Learning Tree International, Inc.

Second Quarter Fiscal Year 2017 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 second quarter, which ended March 31, 2017. Richard Spires will provide forward-looking information about our third quarter, 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 third quarter 2017 and fiscal year 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, as well as in our other reports filed with the SEC that could affect us include risks associated with:

- Our ability to continue as a going concern
- 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, negative cash flows from operations 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;
- a majority of our outstanding common stock is beneficially owned by our chairman and his spouse;
- risks associated with cyber security
- 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 second 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 "Risk Factors", 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 second quarter of fiscal years 2017 and 2016 were both comprised of thirteen weeks.

Second Quarter FY 2017 Revenue and Participants

In the second quarter of fiscal 2017, our revenues of $16.1 million were 14.0% lower than our revenues of $18.7 million in the second quarter of fiscal 2016. This principally resulted from a 12.6% decrease in the average revenue per participant and a 1.6% decrease in the number of participants when compared to the second 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 2.5%.

Overall, during our second quarter of fiscal 2017, we trained 12,368 course participants, compared to 12,567 course participants in the second quarter of fiscal 2016.

Second Quarter FY 2017 Operations

Cost of Revenues. Cost of revenues was 59.9% of revenues in the second quarter of fiscal 2017 compared to 67.7% in the second quarter of fiscal 2016, and accordingly, our gross profit percentage was 40.1% in the second quarter of fiscal 2017 compared to 32.3% in the second 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 12.6% decrease in average revenue per participant that was offset by a 22.7% decrease in cost per participant. The decrease in cost per participant is primarily the result of a 23.9% decrease in the cost of revenues partially offset by the 1.6% decrease in participants. The decrease in costs of revenues reflects the impact of our cost reduction program, lower number of events and the positive 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 the second quarter of fiscal 2017, course development expense decreased by $0.5 million to $0.8 million compared to $1.3 million in the second quarter of fiscal 2016. Course development expenses were 4.7% of revenues in the second quarter of fiscal 2017 compared to 7.1% in the prior year's second quarter.

Our library of instructor-led courses numbered 304 course titles at the end of our second quarter of fiscal 2017 compared to 369 course titles at the end of the second quarter of fiscal 2016.

Sales and Marketing Expense. In the second quarter of fiscal 2017, our sales and marketing expense decreased by $1.4 million to $3.5 million from $4.9 million in the second quarter of fiscal 2016. The decrease was primarily due to decreases in direct marketing costs and personnel expenses as part of our cost reduction program when compared to the second quarter of the prior year.

General and Administrative Expense. General and Administrative expense during the second quarter of fiscal 2017 was $3.9 million, compared to $5.0 million in the second quarter of fiscal 2016. The decrease was primarily due to the results of our ongoing cost reduction program.

Restructuring Charge. As a result in changes in estimates, we recorded an additional non-cash restructuring charge of $0.4 million related to our Reston, Virginia facility. This is in addition to the $1.9 million non-cash charge booked in the fourth quarter of fiscal 2016.

Income (Loss) from Operations. In the second quarter of fiscal 2017, we recorded a loss from operations of $2.1 million, compared to a loss from operations of $5.2 million, in the second quarter of fiscal 2016.

Other Income and Expense. During each of the second quarters of fiscal years 2017 and 2016, we had other expense of $0.1 million, primarily from foreign exchange losses.

Income Taxes. The tax provisions for the second quarter of fiscal 2017 was $0.2 million compared to $0.1 million for the second quarter of fiscal 2016.

Net Income (Loss). Net loss for the second quarter of fiscal 2017 was $2.3 million, compared to a net loss of $5.4 million, in the second quarter of fiscal 2016**.**

Liquidity and Capital Resources

During the first six months of fiscal year 2017, our cash and cash equivalents decreased by $3.2 million to $5.3 million at March 31, 2017 from $8.5 million at September 30, 2016. This decrease primarily resulted from cash used in operations of $3.1 million and the negative effects of exchange rate changes on cash and cash equivalents of operations of $0.1 million.

As of and for the second quarter of fiscal year 2017, we reported an accumulated stockholders' deficit of $18.0 million and negative cash flow from operations in the second quarter of fiscal 2017, and for the previous four fiscal years as our revenues have declined each year over year during this period. At March 31, 2017, our capital resources consisted of cash and cash equivalents of $5.3 million. 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 2017, 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. Our quarterly reports on Form 10-Q for the first and second quarters of 2017 also contain an explanatory footnote related to our 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 third 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 second quarter performance. While revenue did drop 14.0% in the second quarter of 2017 versus the second quarter of 2016, the effect of foreign exchange rates impacted our revenue negatively by 2.5%. Our U.S. Government General Service Administration contract business was down 15.3% in our second quarter of 2017 versus second quarter of 2016. Our belief is that the start of the new presidential administration combined with the budget uncertainty for the government fiscal year 2017, which was finally resolved last week with a passage of a bill funding the U.S. federal government for 2017, accounted for the weakness in our U.S. federal government business in the 2^{nd} quarter.

In terms of costs, our comprehensive cost reduction program is beginning to have a significant impact when looking at second quarter of fiscal year 2017 as compared to second quarter of fiscal year 2016. Our initiatives to lower direct costs increased our gross profit percentage to 40.1% of revenues, up from 32.3% the second quarter of last fiscal year. In terms of operating expenses, we dropped costs by $2.8 million in the second quarter of fiscal year 2017 as compared to the second quarter of fiscal year 2016, which represents a 24.5% reduction. I continue to be pleased 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 third quarter:

Third Quarter Fiscal 2017 Financial Guidance

Effect of Exchange Rates. Because we conduct approximately 42% 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 May 1, 2017 remain constant for the remainder of our third quarter of fiscal 2017, we would expect changes in foreign exchange rates to unfavorably affect revenues by approximately 2.6% in our third quarter compared to our same quarter of fiscal 2016.

Third Quarter Revenues. For our third quarter of fiscal 2017, we currently expect revenues of between $16.8 million and $17.8 million, compared to revenues of $21.1 million in our third quarter of fiscal 2016.

Third Quarter Gross Profit. We expect a gross profit percentage in our third quarter of fiscal 2017 of between 42.8% and 43.8% compared to 37.2% in our third quarter of fiscal 2016.

Third Quarter Operating Expenses. We expect overall operating expenses for our third quarter of fiscal 2017 to be between $7.8 million and $8.2 million, compared to $10.8 million in the same quarter a year earlier.

Third Quarter Income (Loss) from Operations. As a result of the above factors, we expect to incur a third quarter operating loss of between break-even and $(1.0) million compared with an operating loss of $(3.0) million in our third quarter of fiscal 2016.

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 for our third quarter of fiscal 2017 of a loss between break-even and $(1.1) million, compared with pre-tax loss of $(2.8) million in our third quarter of fiscal 2016.

Outlook

Although the Company has been diligently working to achieve an operating income break-even position, we are currently forecasting a loss in our third quarter of 2017 of between $0 million and $1 million. We also continue to experience lower enrollments in the U.S. government sector, which we are attributing to the transition to a new administration and the budget uncertainty. Based on historical performance during administration transitions, we expect the continued slowness in our U.S. federal government business will last through our third quarter of 2017. However, after the third quarter, with the passage of budget legislation, we anticipate there will be growing enrollments from the U.S. federal government.

In regards to strategy, we continue to pursue a three-pronged strategy of:

1) Offering a full range of Workforce Optimization Solutions that augment our traditional hands-on, instructor-led training capabilities;

2) Adding e-Learning capabilities to our training solutions; and

3) Providing a comprehensive suite of training courses to meet the needs of IT organizations.

In addition to our becoming a Microsoft Learning Partner, which I mentioned on our last earnings call, we have aggressively been pursuing partnerships with certification organizations, particularly in the cyber security and agile development arenas. In cyber security, we now offer training courses that support attendees working to obtain certifications from (ISC)^2, ISACA, CompTIA, and EC-Council. In agile, we work with the Scrum Alliance, ICAgile, and Scaled Agile, among others.   In the vendor arena, we have now partnered with vendors and other training providers to significantly increase our breadth of course offerings, to include product training on Cisco, Adobe, IBM, Red Hat, Oracle, F5, and Palo Alto Networks. All of these partnerships help to establish Learning Tree as a premier provider of training to support the needs of IT organizations.

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. In our last earnings call, I stated that our objective for fiscal year 2017 was to generate a positive operating income for the full fiscal year. Given our second quarter performance including the added restructuring charge, that objective will be difficult to achieve. Based on an improving pipeline and anticipated improvement in enrollments from the U.S. federal government, we anticipate the 4th quarter 2017 to follow recent historical trends as the strongest quarter of our fiscal year. Although we are and will continue to work diligently to accomplish our goals, there is no assurance that we will achieve them and if so, by the expected timing 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. 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.