

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

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

**May 8, 2014**

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](http://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 second quarter of fiscal year 2014, which ended March 28, 2014. Max Shevitz, our President, will then provide some forward-looking information about our third 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.

## **Second Quarter Results**

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

- Revenues in our second quarter of fiscal 2014 were \$25.0 million compared to revenues of \$26.9 million;

- Gross profit declined to 37.2% of revenues, from 44.8%;
- We reduced operating expenses by \$2.3 million. Operating expenses were 54.4% of revenues compared to 59.1% of revenues;
- Net loss totaled \$4.6 million compared to net loss of \$4.0 million; and
- Loss per share on a diluted basis was \$0.35, compared to a loss per share of \$0.30.

## **Second Quarter Revenue and Participants**

Before discussing our second quarter results in more detail, I would like to remind everyone that we use the 52/53-week fiscal year method to better align our external financial reporting with the manner in which we operate our business. Under this method, each fiscal quarter ends on the Friday closest to the end of the calendar quarter. Since all courses have a duration of five days or less, and all courses begin and end within the same calendar week, under the 52/53week 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. In most years, including fiscal year 2013, each fiscal quarter has 13 weeks; however fiscal year 2014 has 53 weeks, with 14, 12, 13 and 14 weeks in our first, second, third and fourth quarters respectively. Furthermore, a particularly unusual convergence of this year's Christmas and New Year's holiday dates together with the end date of our first quarter on January 3, 2014 meant that irrespective of the change in the number of weeks in our first and second quarters of fiscal 2014, both of those quarters had the same number of revenue producing weeks as the corresponding periods of fiscal 2013. On the other hand, we had one week more of operating expenses in our first quarter and one week less of operating expenses in our second quarter in fiscal 2014 compared to the same periods of

the prior year. The six months ended March 28, 2014 encompassed 26 weeks the same as for the six months ended March 29, 2013.

Revenues for our second quarter of fiscal 2014 of \$25.0 million were 7.2% lower than our revenues of \$26.9 million in the same quarter of fiscal 2013. This principally resulted from an 11.9% decrease in the number of course participants, which was partially offset by a 5.3% increase in the average revenue per participant when compared to the same quarter of the prior fiscal year.

We believe our second quarter of fiscal year 2014 was negatively impacted by the severe winter weather experienced in the United States. Many of our participants were unable to attend their courses due to the inclement weather experienced during the period, however the adverse impact was less than it might have been because many of those who originally planned to attend their course at an education center were instead able to access their course from their home or office by using AnyWare™, our proprietary web-based attendance platform. Additionally, our sales team lost days of productivity because of the storms, the results of which will still be felt into our third quarter.

Overall, during our second quarter of fiscal 2014, we trained a total of 14,962 course participants, compared to 16,978 course participants in our same quarter last year. Compared to our second quarter of fiscal 2013, during our second quarter of fiscal 2014:

- Attendee-days of IT training decreased by 16.8% to 30,704 from 36,900;
- Attendee-days of management training increased by 0.5% to 21,702 from 21,594; and

- Total attendee-days of training were 52,406, a decrease of 10.4% from 58,494 in our second quarter of fiscal 2013.

The decrease in the number of participants was primarily due to (i) the elimination of participants attending in the prior year under a special, more-heavily discounted passport program, which started in our fourth quarter of fiscal 2012 and largely ended June 30, 2013, (ii) unusually harsh winter weather especially in the eastern United States where the majority of our U.S. education centers are located, and (iii) a decline in the number of courses delivered onsite at client locations. The average revenue per participant increased compared to the same quarter in the prior fiscal year largely due to the elimination of the more-heavily discounted passport program and the favorable shift in mix to proportionally more higher price courses at our education centers and proportionally fewer courses delivered onsite at client locations. Revenues from customers who purchased courses under our U.S. Government General Service Administration (“GSA”) contract schedules were \$0.3 million higher for our second quarter of fiscal year 2014 compared to our second quarter of fiscal year 2013. Changes in foreign exchange rates did not materially impact revenue quarter over quarter.

### **Second Quarter Operations**

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

During our second quarter of fiscal 2014, we presented 1,246 events, a 5.7% decrease from the 1,321 events conducted during the same period in fiscal 2013.

**Cost of Revenues.** Cost of revenues was 62.8% of revenues in our second quarter of fiscal 2014 compared to 55.2% in our second quarter of fiscal 2013, and our gross profit percentage was 37.2% compared to 44.8% in our prior year second quarter. The \$0.9 million increase in cost of revenues quarter over quarter was primarily caused by increased facility costs related to the expansion of the number of stand-alone AnyWare Learning Centers, increased property taxes, and increased Internet infrastructure fees. The change in cost of revenues as a percentage of revenues in our second quarter of fiscal 2014 primarily reflects a 20.0% increase in cost per participant, which was partially offset by the 5.3% 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, the increase in our facility costs, and a 6.6% reduction in the average number of participants per course. 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 second quarter of fiscal 2014, we reduced our course development expense by \$0.1 million to \$1.8 million compared to \$1.9 million in the same quarter of fiscal 2013. Course development expense was 7.3% of revenues in our second quarter of fiscal 2014 compared to 7.2% in the same quarter of fiscal 2013.

In our second quarter of fiscal 2014, we introduced four new IT course titles and one new management course title, and we retired eight IT and three management course titles.

Our library of instructor-led courses included a total of 176 titles at the end of our second quarter of fiscal 2014 compared with 182 titles at the same point a year earlier. At the end of our second quarter of fiscal 2014, we had 117 IT titles in our course library, the same number of titles as at the end of our second quarter of fiscal 2013. Our library included 59 management titles at the end of our second quarter of fiscal 2014, compared to 65 a year earlier.

**Sales and Marketing Expense.** In our second quarter of fiscal 2014, we reduced our sales and marketing expense by \$1.1 million to \$6.2 million from \$7.3 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 second quarter of fiscal 2014 was \$5.6 million, a \$1.1 million decrease from the \$6.7 million spent in our second quarter of fiscal 2013. The decrease was due primarily to \$0.6 million of non-recurring expenses incurred in our second quarter of fiscal year 2013 for costs incurred by a special committee of our Board of Directors related to a proposed acquisition of the company, and to lower salary and benefit costs for our second quarter of fiscal year 2014 as a result of reduced staffing levels, as well as lower general office costs.

**Income (Loss) from Operations.** In our second quarter of fiscal 2014, we recorded a loss from operations of \$4.3 million compared to a loss from operations of \$3.8 million in the same quarter of our fiscal 2013.

**Other Income and Expense, Net.** During our second quarter of fiscal year 2014 other expense totaled less than \$0.1 million as compared to other income of \$0.2 million for our second quarter of fiscal year 2013. The change is due to fluctuations in foreign exchange rates period over period.

**Pre-Tax Income (Loss).** Pre-tax loss in our second quarter of fiscal 2014 was \$4.4 million compared to a pre-tax loss of \$3.6 million in our second quarter of fiscal 2013.

**Income Taxes.** Our income tax provision for our second quarter of fiscal 2014 was \$0.2 million, compared to a provision of \$0.4 million in our second quarter of fiscal 2013. The tax provision for our second quarter of fiscal 2014 reflects estimates for foreign taxes and U.S. state taxes.

**Net Income (Loss).** Net loss for our second quarter was \$4.6 million compared to a net loss of \$4.0 million in our second quarter of fiscal 2013.

### **Liquidity and Capital Resources**

During our first six months of fiscal year 2014, our cash and cash equivalents decreased by \$3.3 million to \$23.3 million at March 28, 2014 from \$26.6 million at September 27, 2013. This decrease primarily resulted from cash used in operations of \$2.7 million and capital expenditures of \$0.8 million.

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



## **Outlook**

With the introduction of our AnyWare™ Learning Centers, we have widened the distribution channel 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 capability 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. We have taken this into consideration in developing our forward-looking outlook for our third quarter of fiscal 2014.

**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. If the exchange rates as of May 1, 2014 were to remain constant for the remainder of our third quarter we would expect foreign exchange rates to reduce revenues in our third quarter of fiscal year 2014 by approximately 2.0% when compared to our same quarter of fiscal year 2013.

## **Third Quarter Fiscal 2014 Financial Guidance**

**Third Quarter Revenues.** For our third quarter of fiscal 2014, we currently expect revenues of between \$27.0 million and \$28.5 million, compared to revenues of \$29.0 million in our third quarter of fiscal 2013.

**Third Quarter Gross Profit.** We expect a gross profit percentage in our third quarter of fiscal 2014 of between 40.4% and 40.8% compared to 44.3% in our third quarter of fiscal 2013.

**Third Quarter Operating Expenses.** We expect overall operating expenses for our third quarter of fiscal 2014 to be between \$14.6 million and \$15.4 million, compared to \$13.8 million in the same quarter a year earlier. Expected operating expenses for our third quarter of fiscal 2014 do not include a potential \$0.7 million restructuring charge for the final write-off of the Los Angeles office lease which will occur in our third quarter if we are unsuccessful in finding a sub-tenant for the space.

**Third Quarter Loss from Operations.** As a result of the above factors, we expect to incur an operating loss of between \$3.0 million and \$4.5 million for our third quarter of fiscal 2014, compared with an operating loss of \$1.0 million in our third quarter of fiscal 2013.

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

**Third Quarter Pre-Tax Loss.** Overall, we expect to report pre-tax results for our third quarter of fiscal 2014 of between a loss of \$2.9 million and \$4.6 million, compared with a pre-tax loss of \$1.0 million in our third 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.

## **Summary**

With the end of winter finally here, we are cautiously encouraged by recent positive enrollments trends. We have continued to invest in our product and are optimistic that we will start to realize the benefits of all of the initiatives we have taken.

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.