

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

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

May 14, 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 second quarter of fiscal 2015, which ended April 3, 2015. Max Shevitz, our President, will then provide some forward-looking information about our third 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 products;
- 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, licensing, 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 discuss in the 2014 Annual Report on Form 10-K and the Quarterly Report on Form 10-Q for the period

ended April 3, 2015, those risks in Item 1A, “Risk Factors”. Please read the 2014 Form 10-K and the Form 10-Q, including the Risk Factors included therein, which are filed with the SEC and available at the SEC's Internet site (www.sec.gov).

Second 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 second quarter of the current fiscal year ended on April 3, 2015 and encompassed 13 weeks, while our second quarter of the prior fiscal year ended on March 28, 2014 and encompassed 12 weeks.

As previously reported on March 3, 2015, we completed the sale of our subsidiary in France, Learning Tree International S.A., to Educinvest SPRL. The sale resulted in a loss of \$2.5 million. This loss plus the results of operations for Learning Tree France for the three and six month periods ended April 3, 2015 and March 28, 2014, respectively, have been reclassified to the Loss from discontinued operations line on the Condensed Consolidated Statements of Operations. In addition, historical Condensed Consolidated Balance Sheet and Condensed Consolidated Statement of Cash Flow amounts for Learning Tree France have also been reclassified as discontinued operations.

Unless noted, the following discussions reflect comparisons of our continuing operations which exclude Learning Tree France.

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

- Revenues in our second quarter of fiscal 2015 were \$22.2 million, compared to revenues of \$23.2 million in our second quarter of fiscal 2014;
- Our gross profit percentage in our second quarter was 37.0% of revenues, compared to 37.5% in our second quarter of fiscal 2014;
- Operating expenses in our second quarter of fiscal 2015 were \$13.2 million, compared to \$12.3 million in our second quarter of fiscal 2014;
- Loss from continuing operations for the second quarter was \$4.9 million, compared to loss from continuing operations of \$3.9 million for the second quarter of fiscal 2014;
- Loss from discontinued operations for the second quarter totaled \$3.0 million compared to a loss from discontinued operations of \$0.7 million for the second quarter of fiscal 2014; and
- Net loss for the second quarter of fiscal 2015 totaled \$7.9 million compared to a net loss of \$4.6 million for the second quarter of fiscal 2014.

Second Quarter Revenue and Participants

Now let's discuss our second quarter revenues from continuing operations in more detail.

In our second quarter of fiscal 2015 our revenues of \$22.2 million were 4.5% lower than our revenues of \$23.2 million in the same quarter of fiscal 2014. This principally resulted from a 1.9% decrease in average revenue per participant and a 2.6% decrease in the number of course participants. The decrease in the average revenue per participant was caused primarily by changes in foreign exchange rates, which negatively impacted revenues by approximately 6.1% quarter over quarter. The decrease in the number of course participants compared to the same quarter of our prior year was primarily due to the continued decline in bookings in the United Kingdom and Sweden.

Overall, during our second quarter of fiscal 2015, we trained a total of 13,411 course participants, compared to 13,767 course participants in our same quarter last year. Compared to our second quarter of fiscal 2014, during our second quarter of fiscal 2015:

- Attendee-days of IT training increased by 2.7% to 29,151 from 28,389;
- Attendee-days of management training decreased by 15.7% to 16,979 from 20,147; and
- Total attendee-days of training were 46,130, a decrease of 5.0% from 48,536 in our second quarter of fiscal 2014.

Second Quarter Operations

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

During our second quarter of fiscal 2015, we presented 1,165 events, an 8.9% increase from the 1,070 events conducted during the same period in fiscal 2014.

Cost of Revenues. Cost of revenues was 63.0% of revenues in our second quarter of fiscal 2015 compared to 62.5% in our second quarter of fiscal 2014, and our gross profit percentage accordingly was 37.0% compared to 37.5% in our prior year. The change in cost of revenues as a percentage of revenues in our second quarter of fiscal 2015 primarily reflects the 1.9% decrease in revenue per participant that was partially offset by a 1.1% decrease in cost per participant. The decrease in the cost per participant is primarily the result of 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 second quarter of fiscal 2015, course development expense increased by \$0.4 million to \$2.1 million compared to \$1.7 million in the same quarter of fiscal 2014. Course development expense was 9.5% of revenues in our second quarter of fiscal 2015 compared to 7.5% in the same quarter of fiscal 2014.

In our second quarter of fiscal 2015, we introduced three new multi-day IT course titles, one new multi-day management course title, and 34 1-Day Boot Camp courses. We retired three multi-day IT course titles in our second quarter. Our library of instructor-led courses numbered 216 course titles at the end of our second quarter of fiscal 2015 compared with 176 course titles at the same point a year earlier. At the end of our second quarter of fiscal 2015, we had 118 multi-day IT course titles in our library, compared with 117 multi-day IT course titles at the end of our second quarter of fiscal 2014. Our library included 64 multi-day management course titles at the end of our second quarter of fiscal 2015, compared to 59 a year earlier. Our library of 1-Day

Boot Camp courses numbered 34 at the end of our second quarter of fiscal year 2015, compared to no such courses at the end of the same quarter of fiscal year 2014.

Sales and Marketing Expense. In our second quarter of fiscal 2015 our sales and marketing expense increased by \$0.6 million to \$6.1 million from \$5.5 million in the same quarter last year. The increase was driven primarily by increases in direct marketing costs, and personnel expenses partially offset by the favorable impact of foreign exchange rates on the expenses incurred by our foreign subsidiaries when compared to the second quarter of fiscal 2014.

General and Administrative Expense. G&A expense during our second quarter of fiscal 2015 was \$5.0 million, a \$0.1 million decrease from the \$5.1 million spent in our second quarter of fiscal 2014. The decrease primarily resulted from the favorable impact of foreign exchange rates on the expenses incurred by our foreign subsidiaries.

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

Pre-Tax Income (Loss) from Operations. In our second quarter of fiscal 2015, we recorded a loss from continuing operations before taxes of \$4.8 million, or negative 21.8% of revenues,

compared to a loss from continuing operations of \$3.6 million, or negative 15.7% of revenues, in the same quarter of our fiscal 2014.

Income Taxes. Income tax expense for continuing operations for our second quarter of fiscal 2015 was \$0.1 million, compared to \$0.3 million for our second quarter of fiscal 2014. The tax expense for our second quarters of fiscal 2015 and 2014 are primarily for foreign taxes.

Loss from Discontinued Operations. Our loss from discontinued operations totaled \$3.0 million in our second quarter of fiscal year 2015 compared to a loss of \$0.7 million in our second quarter of fiscal year 2014. The loss in our second quarter of 2015 includes the \$2.5 million loss from the disposition of our French operating subsidiary.

Net Income (Loss). Net loss for our second quarter was \$7.9 million, compared to a net loss of \$4.6 million in our second quarter of fiscal 2014.

Liquidity and Capital Resources

During our first six months of fiscal year 2015, the total of our cash and cash equivalents from continuing operations decreased by \$7.6 million to \$22.3 million at April 3, 2015. This decrease primarily resulted from cash used in operating activities of \$4.9 million, capital expenditures of \$2.2 million, and the effects of exchange rate changes on cash and cash equivalents of \$0.5 million. The decline in our operating performance has resulted in an increase in net cash used in operating activities, and we expect continued net cash usage in operating activities. We believe

that our cash and cash equivalents on hand will be sufficient to satisfy our anticipated cash requirements for the foreseeable future.

Our common stock is listed on the NASDAQ Global Market which has certain requirements for continued listing. One requirement is that a company maintain stockholders' equity of at least \$10 million. At April 3, 2015, our stockholders' equity was \$6.5 million. If we are unable to comply with the listing requirements of the NASDAQ Global Market, we may be required to transfer the listing of our securities to the NASDAQ Capital Market or the OTC Market.

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

Outlook

We continue to experience a decline in European bookings on a year over year basis, while bookings in North America have flattened out. 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. We have increased our sales and marketing efforts to try to combat the decline in bookings. In addition, we are looking at ways to broaden the range of services we provide our customers.

During the second quarter of fiscal year 2015, we added 34 1-Day Boot Camp Courses to our library of instructor lead IT and Management multi-day courses. We are now advertising over

200 1-Day Boot Camp Courses and expect the ramp up period for these courses to take several quarters.

Now let me address our projections for the third quarter of fiscal year 2015.

Third Quarter Fiscal 2015 Financial Guidance

Effect of Exchange Rates. Because we conduct approximately 45% 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 average exchange rates as of May 4, 2015 remain constant for the remainder of our third quarter of fiscal 2015, we would expect changes in foreign exchange rates to unfavorably affect revenues by about 5.3% in our third 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 third 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.

Third Quarter Number of Weeks. Due to our use of the 52- or 53- week fiscal year, our third quarter of fiscal year 2015 will have 13 weeks, the same as in the third quarter of fiscal year 2014, however, the last week of the this year's quarter is the Fourth of July holiday week in the U.S. which fell in the fourth quarter in fiscal year 2014. We typically do not run courses the week of July 4th in North America.

Third Quarter Revenues. For our third quarter of fiscal 2015, we currently expect revenues from continuing operations of between \$22.6 million and \$23.6 million, compared to revenues of \$25.7 million in our third quarter of fiscal 2014.

Third Quarter Gross Profit. We expect a gross profit percentage in our third quarter of fiscal 2015 of between 37.5% and 38.7% compared to 43.5% in our third quarter of fiscal 2014.

Third Quarter Operating Expenses. We expect overall operating expenses for our third quarter of fiscal 2015 to be between \$13.0 million and \$13.5 million, compared to \$14.0 million in the same quarter a year earlier.

Third Quarter Income (Loss) from Continuing Operations. As a result of the above factors, we expect to incur a third quarter operating loss from continuing operations of between \$3.9 million and \$5.0 million compared with an operating loss from continuing operations of \$2.8 million in our third quarter of fiscal 2014.

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

Third Quarter Pre-Tax Income (Loss). Overall, we expect to report pre-tax results from continuing operations for our third quarter of fiscal 2015 of between a loss of \$3.9 million and a loss of \$5.1 million, compared with a pre-tax loss from continuing operations of \$2.8 million in our third 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.