Learning Tree International, Inc.

First Quarter Fiscal Year 2018 Conference Call

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

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For your convenience, the text of today's prepared remarks will be posted 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 Chief Executive Officer and Magnus Nylund, our Chief Operating Officer. First, I will read the disclaimer on forward-looking statements and then discuss our performance in our first quarter of fiscal year 2018, which ended December 29, 2017. Richard Spires will provide forward-looking information about our second quarter of fiscal year 2018, and our expectations for the remainder of fiscal year 2018. 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 2018 financial performance guidance, and any expectations for the second quarter or full year 2018 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, as well as in our other reports filed with the SEC that could affect us include risks associated with:

- Ability to continue as a going concern;
- Ability to reverse our trend of declining year over year revenues and negative cash flows from operations and to maintain sufficient liquidity;
- Ability to obtain additional liquidity in amounts and on terms acceptable to the Company;
- Ability to successfully implement our new strategies including achieving 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, new technology introduction;
- Maintaining cybersecurity;
- The timely development, introduction, and customer acceptance of our courses and other products;
- A majority of our outstanding common stock is beneficially owned by our chairman and his spouse;
- 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 2017 annual report on Form 10-K, including Item 1A "Risk Factors", which is filed with the SEC, and is available at the SEC's Internet site (www.sec.gov) as well as our other filings with the SEC.

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 2018 and 2017 were both comprised of thirteen weeks.

First Quarter FY 2018 Revenue and Participants

In the first quarter of fiscal 2018, our revenues of $17.2 million were 7.3% lower than our revenues of $18.6 million in the first quarter of fiscal 2017. This principally resulted from an 8.9% decrease in the average revenue per participant partially offset by a 1.8% increase in the number of participants when compared to the first quarter of fiscal 2017. The decrease in the average revenue per participant was caused primarily by lower average revenue from the implementation of periodic pricing promotions and strategies, partially offset by changes in foreign exchange rates, which positively impacted revenues by 2.3%.

Overall, during our first quarter of fiscal 2018, we trained 13,613 course participants, compared to 13,374 course participants in the first quarter of fiscal 2017.

First Quarter FY 2018 Operations

Cost of Revenues. Cost of revenues was 52.9% of revenues in the first quarter of fiscal 2018 compared to 57.1% in the first quarter of fiscal 2017, and accordingly, our gross profit percentage was 47.1% in the first quarter of fiscal 2018 compared to 42.9% in the first quarter of the prior year. The change in cost of revenues as a percentage of revenues in fiscal 2018 primarily reflects the 8.9% decrease in average revenue per participant that was offset by a 15.6% decrease in cost per participant. The decrease in cost per participant is primarily the result of a 14.1% decrease in the cost of revenues and the 1.8% increase in participants. The decrease in costs of revenues reflects the impact of our continuing cost reduction program, including lower real estate costs due to renegotiated leases for smaller space at select education centers and closure of select AnyWare centers. 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 2018, course development expense decreased by $0.1 million to $0.7 million compared to $0.8 million in the first quarter of fiscal 2017. Course development expenses were 4.1% of revenues in the first quarter of fiscal 2018, the same as in the prior year's first quarter.

Our library of instructor-led courses numbered 331 course titles at the end of our first quarter of fiscal 2018 compared to 326 course titles at the end of the first quarter of fiscal 2017.

Sales and Marketing Expense. In the first quarter of fiscal 2018, our sales and marketing expense decreased by $0.4 million to $3.2 million from $3.6 million in the first quarter of fiscal 2017. The decrease was primarily due to decreases in direct marketing costs and personnel expenses as part of our continuing cost reduction program when compared to the first quarter of the prior year.

General and Administrative Expense. General and Administrative expense during the first quarter of fiscal 2018 was $3.6 million, compared to $4.1 million in the first quarter of fiscal 2017. The decrease was primarily due to the results of our ongoing cost reduction program.

Restructuring Charge. As a result of changes in estimates related to real estate tax escalation, we recorded an additional non-cash restructuring charge of $0.1 million related to our Reston, Virginia facility in the first quarter of fiscal 2018. In addition, we negotiated an early termination of our lease of the Toronto Education Center and paid surrender and brokerage fees of $0.2 million which was recorded as additional restructuring charges in the first quarter of fiscal 2018. We did not record any restructuring charge in the first quarter of fiscal 2017.

Income (Loss) from Operations. In the first quarter of fiscal 2018, we recorded income from operations of $0.3 million, which includes the $0.3 million in restructuring charges, compared to a loss from operations of $0.5 million, in the first quarter of fiscal 2017.

Other Income (Expense), Net. During the first quarter of fiscal year 2018, we had other expense of less than $0.1 million compared to other income of $0.2 million in the first quarter of fiscal year 2017, primarily from net foreign exchange losses for the first quarter of fiscal year 2018 and net foreign exchange gains for the first quarter of fiscal year 2017.

Income Taxes. We recorded an income tax benefit for the first quarter of fiscal 2018 of less than $0.1 million as a result of releasing the U.S. valuation allowance attributable to minimum tax credit carryforward, which is now refundable under the new tax law. The tax provision for the first quarter of fiscal year 2017 was less than $0.1 million, and was primarily related to state income taxes and the income tax expense of the Company’s foreign subsidiaries.

Net Income (Loss). Net income for the first quarter of fiscal 2018 was $0.4 million, which includes the $0.3 million restructuring charge, compared to a net loss of $0.4 million, in the first quarter of fiscal 2017**.**

Liquidity and Capital Resources

As of the first quarter of fiscal year 2018, which ended December 29, 2017, we reported an accumulated deficit of $17.1 million compared to $17.4 million at the end of fiscal year 2017. We have also reported positive cash flow from operations for the three months ended December 29, 2017. At December 29, 2017, our capital resources consisted of cash and cash equivalents of $5.1 million, the same amount we had at the year ended September 29, 2017. We have established a $3.0 million line of credit with Action Capital Corporation. 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. 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 2018, 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 29, 2017 included an explanatory paragraph expressing substantial doubt in the Company's ability to continue as a going concern.

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 2018 and our expectations for the full-year Fiscal Year 2018.

This is Richard Spires, the Chief Executive Officer of the company. I will first cover our projections for the second quarter of fiscal 2018:

Second Quarter Fiscal 2018 Financial Guidance

Effect of Exchange Rates. Because we currently conduct approximately 43% 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, 2018 remain constant for the remainder of our second quarter of fiscal 2018, we would expect changes in foreign exchange rates to favorably affect revenues by approximately 5.2% in our second quarter compared to our same quarter of fiscal 2017.

Second Quarter Revenues. For our second quarter of fiscal 2018, we currently expect revenues of between $14.2 million and $15.2 million, compared to revenues of $16.1 million in our second quarter of fiscal 2017.

Second Quarter Gross Profit. We expect a gross profit percentage in our second quarter of fiscal 2018 of between 40.3% and 41.3% compared to 40.1% in our second quarter of fiscal 2017.

Second Quarter Operating Expenses. We expect overall operating expenses for our second quarter of fiscal 2018 to be between $7.3 million and $7.7 million, compared to $8.5 million in the same quarter a year earlier. Operating expenses for the second quarter of fiscal 2017 included a $0.4 million restructuring charge.

Second Quarter Income (Loss) from Operations. As a result of the above factors, we expect to have a second quarter operating loss of between $1.0 million and $2.0 million compared with an operating loss of $2.1 million in our second quarter of fiscal 2017 which also includes the $0.4 million restructuring charge.

Second Quarter Other Income (Expense), Net. We expect second quarter other expense, net to be less than $0.1 million, compared to other expense of $0.1 million in our second quarter of fiscal 2017.

Second Quarter Pre-Tax Income (Loss). Overall, for our second quarter of fiscal 2018, we expect to report a pre-tax results loss of between $1.0 million and $2.1 million, compared to a pre-tax loss of $2.2 million in our second quarter of fiscal 2017.

Outlook for Fiscal Year 2018

Our second quarter of the fiscal year is, from a financial perspective, typically our lowest-performing quarter, based on seasonality and the buying patterns of some of our major clients. In the second quarter 2018, our business with the US Federal Government is down significantly in bookings, in particular for public course attendance. We currently attribute this decline principally to the ongoing Continuing Resolutions of Congress that are currently funding the federal government, and the uncertainty regarding fiscal year 2018 government funding. We are continuing to seek ways to drive operating efficiencies and lower our cost structure in the second quarter of fiscal 2018 to preserve and improve our capital resources in the near term.

Looking beyond the second quarter, we are not making any specific forecasts for the third or fourth quarters of 2018 at this time, but early indications as of today are positive in terms of the level of future booked business we have received to be executed for the remainder of fiscal 2018.

For the full fiscal year 2018, it is our objective for the Company to continue to improve profitability and achieve a positive income from operations. While achieving profitability is one objective, it is also our objective to return this Company to growth, in which our revenues, when comparing a quarter’s performance to the same quarter the previous year, is once again growing. We are not currently projecting such revenue growth in fiscal year 2018, but we continue to strive to position the Company to achieve this revenue growth.

Although we are and will continue to work diligently to accomplish our goals and objectives, there is no assurance that we will achieve them and if so, by the expected timing of the end of fiscal year 2018. 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 the near term.

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

Thank you.