Learning Tree International, Inc.

Fiscal Year 2016 Conference Call

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

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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.

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 fourth quarter and full fiscal year 2016, which ended September 30, 2016. Richard Spires, our CEO, will provide forward-looking information about our first quarter of fiscal 2017, 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 first quarter 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 filed with the SEC that could affect us include risks associated with:

- 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, 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;
- 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 2016 annual report on Form 10-K, including Item 1A, which is filed with the SEC and available at the SEC's Internet site (http://www.sec.gov).

Before discussing our results, I will 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 fourth quarter of fiscal years 2016 and 2015 were both comprised of thirteen weeks and the fiscal years 2016 and 2015 each had 52 weeks.

Fourth Quarter Results

Now let me summarize some key line items from our fourth quarter of fiscal 2016:

- Revenues in our fourth quarter of fiscal 2016 were $21.7 million, a decrease of 15.4%, compared to revenues of $25.6 million in our fourth quarter of fiscal 2015;
- Our gross profit percentage in our fourth quarter was 42.8% of revenues, compared to 46.3% in the same quarter of fiscal 2015;

- Operating expenses increased in our fourth quarter of fiscal 2016 to $11.3 million, compared to $11.1 million in our fourth quarter of fiscal 2015. Operating expenses for the fourth quarter of fiscal 2016 included a $1.9 million non-cash restructuring charge;
- Net loss for our fourth quarter of fiscal 2016 was $2.2 million compared to net income of $0.7 million for the fourth quarter of fiscal 2015; and
- Loss per share on a diluted basis for our fourth quarter of fiscal 2016 was $(0.17), compared to income per share of $0.06 in our fourth quarter of fiscal 2015.
- Both the net loss and loss per share figures for the fourth quarter 2016 include the $1.9 million restructuring charge.

2016 Fiscal Year Results

Reviewing our performance for our full fiscal year 2016, I'd like to point out the following key line items:

- Revenues were $81.6 million for fiscal 2016, a decrease of $13.3 million or 14.0% from revenues of $94.9 million in fiscal 2015;
- Gross profit was 38.5% of revenues for fiscal 2016, compared to 41.2% for fiscal 2015;
- Operating expenses for fiscal 2016 were $43.9 million, or 53.9% of revenues, compared to $48.8 million for fiscal 2015, or 51.4% of revenues. Operating expense for fiscal 2016 include the $1.9 million restructuring charge.
- Loss from operations including the restructuring charge was $12.5 million for fiscal 2016 compared to a loss of $9.7 million for fiscal 2015.

- Net loss for fiscal 2016, including the restructuring charge, was $12.7 million, compared to a net loss of $12.6 million for fiscal 2015. Results for fiscal year 2015 include the $2.8 million loss from discontinued operations related to the sale of our subsidiary in France.

Fiscal Year 2016 Revenue and Participants

In fiscal 2016 our revenues of $81.6 million were 14.0% lower than our revenues of $94.9 million in fiscal 2015. This principally resulted from a 10.4% decrease in the average revenue per participant and a 4.1% decrease in the number of participants when compared to the prior fiscal year. The decrease in the average revenue per participant was caused primarily by lower average revenue per participant from one-day courses which we began introducing in the second quarter of fiscal 2015, lower average revenue from the implementation of periodic pricing promotions and strategies, and changes in foreign exchange rates, which negatively impacted revenues by 2.2%. The decrease in the number of course participants was partially due to the expiration of a major contract in both the United States and in the United Kingdom and the continued overall decline in enrollments in the United Kingdom.

Overall, during fiscal 2016, we trained a total of 55,126 course participants, compared to 57,458 course participants in fiscal 2015.

2016 Operations

Cost of Revenues. Cost of revenues was 61.5% of revenues in fiscal 2016 compared to 58.8% in fiscal 2015, and accordingly, our gross profit percentage was 38.5% in fiscal 2016 compared to 41.2% in our prior year. The change in cost of revenues as a percentage of revenues in fiscal 2016 primarily reflects the combined effects of the 10.4% decrease in revenue per participant that was partially offset by a 6.6% decrease in cost per participant. The decrease in cost per participant is primarily the result of the 10.1% decrease in the cost of revenues offset by the 4.1% decrease in participants. 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 fiscal 2016, course development expense decreased by $3.0 million to $5.1 million compared to $8.1 million in fiscal 2015. Course development expense was 6.3% of revenues in fiscal 2016 compared to 8.6% in fiscal 2015.

Our library of instructor-led courses numbered 349 course titles at the end of fiscal 2016 compared to 345 course titles at the end of fiscal 2015.

Sales and Marketing Expense. In fiscal 2016, our sales and marketing expense decreased by $3.7 million to $17.9 million from $21.6 million in fiscal 2015. The decrease was primarily due to decreases in direct mail marketing costs when compared to the prior year.

General and Administrative Expense. General and Administrative expense during fiscal 2016 was $18.9 million, compared to $19.0 million in fiscal 2015.

Restructuring Charge. In fiscal 2016, we recognized a $1.9 million non-cash restructuring charge related to our Reston, Virginia facility. We determined this facility was surplus classroom space as a result of the classroom space that became available in fiscal 2016 at our new facility in Herndon, Virginia.

Income (Loss) from Operations. In fiscal 2016, we recorded a loss from operations of $12.5 million, compared to a loss from operations of $9.7 million, in fiscal 2015. The loss from operations for fiscal year 2016 includes the $1.9 million in restructuring charges and $0.2 million of accelerated depreciation of leasehold improvements related to our Reston, Virginia facility.

Other Income and Expense. During fiscal years 2016 and 2015, we had other income of $0.2 million and $0.4 million, respectively, primarily from foreign exchange gains.

Income Taxes. The tax provisions for fiscal 2016 was $0.4 million compared to a tax provision of less than $0.5 million for fiscal 2015.

Net Income (Loss). Net loss for fiscal 2016 was $12.7 million, compared to a net loss of $12.6 million, in fiscal 2015. The net loss for fiscal 2016 includes the $2.1 million of restructuring charge and accelerated depreciation costs discussed earlier. The net loss for fiscal 2015 included a $2.8 million loss from discontinued operations related to the sale of our subsidiary in France.

Liquidity and Capital Resources

During fiscal year 2016, the total of our cash and cash equivalents decreased by $9.4 million to $8.5 million at September 30, 2016 from $17.9 million at October 2, 2015. This decrease primarily resulted from cash used in operations of $9.0 million and capital expenditures of $0.4 million.

As of and for the fiscal year ended September 30, 2016, we reported an accumulated stockholders' deficit of $15.3 million and we have also reported negative cash flow from operations in 2016 and for the previous four years as our revenues have declined each year over year during this period. At September 30, 2016, our capital resources consisted of cash and cash equivalents of $8.5 million. 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, which we will discuss in more detail shortly, unless we are able to improve our liquidity in the future, there is substantial doubt about the Company's ability to continue as a going concern. Our registered independent public accounting firm issued a "going concern qualification" in their report on our audited financial statements for the year ended September 30, 2016. To help address our liquidity situation, we were able to establish a maximum $3.0 million line of credit with a lender. The line is secured by our US Operation's accounts receivable and is subject to limitations based on the amounts of available accounts receivable. As of today, there have been no borrowings on this line of credit.

I will now turn the call over to Richard Spires our Chief Executive Officer, to address our projections for the first 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. I will spend the bulk of my remarks on full Fiscal Year 2017 but first let's start with our projections for the first quarter:

First Quarter Fiscal 2017 Financial Guidance

Effect of Exchange Rates. Because we conduct approximately 37% 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 December 1, 2016 remain constant for the remainder of our first quarter of fiscal 2017, we would expect changes in foreign exchange rates to unfavorably affect revenues by approximately 4.5% in our first quarter compared to our same quarter of fiscal 2016.

First Quarter Revenues. For our first quarter of fiscal 2017, we currently expect revenues of between $18.2 million and $19.2 million, compared to revenues of $20.1 million in our first quarter of fiscal 2016.

First Quarter Gross Profit. We expect a gross profit percentage in our first quarter of fiscal 2017 of between 42.2% and 43.2% compared to 41.1% in our first quarter of fiscal 2016.

First Quarter Operating Expenses. We expect overall operating expenses for our first quarter of fiscal 2017 to be between $8.3 million and $8.7 million, compared to $10.6 million in the same quarter a year earlier.

First Quarter Income (Loss) from Operations. As a result of the above factors, we expect to incur a first quarter operating loss of between breakeven and $(1.0) million compared with an operating loss of $(2.3) million in our first quarter of fiscal 2016.

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

First Quarter Pre-Tax Income (Loss). Overall, we expect to report pre-tax results for our first quarter of fiscal 2017 of between break-even and a loss of $(1.1) million, compared with pre-tax loss of $(2.2) million in our first quarter of fiscal 2016.

Outlook

Now I would like to spend some time on our ongoing plans for fiscal year 2017.

As I described in last quarter's earnings call, improvement in the Company's financial performance would be a multi-year undertaking. Not only is it necessary to reverse continued year-over-year declines in revenues, but it is also necessary that our Company judiciously reduce our expenses and to do so in such a way as to minimize the impact on sales (and hence revenue) while not materially impacting the quality of our products for our customers in order to maintain our customer service levels. I will provide an update today on the measures the Company has been taking and will be taking to achieve these objectives.

We believe that the needs of organizations for training and professional development are evolving, and particularly so in the IT technical, analyst, and management disciplines. Organizations, whether they are companies or government agencies, are looking to ensure the investment in their workforce directly supports improved outcomes, to include more successful project delivery, improved delivery processes and product quality, and ultimately improved business or mission outcomes. Further, from an individual learner's perspective, the rise of e-learning solutions has provided significant new options for self-directed learning at one's own pace. As such, we are evolving from a primary focus on being an IT training company to a company that partners with IT organizations to meet the full range of IT and technology needs for their workforce development. Our business strategy has evolved to encompass three main objectives:

- Offer a full range of Workforce Optimization Solutions that augment our traditional hands-on, instructor-led training capabilities and support our customers across the life-cycle of their workforce development needs.
- Add e-Learning capabilities to our training solutions.
- Provide a comprehensive suite of training courses to meet the needs of IT organizations.

In regards to our Public Course business, we are working to grow our revenue base through a series of initiatives, to include:

1) Leveraging resellers and other partner models to increase our sales reach, amplifying the growth of our internal sales teams. In this regard, we have strategically partnered with certification organizations and other appropriate training providers to broaden and deepen the training products we offer. For instance, we have recently partnered with other training partners to offer courses in Cisco and Adobe technologies. We will be announcing very shortly additional partnerships with leading technology vendors.

2) Targeting new customers along with customers that have not done business with us for a number of years with special sales promotions to incentivize organizations that do not currently do business with us to try our training products.

In addition to strategies to increase our revenue, we undertook measures to reduce our operating expenses through a comprehensive cost reduction program. As a result of this program, excluding the restructuring charge of $1.9 million relating to excess classroom capacity at our Reston, VA facility, we achieved approximately $6.8 million in operating cost reductions, in fiscal 2016 compared to our expenses for fiscal 2015. In August 2016, we accelerated our comprehensive cost reduction program with the objective of significantly reducing our fiscal 2017 overall expenses in the range of $10.0 million to $12.0 million when compared to our overall expenses for fiscal 2016. These reductions have been initiated to right-size our operations, modernize our business operations to meet changing customer demand and preserve capital. To implement these cost reductions for the 2017 fiscal year, we have taken the following steps:

- Eliminated our direct mail course catalog advertising program. In addition to being a "green initiative", we believe that our overall customer-base has shifted the manner in which it selects and purchases courses away from printed catalogs toward greater use of digital channels, such as website, social media and digital advertising.
- Made our course notes available electronically and only produce a paper copy if requested by our attendee.

- Completed a reduction in force of 26 full time equivalent employees in North America, during the fourth quarter of fiscal year 2016.
- Reduced the compensation paid to our Board of Directors in 2016, which our directors unanimously agreed to do as part of our cost reduction program. Effective August 1, 2016, our directors are compensated for meeting fees and serving as Committee chairmen, but do not receive any monthly or yearly fee.
- Reduced our real estate costs, through the elimination or nonrenewal of certain leased facilities and negotiation for replacement facilities. As other facility leases expire, additional cost reductions will be evaluated.

As part of this comprehensive cost reduction program, management will continue to review and take appropriate actions in fiscal year 2017 to streamline its operations in order to reduce or eliminate excess costs.

We believe that the initiatives we have and are implementing is positioning Learning Tree to stabilize and then grow our revenues and improve our operating expenses. Accordingly, we believe that our company is now positioned to greatly reduce our operating loss in fiscal year 2017 as compared to fiscal year 2016. Our objective remains to generate a positive operating income for fiscal year 2017. Although we are and will continue to work diligently to accomplish these goals, there is no assurance that we will achieve them and if so, by the expected timing of fiscal year 2017. 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 fiscal 2017. This has resulted in the Company determining that there is substantial doubt in our ability to continue as a going concern, which is discussed in more detail in our annual report on Form 10-K.

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