Learning Tree International, Inc.

Third Quarter Fiscal Year 2018 Conference Call

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

August 7, 2018

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 third quarter of fiscal year 2018, which ended June 29, 2018. Richard Spires will provide forward-looking information about our fourth quarter of fiscal year 2018 and discuss the recent share sale by one of our founder's. 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 fourth quarter 2018 financial performance guidance, and any expectations for the fourth 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;
- Ability to identify and execute upon strategic options for the Company;
- 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 defenses;
- The timely development, introduction, and customer acceptance of our courses and other products;
- A majority of our outstanding common stock is beneficially owned by a trust, which is associated with the Chairman of our Board;
- Our majority stockholder having significant influence over the composition of our Board;
- Our majority stockholder being the largest unsecured creditor of the Company;
- Conversion of the amounts borrowed by the Company under the Credit Agreement potentially resulting in substantial dilution;
- The Credit Agreement;
- 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” as well as our current Form 10-Q and other filings with the SEC, which are available at the SEC's Internet site (www.sec.gov).

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 third quarter of fiscal years 2018 and 2017 were both comprised of thirteen weeks.

Third Quarter FY 2018 Revenue and Participants

In the third quarter of fiscal 2018, our revenues of $16.2 million were 1.2% lower than our revenues of $16.4 million in the third quarter of fiscal 2017. This principally resulted from a 0.4% decrease in the number of course participants and a 0.8% decrease in the average revenue per participant when compared to the third quarter of fiscal 2017. The decrease in the number of course participants during the third quarter for fiscal year 2018 was slightly mitigated from the Easter holiday occurring in the second quarter for fiscal year 2018 compared to occurring in the third quarter for fiscal year 2017. The week before and the week after Easter is historically a weaker period of course enrollments. The decrease in the average revenue per participant was caused primarily by continued pricing initiatives that are in place to attract additional customers and was partially offset by changes in foreign exchange rates, primarily in the United Kingdom, which positively impacted revenues by approximately 1.7% quarter over quarter.

Overall, during our third quarter of fiscal 2018, we trained 12,589 course participants, compared to 12,637 course participants in the third quarter of fiscal 2017.

Third Quarter FY 2018 Operations

Cost of Revenues. Cost of revenues was 59.6% of revenues in the third quarter of fiscal 2018 compared to 58.4% in the third quarter of fiscal 2017, and accordingly, our gross profit percentage was 40.4% in the third quarter of fiscal 2018 compared to 41.6% in the third quarter of the prior year. The change in cost of revenues as a percentage of revenues in fiscal 2018 primarily reflects the 0.8% decrease in average revenue per participant and a 1.3% increase in cost per participant. The increase in cost per participant is primarily the result of a 0.9% increase in the cost of revenues and the 0.4% decrease in participants. The increase in costs of revenues primarily reflect the 8.1% increase in the number of events and the costs related to using third party content and having certification exam fees in more events, partially offset from the impact of our continuing Cost Reduction Program. 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. For the third quarter of fiscal 2018, course development expense remained constant at $0.7 million the same amount as in the third quarter of fiscal 2017. Course development expenses were 4.5% of revenues in the third quarter of fiscal 2018, compared to 4.0% in the prior year’s third quarter.

Our library of instructor-led courses numbered 314 course titles at the end of our third quarter of fiscal 2018 compared to 310 course titles at the end of the third quarter of fiscal 2017.

Sales and Marketing Expense.

Sales and marketing expenses in our third quarter of fiscal year 2018 were 19.9% of revenues, compared to 19.5% in the same quarter of fiscal year 2017. Sales and marketing expenses were

$3.2 million in our third quarter of fiscal year 2018, the same as during our third quarter of fiscal year 2017.

General and Administrative Expense. General and Administrative expense during the third quarter of fiscal 2018 was $3.0 million, compared to $3.5 million in the third quarter of fiscal 2017. The decrease was primarily due to the results of our ongoing Cost Reduction Program and the reimbursement of transaction amounts previously expensed.

Loss from Operations. In the third quarter of fiscal 2018, we recorded loss from operations of $0.4 million, compared to a loss from operations of $0.5 million for the third quarter of fiscal 2017.

Other Income (Expense), Net. During the third quarter of fiscal year 2018, we had other income of $0.2 million compared to other expense of $0.3 million in the second quarter of fiscal year 2017, primarily from net foreign exchange gains for the third quarter of fiscal year 2018 compared to net foreign exchange losses for the third quarter of fiscal year 2017.

Income Taxes. We recorded a tax provision for the third quarters of fiscal 2018 and 2017 of less than $0.1 million each. The provisions for these quarters are primarily related to state income taxes, true-up of estimates to actual returns filed, and the income tax expense of the Company’s foreign subsidiaries. Our year to date 2018 income tax provision additionally includes the release of valuation allowance in relation to the refundable minimum tax credit carryforward resulting from the tax law changes in the Tax Cuts and Jobs Act of 2017.

Net Loss. Net loss for the third quarter of fiscal 2018 was $0.3 million compared to a net loss of $0.9 million for the third quarter of fiscal 2017**.**

Liquidity and Capital Resources

As of the third quarter of fiscal year 2018, which ended June 29, 2018, we reported an accumulated deficit of $19.8 million compared to $17.4 million at the end of fiscal year 2017.

While we have reported negative cash flow from operations for the nine months ended June 29, 2018, and for the previous five fiscal years as our revenues have declined each year during this period, the negative cash flow has been significantly reduced. For the nine months ended June 29, 2018, we used $1.9 million of cash for operating activities compared to $3.3 million of cash for the nine months ended June 30, 2017. At June 29, 2018, our capital resources consisted of cash and cash equivalents of $4.8 million, compared to $5.1 million at September 29, 2017.

During the third quarter of fiscal year 2018 we entered into the Line of Credit Agreement with the The Kevin Ross Gruneich Legacy Trust and immediately borrowed $2.0 million, which amount is included in our cash and cash equivalents at June 29, 2018. We expect in the near term that we will continue to fund our operations with our cash and cash equivalents. To provide us with additional liquidity to fund our operations, at June 29, 2018, we have access to up to $3.0 million of additional unsecured borrowing under the Credit Agreement upon satisfying the applicable requirements for further advances. In addition, under our existing financing agreement with Action Capital Corporation, we are permitted to borrow up to $3.0 million with eligible U.S. subsidiary accounts receivable as security for such borrowings.

Our registered independent public accounting firm's report on our audited financial statements for the year ended September 29, 2017 that is included in our 2017 Form 10-K contained an explanatory paragraph related to the Company's ability to continue as a going concern. Since filing our 2017 Form 10-K, we have continued to take steps to stabilize revenues and decrease our expenses on a year-over-year basis for fiscal year 2018 and beyond through our Cost Reduction Program. The borrowing capacity under our new Credit Agreement and under our existing financing agreement with Action Capital coupled with our ongoing cost reduction efforts has improved our future liquidity outlook.

I will now turn the call over to Richard Spires our Chief Executive Officer, who will first comment on our projections for the fourth quarter of fiscal year 2018 and then discuss the recent share sale by one of our founders.

This is Richard Spires, the Chief Executive Officer of the Company.

I will now present projections of select future financial results of the Company for the fourth quarter of fiscal 2018. These projections are estimates that have been developed based on information currently known to the Company. Accordingly, as a reminder, these estimates of future financial results, and the actual financial results and outcomes may be different and such differences may be material.

Fourth Quarter Fiscal 2018 Financial Guidance

Effect of Exchange Rates. Because we currently 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 August 1, 2018 remain constant for the remainder of our fourth quarter of fiscal 2018, we would expect changes in foreign exchange rates to negatively affect revenues by approximately 0.6% in our fourth quarter compared to our same quarter of fiscal 2017.

Fourth Quarter Revenues. For our fourth quarter of fiscal 2018, we currently expect revenues of between $18.4 million and $19.4 million, compared to revenues of $19.6 million in our fourth quarter of fiscal 2017.

Fourth Quarter Gross Profit. We expect a gross profit percentage in our fourth quarter of fiscal 2018 of between 45.5% and 46.5% compared to 46.5% in our fourth quarter of fiscal 2017.

Fourth Quarter Operating Expenses. We expect overall operating expenses for our fourth quarter of fiscal 2018 to be between $7.2 million and $7.6 million, compared to $7.4 million in the same quarter a year earlier.

Fourth Quarter Income (Loss) from Operations. As a result of the above factors, we expect to have fourth quarter operating income between $0.8 million and $1.8 million compared with operating income of $1.8 million in our fourth quarter of fiscal 2017.

Fourth Quarter Other Income (Expense), Net. We expect fourth quarter other expense, net to be less than $0.1 million, compared to other expense of $0.2 million in our fourth quarter of fiscal 2017.

Fourth Quarter Pre-Tax Income (Loss). Overall, for our fourth quarter of fiscal 2018, we expect to report pre-tax income of between $0.7 million and $1.8 million, compared to a pre-tax income of $1.6 million in our fourth quarter of fiscal 2017.

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. I also note that there are significant risks that we will not accomplish enough of our goals to achieve positive cash flows in the near term.

Recent share sale by one of our Founders

Now I would like to spend some time on the recent share sale by one of our founders. As was previously announced, on June 29, 2018, pursuant to a Securities Purchase Agreement, David and Mary Collins sold their Learning Tree stock holdings to The Kevin Ross Gruneich Trust and resigned their positions on our Board of Directors. The Board appointed the Trust's director nominee, Kevin Gruneich to the Board as its Chairman. As David Asai mentioned earlier, in conjunction with the Collins' sale of their shares to the Trust and in an effort to improve the Company's liquidity, we negotiated an unsecured $5.0 million line of credit with the Trust and immediately borrowed $2.0 million. Borrowings under the line of credit accrue interest at an annual fixed rate of 5% and the principal amount that is borrowed can be converted by the Trust into shares on Learning Tree stock at $1.00 per share. As a result of the interests of our then majority stockholders, Dr. Collins and Mrs. Collins, potentially being different than those of the Company and its other stockholders, the Board established an independent committee comprised of its three independent non-employee directors to evaluate and negotiate, on behalf of the Board and the Company, the Purchase Agreement and the Credit Agreement and the transactions contemplated thereby. The Independent Committee received the support and advice of Focus Investment Banking, LLC, as financial advisor to the Independent Committee in connection with the Credit Agreement.

Following the sale of shares by Dr. and Mrs. Collins pursuant to the Purchase Agreement, the Trust became the Company's new majority stockholder. According to the Trust's Schedule 13D filed with the SEC on July 2, 2018, as of June 29, 2018, the Trust beneficially owned approximately 62.4% of the Company's issued and outstanding shares including Conversion Shares in connection to the Credit Agreement. Consequently, the Trust will have significant influence over our policies and affairs and may be in a position to determine the outcome of certain corporate actions and transactions requiring stockholder approval. These may include, for example, the election of directors; changes in ownership, board structure (including board composition), and/or management; the adoption of amendments to our corporate governing documents; proposals to voluntarily suspend or terminate its public reporting obligations under the Securities Exchange Act of 1934, as amended; and the approval of business combination transactions, including the sale of the Company, whether by merger or sale of our assets.

Subsequent to the sale of Collins shares to the Trust, additional changes have occurred with the Company involving the composition in our Board of Directors. Effective July 20, 2018, we added two qualified directors to our Board, who are Jamie Candee and Sarah Gardial. We welcome Ms. Candee and Dr. Gardial to our Board. Both of these new directors bring relevant experience and expertise to our Board that we believe will help improve the Company. Ms. Candee and Dr. Gardial were director candidates proposed to the Board by the Trust pursuant to the director nomination rights under the Purchase Agreement. On August 4, 2018, two of our directors, Dr. John Phillips and Dr. Henri Hodara, submitted their resignations as directors on our Board. The Company appreciates their many contributions to the Company and years of service.

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

Thank you.