues to be substantial doubt about the Company's ability to continue as a going concern. Our registered independent public accounting firm's report issued on our audited financial statements for the year ended September 30, 2016 included an explanatory paragraph expressing substantial doubt in the Company's ability to continue as a going concern. As discussed previously, we were able to establish a maximum $3.0 million line of credit with a lender. The line is secured by our U.S. Operation's accounts receivable and is subject to limitations based on the amounts of available accounts receivable. There have been no borrowings to date on this line of credit.

I will now turn the call over to Richard Spires our Chief Executive Officer, to address our projections for the second quarter of fiscal year 2017 and our expectations for the remainder of Fiscal Year 2017.

This is Richard Spires, the Chief Executive Officer of the company. Prior to providing an outlook for the remainder of Fiscal Year 2017, I wanted to make a couple of comments on our first quarter performance. While revenue did drop 7.8% in the first quarter of 2017 versus the first quarter of 2016, the effect of foreign exchange rates impacted our revenue negatively by 4.8%. Overall we actually increased the number of attendees served during the first quarter of 2017 versus first quarter 2016 by 3.7%, reversing a trend in reduced number of attendees. While this increase in attendees is largely attributable to aggressive pricing offers, it is still a very positive development for our business.

In terms of costs, our comprehensive cost reduction program is beginning to have a significant impact when looking at first quarter of fiscal year 2017 as compared to first quarter of fiscal year 2016. Our initiatives to lower direct costs increased our gross profit percentage to 42.9% of revenues, up from 41.1% the first quarter of last fiscal year. In terms of operating expenses, we dropped costs by $2.1 million in the first quarter of fiscal year 2017 as compared to the first quarter of fiscal year 2016, which represents a 19.7% reduction. What pleases me most regarding these cost savings is that even though we have taken significant cost reductions in terms of personnel and other support contracts, we have been able to maintain our quality levels and customer satisfaction scores at comparable levels from last year to this year.

Now let's cover our projections for the second quarter:

Second Quarter Fiscal 2017 Financial Guidance

Effect of Exchange Rates. Because we conduct approximately 37% 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 February 1, 2017 remain constant for the remainder of our second quarter of fiscal 2017, we would expect changes in foreign exchange rates to unfavorably affect revenues by approximately 1.7% in our second quarter compared to our same quarter of fiscal 2016.

Second Quarter Revenues. For our second quarter of fiscal 2017, we currently expect revenues of between $15.9 million and $16.9 million, compared to revenues of $18.7 million in our second quarter of fiscal 2016.

Second Quarter Gross Profit. We expect a gross profit percentage in our second quarter of fiscal 2017 of between 42.1% and 43.1% compared to 32.3% in our second quarter of fiscal 2016.

Second Quarter Operating Expenses. We expect overall operating expenses for our second quarter of fiscal 2017 to be between $8.1 million and $9.1 million, compared to $11.3 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 $(1.0) million and $(2.0) million compared with an operating loss of $(5.2) million in our second quarter of fiscal 2016.

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 2017 of a loss between $(1.0) million and $(2.0) million, compared with pre-tax loss of $(5.3) million in our second quarter of fiscal 2016.

Outlook

While management is not pleased to be forecasting a loss in our second quarter of 2017 of between $1 million and $2 million, the second quarter is historically our worst quarter in performance, in which we are coming off the holiday season in December and bookings for new business is very low.   In addition, we are also seeing lower enrollments in the U.S. government sector which we are attributing to the transition to a new administration. First quarter of fiscal year 2017 revenues from customers who purchased courses under our U.S. Government General Service Administration contract schedules was down 17.5% compared to the same period last year. Based on historical performance during administration transitions, we expect continued slowness in our U.S. federal government business will last through our second quarter of 2017.

Since our last earnings call was less than a month ago, on January 18th, I will not repeat much of what I covered on that call on our strategy for getting Learning Tree back to growth and profitability.   Since that call we have made a couple of major announcements. First, we have become a Microsoft Learning Partner and we are moving rapidly to begin to work with Microsoft to enhance our curricula by offering 76 addition Microsoft Official Content courses. We are working with a number of other premier IT vendors and will be announcing additional vendor learning partnerships in the near term.

Earlier this week we also announced a major new contract award, a five-year deal to serve NATO as their strategic learning partner for the provision of training solutions for the NATO

Communications and Information (NCI) Agency. Under this contract we can provide training solutions for up to 33,000 staff across 28 European and North American countries. This award demonstrates our ability to provide managed learning solutions on a global scale and we are very pleased to reestablish our position as a strategic learning partner for NATO.

We believe that the strategies and initiatives we have and are implementing, is positioning Learning Tree to stabilize and then grow our revenues and improve our operating expenses. Our objective remains to generate a positive operating income for overall fiscal year 2017. Although we are and will continue to work diligently to accomplish these goals, there is no assurance that we will achieve them and if so, by the expected timing of fiscal year 2017. I also note that due to the recent history of year over year declines in revenue and the current liquidity position of the Company, there are significant risks that we will not accomplish enough of our goals to achieve positive cash flows in fiscal 2017.

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

Thank you. Over the past 42 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.