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 third quarter of fiscal year 2014, which ended June 27, 2014. Max Shevitz, our President, will then provide some forward-looking information about our fourth 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
- The U. S. Government’s ability to continue to resolve its budgetary issues and avoid disruptions such as government shutdowns and debt ceiling limits.

**Third Quarter Results**

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

- Revenues in our third quarter of fiscal 2014 were $28.8 million compared to revenues of $29.0 million;
• Gross profit declined to 43.9% of revenues, from 44.3%;
• Operating expenses increased by $1.5 million. Operating expenses were 53.3% of revenues compared to 47.7% of revenues;
• Net loss totaled $2.7 million compared to net loss of $1.1 million; and
• Loss per share on a diluted basis was $0.21, compared to a loss per share of $0.08.

**Third Quarter Revenue and Participants**

Before discussing our third 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 52/53-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. 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. The three and nine months ended June 27, 2014 encompassed 13 and 39 weeks, respectively, the same as for the three and nine months ended June 28, 2013.

Revenues for our third quarter of fiscal 2014 of $28.8 million were 0.7% lower than our revenues of $29.0 million in the same quarter of fiscal 2013. This principally resulted from a 9.4% decrease in the number of course participants, as well as a small decrease in other revenues,
primarily from room rental revenues, which was partially offset by a 9.6% increase in the average revenue per participant when compared to the same quarter of the prior fiscal year.

Overall, during our third quarter of fiscal 2014, we trained a total of 16,642 course participants, compared to 18,363 course participants in our same quarter last year. Compared to our third quarter of fiscal 2013, during our third quarter of fiscal 2014:

- Attendee-days of IT training decreased by 17.3% to 34,099 from 41,226;
- Attendee-days of management training increased by 8.3% to 26,237 from 24,218; and
- Total attendee-days of training were 60,336, a decrease of 7.8% from 65,444 in our third quarter of fiscal 2013.

The decrease in the number of participants was primarily due to 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. 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. Changes in foreign exchange rates positively impacted our third quarter of fiscal year 2014 revenues by approximately 2.0% when compared to the third quarter of fiscal year 2013.
Third Quarter Operations

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

During our third quarter of fiscal 2014, we presented 1,338 events, a 5.1% decrease from the 1,410 events conducted during the same period in fiscal 2013.

Cost of Revenues. Cost of revenues was 56.1% of revenues in our third quarter of fiscal 2014 compared to 55.7% in our third quarter of fiscal 2013, and our gross profit percentage was 43.9% compared to 44.3% in our prior year third quarter. The change in cost of revenues as a percentage of revenues in our third quarter of fiscal 2014 primarily reflects a 10.3% increase in cost per participant, which was partially offset by the 9.6% 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, an increase in our facility costs, and a 4.5% reduction in the average number of participants per event. 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 third quarter of fiscal 2014, our course development expense was $1.9 million compared to $2.0 million in the same quarter of fiscal 2013. Course development expense was 6.8% of revenues in our third quarter of fiscal 2014 compared to 6.9% in the same quarter of fiscal 2013.
In our third quarter of fiscal 2014, we introduced six new IT course titles and one new management course title, and we retired two IT course titles.

Our library of instructor-led courses included a total of 181 titles at the end of our third quarter of fiscal 2014 compared with 185 titles at the same point a year earlier. At the end of our third quarter of fiscal 2014, we had 121 IT titles in our course library, one less than the 122 IT titles at the end of our third quarter of fiscal 2013. Our library included 60 management titles at the end of our third quarter of fiscal 2014, compared to 63 a year earlier.

**Sales and Marketing Expense.** In our third quarter of fiscal 2014, we reduced our sales and marketing expense by $0.5 million to $6.3 million from $6.8 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 third quarter of fiscal 2014 was $7.1 million, a $2.1 million increase from the $5.0 million spent in our third quarter of fiscal 2013. The increase was primarily due to $0.8 million of non-recurring expenses incurred in our third quarter of fiscal year 2014 compared to a $0.7 million non-recurring credit recorded in the third quarter of fiscal year 2013. Non-recurring expenses in our third quarter of 2014 included an increase of $0.5 million in the restructuring charge for the closure of our Los Angeles office facility to reflect an adjustment to our estimate of the amount of sublease income we expect to receive during the remaining lease term, as well as a non-recurring charge for $0.3 million of severance expense for a change in our management structure at one of our foreign subsidiaries.
In contrast, general and administrative expenses for the third quarter of fiscal year 2013 were positively impacted by the reversal of a $0.7 million reserve due to a favorable settlement of a labor dispute at one of our foreign subsidiaries. General and administrative expense in our third quarter of 2014 also included $0.3 million of increased personnel and consulting costs related to the upgrade of our information systems infrastructure. We anticipate this increase in our IT expense to continue into the future.

**Income (Loss) from Operations.** In our third quarter of fiscal 2014, we recorded a loss from operations of $2.7 million compared to a loss from operations of $1.0 million in the same quarter of our fiscal 2013.

**Other Income and Expense, Net.** During both our third quarters of fiscal years 2014 and 2013, other expense totaled less than $0.1 million.

**Pre-Tax Income (Loss).** Pre-tax loss in our third quarter of fiscal 2014 was $2.7 million compared to a pre-tax loss of $1.0 million in our third quarter of fiscal 2013.

**Income Taxes.** Our income tax provision for our third quarter of fiscal 2014 was $0.1 million, the same as the provision of $0.1 million in our third quarter of fiscal 2013. The tax provision for our third quarter of fiscal 2014 primarily reflects estimates for foreign taxes.
**Net Income (Loss).** Net loss for our third quarter was $2.7 million compared to a net loss of $1.1 million in our third quarter of fiscal 2013.

**Liquidity and Capital Resources**

During our first nine months of fiscal year 2014, our cash and cash equivalents decreased by $5.0 million to $21.6 million at June 27, 2014 from $26.6 million at September 27, 2013. This decrease primarily resulted from cash used in operations of $4.0 million and capital expenditures of $1.2 million.

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

**Real Estate**

Before I go into the outlook for the fourth quarter, I would like to spend a moment on real estate matters. As we have previously announced, we are in the process of selling our headquarters facility located in Reston, Virginia. We have been evaluating all of our real estate holdings with the goal of reducing our brick and mortar fixed costs. The sale of the headquarters facility is the first step of this process. We now are evaluating the opportunity to either relocate our headquarters staff into excess space at our Reston, Virginia education center, or potentially to sublet that education center space and relocate both our headquarters staff and our Reston education center to less costly property. We will keep you informed as major decisions are made.

**Outlook**

Our clients are shortening the average time from initial enrollment in a course to their actual attendance. This shorter buying cycle has reduced our visibility for future enrollments and has
made forecasting future financial results more difficult. We have taken this into consideration in
developing our forward-looking outlook for our fourth 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 August 1, 2014 were to
remain constant for the remainder of our fourth quarter we would expect foreign exchange rates
to increase revenues in our fourth quarter of fiscal year 2014 by approximately 1.4% when
compared to our same quarter of fiscal year 2013.

**Course Weeks**

As explained earlier, with fiscal year 2014 being a 53 week year, our fourth quarter of fiscal year
2014 will have 14 weeks, resulting in an extra revenue producing week as well as an extra week
of expense. Fiscal year 2015 reverts back to our normal 52 week year. While each quarter of
fiscal year 2015 will have 13 weeks of expense, due to the timing of holidays, the first quarter of
fiscal year 2015 will have just 10 revenue producing weeks compared to 11 weeks in the first
quarter for each of the last four fiscal years.
Fourth Quarter Fiscal 2014 Financial Guidance

Fourth Quarter Revenues. For our fourth quarter of fiscal 2014, we currently expect revenues of between $29.5 million and $31.5 million, compared to revenues of $27.6 million in our fourth quarter of fiscal 2013.

Fourth Quarter Gross Profit. We expect a gross profit percentage in our fourth quarter of fiscal 2014 of between 43.6% and 44.0% compared to 43.6% in our fourth quarter of fiscal 2013.

Fourth Quarter Operating Expenses. We expect overall operating expenses for our fourth quarter of fiscal 2014 to be between $14.5 million and $15.3 million, compared to $14.0 million in the same quarter a year earlier.

Fourth Quarter Loss from Operations. As a result of the above factors, we expect to incur an operating loss of between $0.7 million and $2.4 million for our fourth quarter of fiscal 2014, compared with an operating loss of $2.0 million in our fourth quarter of fiscal 2013.

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

Fourth Quarter Pre-Tax Loss. Overall, we expect to report pre-tax results for our fourth quarter of fiscal 2014 of between a loss of $0.7 million and $2.5 million, compared with a pre-tax loss of $2.3 million in our fourth quarter of fiscal 2013.

Our projected results for the fourth quarter of fiscal 2014 do not include any gain from the potential sale of our Reston headquarters facility.
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

Based on our third quarter results, revenues appear to be stabilizing on a year over year basis. Our third quarter was negatively impacted by several one-time, non-recurring charges, especially when compared to the same quarter of last year. We are taking steps to reduce our fixed brick and mortar costs in order to improve gross margins going forward, and working hard to continue to improve the return on our investment in marketing and sales.

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.