

organization)

13650 Dulles Technology Drive

Suite 400

20171

Herndon, VA

(Address of principal executive offices)

(Zip Code)

703-709-9119

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Emerging growth company

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of common stock, \$.0001 par value, outstanding as of May 1, 2017 was 13,224,349.

LEARNING TREE INTERNATIONAL, INC.

FORM 10-Q—March 31, 2017

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PART I—FINANCIAL INFORMATION**Item 1. FINANCIAL STATEMENTS.****LEARNING TREE INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands, except share data)**

	March 31, 2017 (unaudited)	September 30, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 5,327	\$ 8,540
Trade accounts receivable, net	7,283	9,538
Income tax receivable	140	208
Prepaid expenses	1,928	1,916
Other current assets	1,403	1,424
Total current assets	16,081	21,626
Equipment, Property and Leasehold Improvements:		
Education and office equipment	28,709	32,388
Transportation equipment	42	43
Property and leasehold improvements	9,879	18,469
	38,630	50,900
Less: accumulated depreciation and amortization	(33,667)	(44,990)
	4,963	5,910
Restricted interest-bearing investments	2,513	2,943
Deferred income taxes	410	427
Other assets	1,088	701
Total assets	\$ 25,055	\$ 31,607
Liabilities and Stockholders' Deficit		
Current Liabilities		
Trade accounts payable	\$ 6,020	\$ 6,095
Deferred revenues	17,824	21,017
Accrued payroll, benefits and related taxes	2,079	2,414
Other accrued liabilities	1,083	973
Income taxes payable	106	0
Current portion of deferred facilities rent and other	1,588	1,667
Total current liabilities	28,700	32,166

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Asset retirement obligations	1,364	1,369
Deferred income taxes	71	89
Deferred facilities rent and other	6,183	6,297
Noncurrent tax liabilities	1,502	1,475
Total liabilities	37,820	41,396
COMMITMENTS AND CONTINGENCIES		
Stockholders' Deficit		
Preferred stock, \$.0001 par value; 1,000,000 shares authorized; 0 shares issued and outstanding	0	0
Common stock, \$.0001 par value; 75,000,000 shares authorized; 13,224,349 shares issued and outstanding	1	1
Additional paid-in capital	6,439	6,388
Accumulated other comprehensive loss	(1,181)	(882)
Accumulated Deficit	(18,024)	(15,296)
Total stockholders' deficit	(12,765)	(9,789)
Total liabilities and stockholders' deficit	\$ 25,055	\$ 31,607

The accompanying notes are an integral part of these condensed consolidated financial statements.

LEARNING TREE INTERNATIONAL, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS****(in thousands, except per share data)****Unaudited**

	Three months ended		Six months ended	
	March 31, 2017	April 1, 2016	March 31, 2017	April 1, 2016
Revenues	\$16,071	\$18,688	\$34,623	\$38,819
Cost of revenues	9,630	12,659	20,218	24,513
Gross profit	6,441	6,029	14,405	14,306
Operating expenses:				
Course development	752	1,322	1,521	2,636
Sales and marketing	3,485	4,890	7,062	9,509
General and administrative	3,880	5,044	8,002	9,658
Restructuring Charge	386	0	386	0
	8,503	11,256	16,971	21,803
Loss from operations	(2,062)	(5,227)	(2,566)	(7,497)
Other income (expense):				
Interest income (expense), net	(16)	6	(1)	15
Foreign exchange gains (losses)	(84)	(58)	108	10
Other, net	(11)	(33)	(17)	(34)
	(111)	(85)	90	(9)
Loss from operations before provision for income taxes	(2,173)	(5,312)	(2,476)	(7,506)
Provision for income taxes	176	59	252	144
Net loss	\$(2,349)	\$(5,371)	\$(2,728)	\$(7,650)
Loss per share basic and diluted:				
Basic and diluted loss per share	\$(0.18)	\$(0.41)	\$(0.21)	\$(0.58)
Weighted average shares outstanding:				
Weighted average shares - basic and diluted	13,224	13,224	13,224	13,224
Comprehensive loss:				
Net loss	\$(2,349)	\$(5,371)	\$(2,728)	\$(7,650)
Foreign currency translation adjustments	129	84	(298)	(128)
Comprehensive loss	\$(2,220)	\$(5,287)	\$(3,026)	\$(7,778)

The accompanying notes are an integral part of these condensed consolidated financial statements.

LEARNING TREE INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

Unaudited

	Six months ended	
	March 31, 2017	April 1, 2016
Cash flows - operating activities		
Net Loss	\$(2,728)	\$(7,650)
Adjustments to reconcile net loss from operations to net cash used in operating activities:		
Depreciation and amortization	825	1,491
Share-based compensation	51	83
Deferred income taxes	(16)	0
Provision for doubtful accounts	239	68
Accretion on asset retirement obligations	32	40
Loss (gain) on disposal of equipment, property and leasehold improvements	60	(2)
Restructuring charge	386	0
Unrealized foreign exchange (gains) losses	(322)	3
Settlement of asset retirement obligation	0	(106)
Changes in operating assets and liabilities:		
Trade accounts receivable	1,923	1,475
Prepaid expenses and other assets	(227)	(756)
Income tax receivable / payable	197	5
Trade accounts payable	(15)	(1,224)
Deferred revenues	(3,009)	234
Deferred facilities rent and other	(432)	349
Other accrued liabilities	(41)	(415)
Net cash used in operating activities	(3,077)	(6,405)
Cash flows - investing activities:		
Purchases of equipment, property and leasehold improvements	(13)	(716)
Proceeds from sale of equipment, property and leasehold improvements	0	2
Net cash used in investing activities	(13)	(714)
Effects of exchange rate changes on cash and cash equivalents	(123)	(48)
Net decrease in cash and cash equivalents	(3,213)	(7,167)
Cash and cash equivalents at the beginning of the period	8,540	17,936
Cash and cash equivalents at the end of the period	\$5,327	\$10,769
Supplemental non-cash disclosures:		
Non-cash leasehold improvements	\$0	\$1,542

The accompanying notes are an integral part of these condensed consolidated financial statements.

LEARNING TREE INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(tables in thousands, except per share data)

Unaudited

NOTE 1—BASIS OF PRESENTATION

The accompanying unaudited interim condensed consolidated financial statements of Learning Tree International, Inc. and our subsidiaries (collectively, “Learning Tree,” “Company,” “we,” “our” or “us”) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for quarterly reports on Form 10-Q and, therefore, omit or condense certain note disclosures and other information required by accounting principles generally accepted in the United States of America for complete financial statements.

The financial statements have been prepared assuming that the Company will continue as a going concern, but due to the Company’s future liquidity needs, history of net losses, and negative cash flows from continuing operations, there is substantial doubt about the Company’s ability to continue as a going concern as more fully described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2016. These financial statements should therefore be read in conjunction with the audited consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2016.

As of and for the second quarter of fiscal year 2017, which ended March 31, 2017, we reported an accumulated deficit of \$18.0 million. We have also reported negative cash flow from operations in fiscal year 2016 and for the previous four fiscal years as our revenues have declined each year during this period. At March 31, 2017, our capital resources consisted of cash and cash equivalents of \$5.3 million. We have, and continue to take steps to stabilize revenues and decrease our operating costs on a year over year basis for fiscal year 2017.

We continue to execute on our new strategies to expand our overall customer base. We experienced a 1.6% decrease in the total number of attendees in the second quarter of fiscal year 2017 compared to the second quarter of fiscal year 2016, with revenue continuing to decline quarter over quarter. Our cost reduction efforts have resulted in reduced cost of revenues and operating expenses for the second quarter of fiscal year 2017, compared to the second quarter of fiscal year 2016.

To further address our liquidity needs in the near term, on January 12, 2017, we entered into a Financing and Security Agreement (the “Financing Agreement”) with Action Capital Corporation (“Action Capital”), which provides the Company with access to borrow through advances of funds up to a maximum aggregate principal amount of \$3.0 million. Pursuant to the Financing Agreement, the amount advanced to the Company will be based upon an agreed advance rate of up to 85% of the net amount of certain customer accounts receivable of the Company that are approved by Action Capital and assigned to it as collateral. The amounts advanced under the Financing Agreement will also be secured by the Company’s accounts receivable from its U.S. operations. The Financing Agreement does not have any set term and either party may, for any reason, terminate the Financing Agreement by providing written notice. As a result, if Action Capital were to terminate the Financing Agreement and we did not have an alternative line of credit or other source of capital available, then we would have to rely upon our cash and cash equivalents for our working capital needs, which may not be sufficient. See Note 12 of these unaudited interim Condensed Consolidated Financial Statements for more information about the Financing Agreement.

We are also continuing to evaluate additional sources of capital and financing. We have retained the services of a financial advisor to assist us in assessing strategic options available to the Company. However, there is no assurance that additional capital and/or financing will be available to the Company and, even if available, whether it will be on terms acceptable to us or in amounts required.

The stabilization of revenues and reduction in costs are integral to our goal of achieving a break-even operating income line and a positive cash flow from operations. We cannot provide assurances that our plans will not change, that changed circumstances will not result in the depletion of our capital resources more rapidly than we currently anticipate, or that we will be successful in securing additional liquidity. The unaudited interim condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern, but due to the Company’s future liquidity needs, history of net losses, and negative cash flows from continuing operations, there is substantial doubt about the Company’s ability to continue as a going concern. The unaudited interim condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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. Accordingly, our second quarter of the current fiscal year ended on March 31, 2017 and encompassed 13 weeks, and our second quarter of the prior fiscal year ended on April 1, 2016 and also encompassed 13 weeks.

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements reflect all adjustments, that are only of a normal recurring nature, considered necessary to present fairly our financial position as of March 31, 2017, and our results of operations for the three months and six months ended March 31, 2017 and April 1, 2016, and our cash flows for the six months ended March 31, 2017 and April 1, 2016.

NOTE 2—STOCK-BASED COMPENSATION

Stock-based compensation expense related to grants of employee stock options was less than \$0.1 million for both the three and six months ended March 31, 2017 and April 1, 2016, and was charged in a manner consistent with the related employee salary costs.

NOTE 3—ASSET RETIREMENT OBLIGATIONS

The following table presents the activity for the asset retirement obligations (“ARO”) liabilities, which are primarily related to the restoration of classroom facilities in our Learning Tree Education Centers:

	Six months ended March 31, 2017	Twelve months ended September 30, 2016
ARO balance, beginning of period	\$ 1,369	\$ 1,669
Accretion expense	32	76
Liabilities satisfied	0	(128)
Settlement of ARO liability	0	(77)
Foreign currency translation	(37)	(171)
ARO balance, end of period	\$ 1,364	\$ 1,369

NOTE 4—EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similarly to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include common stock equivalents, to the extent their effect is dilutive. Approximately 650,000 and 850,000 stock options were excluded from the computations of diluted earnings per share for the three months and six months ended March 31, 2017 and April 1, 2016, respectively, because their effect would have been anti-dilutive. The computations for basic and diluted earnings per share are as follows:

	Three months ended		Six months ended	
	March 31,	April 1,	March 31,	April 1,
	2017	2016	2017	2016
Numerator:				
Net loss	\$ (2,349)	\$ (5,371)	\$ (2,728)	\$ (7,650)
Denominator:				
Weighted average shares outstanding				
Basic	13,224	13,224	13,224	13,224
Effect of dilutive securities	0	0	0	0
Diluted	13,224	\$ 13,224	13,224	13,224
Loss per common share - basic and diluted:				
Basic and diluted loss per share	\$ (0.18)	\$ (0.41)	\$ (0.21)	\$ (0.58)

NOTE 5—INCOME TAXES

Our income tax provision in our second quarter of fiscal year 2017 was \$0.2 million, compared to \$0.1 million in our second quarter of fiscal year 2016. For the six month periods ended March 31, 2017 and April 1, 2016, our income tax provision was \$0.3 million and \$0.1 million, respectively. Our 2017 and 2016 income tax provisions are composed primarily of income tax expense for our foreign subsidiaries and state income tax expense. The Company established a valuation allowance against deferred tax assets in the U.S. in the third quarter of fiscal year 2012 and has continued to maintain a full valuation allowance in the U.S. through the second quarter of fiscal year 2017.

NOTE 6—COMMITMENTS AND CONTINGENCIES

Contingencies

Currently, and from time to time, we are involved in litigation incidental to the conduct of our business. We are not a party to any lawsuit or legal proceeding that, in the opinion of management, is likely to have a material adverse effect on our consolidated financial position or results of operations.

NOTE 7—SEGMENT REPORTING

Our worldwide operations involve the design and delivery of instructor-led classroom training courses and related services to multinational companies and government entities. The training and education we offer is presented in a similar manner in every country in which we operate. Our instructors present our courses in a virtually identical fashion worldwide, regardless of whether presented in leased classroom space or external facilities, the content of the class being taught or the location or method of distribution. No one commercial customer or government agency accounted for 10% or more of our revenues in the three and six month periods ended March 31, 2017 and April 1, 2016.

We conduct and manage our business globally and have reportable segments that operate in five countries: the United States, Canada, the United Kingdom, Sweden and Japan.

Summarized financial information by country for the three months and six months ended March 31, 2017 and April 1, 2016 are as follows:

	Three months ended		Six months ended	
	March 31, 2017	April 1, 2016	March 31, 2017	April 1, 2016
Revenues:				
United States	\$9,447	\$11,130	\$20,147	\$22,965
Canada	2,235	2,559	4,146	4,445
North America	11,682	13,689	24,293	27,410
United Kingdom	3,358	3,884	7,664	8,864
Sweden	633	616	1,658	1,590
Japan	398	499	1,008	955
Total	\$16,071	\$18,688	\$34,623	\$38,819

Gross profit:				
United States	\$3,914	\$3,075	\$8,562	\$7,824
Canada	1,051	1,275	1,845	2,081
North America	4,965	4,350	10,407	9,905
United Kingdom	913	1,047	2,399	2,913
Sweden	294	286	890	831
Japan	269	346	709	657
Total	\$6,441	\$6,029	\$14,405	\$14,306

	March 31, 2017	September 30, 2016
Total assets:		
United States	11,423	15,578
Canada	2,355	3,395
North America	13,778	18,973
United Kingdom	7,479	8,046
Sweden	2,465	2,688
Japan	1,333	1,900
Total	\$25,055	\$ 31,607

NOTE 8—FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The fair value is measured using assumptions that market participants would use, including assumptions about nonperformance risk and credit risk.

ASC 820 establishes a fair value hierarchy for valuation inputs and prioritizes them based on the extent to which the inputs are observable in the marketplace. Categorization is based on the lowest level of input that is available and significant to the measurement. These levels are:

Level 1—Quoted prices in active markets for identical assets and liabilities.

Level 2—Observable inputs other than quoted prices in active markets, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.

Level 3—Unobservable inputs that reflect management’s assumptions about the estimates and risks that market participants would use in pricing the asset or liability.

Non-Financial Liabilities Measured at Fair Value on a Nonrecurring Basis

We measure our ARO liabilities at fair value on a nonrecurring basis when we believe there has been an indication the fair value has changed. We did not adjust the values of those liabilities during the three and six month periods ended March 31, 2017 and April 1, 2016.

NOTE 9—DEFERRED FACILITIES RENT AND OTHER

Deferred Facilities Rent and Other

The following tables show details of the following line items in our consolidated balance sheets.

Current Portion of Deferred Facilities Rent and Other

	March 31, 2017	September 30, 2016
Deferred rent	\$520	\$ 529
Capital lease	67	81
Reston lease liability	1,001	1,057
	\$1,588	\$ 1,667

Deferred Facilities Rent and Other

	March 31, 2017	September 30, 2016
Deferred rent	\$3,868	\$ 3,808
Capital Lease	281	386
Reston lease liability	2,034	2,103
	\$6,183	\$ 6,297

NOTE 10—RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “*Revenue from Contracts with Customers (Topic 606)*” (“ASU 2014-09”). The standard is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14 “*Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*” (“ASU 2015-14”), which defers the effective date of ASU 2014-09 by one year to fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted for fiscal years, and interim periods within those years, beginning after December 15, 2016. Accordingly, the standard is effective for us on September 30, 2018 using either a full retrospective or a modified retrospective approach. We are currently evaluating which transition approach to use and the impact that the standard will have on our consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, “*Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*” (“ASU 2015-17”). The standard requires that deferred tax assets and liabilities be classified as noncurrent on the balance sheet rather than being separated into current and noncurrent. ASU 2015-17 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted and the standard may be applied either retrospectively or on a prospective basis to all deferred tax assets and liabilities. We do not expect to early adopt ASU 2015-17. Accordingly, the standard is effective for us on September 30, 2017 and will result in our deferred tax assets and liabilities being classified as non-current on our consolidated balance sheet.

In February 2016, the FASB issued ASU No. 2016-02, “*Leases (Topic 842)*” (“ASU 2016-02”). The standard requires a lessee to recognize assets and liabilities on the balance sheet for leases with lease terms greater than 12 months. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. Accordingly, the standard is effective for us on September 28, 2019 using a modified retrospective approach. We are currently evaluating the impact that the standard will have on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, “*Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*” (“ASU 2016-09”). The standard is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is permitted. Accordingly, the standard is effective for us on September 30, 2017. We do not expect adoption of ASU No. 2016-09 to have a material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, “*Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments*” (“ASU 2016-15”). The standard clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is permitted. Accordingly, the new standard is effective for us on September 30, 2018 using a retrospective approach. We are currently evaluating the impact that the standard will have on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, “*Statement of Cash Flows (Topic 230) Restricted Cash a consensus of the FASB Emerging Issues Task Force*” (“ASU 2016-18”). The standard requires restricted cash and cash equivalents to be included with cash and cash equivalents on the statement cash flows. The new standard is expected to be effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, with early adoption permitted. Accordingly, the new standard would be effective for us on September 30, 2018 using a retrospective approach, and will result in our restricted cash to be included with cash and cash equivalents to reflect total cash on our statement of cash flows.

Other recent accounting pronouncements issued by the FASB (including the Emerging Issues Task Force), the American Institute of Certified Public Accountants and the SEC did not, or management believes will not, have a material impact on our present or future consolidated financial statements.

NOTE 11—RESTRUCTURING ACTIVITY

In September 2016, we determined that 81% of our Reston Town Center facility in Reston, Virginia (RTC) was no longer needed to conduct our business and, accordingly, we renewed efforts to sublease the surplus space at this facility. As a result, we recorded a restructuring charge of \$1.9 million for the estimated liability associated with future rentals of the surplus space due under the property lease as of the cease use date. The fair value of this liability at the cease use date was determined based on the remaining cash flows for lease rentals, and minimum lease payments, reduced by estimated sublease rentals, discounted using a credit adjusted risk free rate. Consistent with ASC 420, “*Exit or Disposal Cost Obligations*,” that requires that this liability will be adjusted for changes, if any, resulting from revisions to estimated cash flows after the cease-use date, in March 2017, we re-evaluated the cash flows from the estimated sublease rentals and operating expenses. As a result, we recorded an additional \$0.4 million restructuring charge in our second quarter of fiscal year 2017. As of March 31, 2017 we subleased 40% of the surplus space.

	March 31, 2017	September 30, 2016
Balance at beginning of period	\$3,160	328
Additions:		
RTC cease-use charge	386	1,940
RTC Deferred rent liability	0	1,220
Accretion expense	81	23
	467	3,183
Reductions:		
Rent payments net of deferred rent	(592)	(351)
Balance at end of period	\$3,035	3,160

Such restructuring liability is recorded as part of Deferred Facilities Rent and Other in the consolidated balance sheet.

NOTE 12—WORKING CAPITAL LINE OF CREDIT

On January 12, 2017, the Company entered into a Financing Agreement with Action Capital that provides the Company with access to borrow through advances of funds up to a maximum aggregate principal amount of \$3.0 million (the “Maximum Amount”). Pursuant to the Financing Agreement, the amount advanced to the Company will be based upon Action Capital’s agreed advance rate of up to 85% of the net amount of certain customer accounts receivable of the Company that are approved by Action Capital and assigned to it as collateral (the “Acceptable Accounts”). The Financing Agreement will continue to be in full force and effect until such time as either party terminates the Financing Agreement by providing written notice. Following termination the Company will remain liable for all outstanding indebtedness owed to Action Capital under the Financing Agreement.

Under the Financing Agreement, the Company is required to pay Action Capital (i) interest on the outstanding advances at a rate equal to the prime rate of Wells Fargo Bank, N.A. in effect on the last business day of the prior month plus 1.75%, (ii) a monthly fee equal to 0.70% of the outstanding advances as of the last day of the month, and (iii) a fee of 0.25% of the Maximum Amount, which is payable to Action Capital on the date the Financing Agreement is signed and every 90 days thereafter until the Financing Agreement is terminated and all amounts advanced and other obligations to Action Capital have been fully paid and satisfied. The Company’s obligations under the Financing Agreement are secured by Acceptable Accounts, accounts receivable due from U.S. based account debtors and any contract rights, chattel paper, documents, instruments, general intangibles (excluding general intangibles consisting of intellectual property or intellectual property rights), reserves, reserve accounts, deposit and demand accounts, rebates, and books and records pertaining to any Acceptable Accounts that are assigned to Action Capital and all proceeds of the foregoing property. As of March 31, 2017, the Company has not drawn from this line of credit.

NOTE 13—SUBSEQUENT EVENTS

We have evaluated all events subsequent to the balance sheet date of March 31, 2017 through the date these condensed consolidated financial statements were filed with the SEC, and have determined that there are no events that require disclosure.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis is provided to increase the understanding of, and should be read in conjunction with, our unaudited interim condensed consolidated financial statements and notes included in this Quarterly Report on Form 10-Q ("Report" or "Form 10-Q") and our consolidated financial statements and notes included in our Annual Report on Form 10-K, for the fiscal year ended September 30, 2016 (our "2016 10-K"). We use the terms "we," "our," "us" and "Learning Tree" to refer to Learning Tree International, Inc. and our subsidiaries unless the context indicates otherwise.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"). You can find many (but not all) of these statements by looking for words such as "approximates," "believes," "expects," "anticipates," "estimates," "intends," "plans," "would," "may" or other similar expressions in this Report. Our forward-looking statements relate to future events or our future performance and include, but are not limited to, statements concerning our business strategy, future commercial revenues, market growth, capital requirements, new product introductions, expansion plans and the adequacy of our funding. Other statements contained in this Report that are not historical facts are also forward-looking statements.

We claim the protection of the safe harbor contained in the Private Securities Litigation Reform Act of 1995. We caution investors that any forward-looking statements presented in this Report, or that we may make orally or in writing from time to time, are based on our beliefs and assumptions made by us and information currently available to us. Such statements are based on assumptions, and the actual outcome will be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control or ability to predict. Although we believe that our assumptions are reasonable, they are not guarantees of future performance, and some will inevitably prove to be incorrect. As a result, our actual future results can be expected to differ from our expectations, and those differences may be material. Accordingly, investors should use caution in relying on forward-looking statements, which are based on known results and trends at the time they are made, to anticipate future results or trends.

Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include those related to the following: our 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 negative cash flows from operations, and maintain liquidity; ability to successfully implement our new strategies to achieve our cost reduction goals; risks associated with the timely development, introduction, and customer acceptance of our courses; efficient delivery and scheduling of our courses; technology development and new technology introduction; 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; risks associated with cyber security; changing economic and market conditions; and adverse weather conditions, strikes, acts of war or terrorism and other external events. Please refer to the risk factors under “Item 1A. Risk Factors” beginning on page 14 and elsewhere in our 2016 10-K, as well as in our other filings with the Securities and Exchange Commission (“SEC”).

The risks included in our filings are not exhaustive, and additional factors could adversely affect our business and financial performance. We operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time, and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We do not undertake and specifically disclaim any obligation to update such forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements, except as otherwise required by law.

OVERVIEW

Learning Tree is a leading worldwide provider to business and government organizations for the workforce development and training of their information technology (“IT”) professionals and managers. Since our founding in 1974, we have provided high-quality predominantly vendor independent training to more than 2.4 million IT professionals and managers. In fiscal year 2016, while presenting courses in 32 countries, we trained 55,110 course participants from approximately 5,500 organizations, including large national and multinational companies, government organizations, and small and medium-size companies.

We offer a broad, predominately proprietary, library of intensive instructor-led courses from one to five days in length, which at March 31, 2017 comprised 304 different course titles including 136 multi-day IT course titles, 72 multi-day management course titles, and 96 one-day course titles. Learning Tree courses provide education and training across a wide range of technical and management disciplines, including operating systems, databases, computer networks, computer and network security, web development, programming languages, software engineering, open source applications, project management, business skills, leadership and professional development. In addition, we have begun to partner with other organizations to broaden the breadth of training we can offer to IT organizations, with the objective of enabling us to meet an organization's complete workforce needs. As an example, we recently reached agreement with Microsoft to become a Microsoft approved training partner, whereby we now offer Microsoft approved courses. This also allows us to accept Microsoft training vouchers and eliminates the need for us to maintain duplicate course content. We have also begun offering our customers the ability to take course titles we do not have in our course library from approved "Partner" providers. Through these "Partner" providers, we are able to offer courses in Cisco, Adobe, IBM, and Red Hat products to our customers.

In addition to training, we offer a suite of Workforce Optimization Solutions to support an IT organization's life-cycle of workforce development needs. Our solutions help ensure that an organization's investment in training is relevant and leveraged to improving overall organization performance. These solutions range from helping organizations define their job roles, to assessing the current skills of the staff, providing coaching and mentoring of staff, and even serving as an outsourcer of an organization's learning and training requirements.

We market and present our courses and solutions through locally staffed operations in the United States, the United Kingdom, Canada, Sweden and Japan and, through a licensee arrangement in France. In fiscal year 2016, we generated approximately 37% of our revenues outside of the United States. We coordinate, plan and deliver our courses at our own Education Centers, external hotel and conference facilities and customer sites worldwide. We also offer courses through our proprietary live on-line learning platform, Learning Tree AnyWare™, which enable individuals located anywhere in the world to use their Internet browser to participate online in instructor-led classes being conducted live in our Education Centers, at customer locations, or at specially equipped facilities.

We use a well-defined systematic approach to develop and update the Learning Tree course library so as to provide training that is immediately applicable by course participants to their work in a broad range of applications and industries. After assessing market need, courses may be translated into Swedish, Japanese, and French. Our proprietary course development process enables us to efficiently and effectively customize our courses to specific customer requirements for delivery at their sites.

We have continued to investigate technology-based training formats and how they might effectively be integrated into our training programs. We developed Learning Tree AnyWare™, our proprietary live online learning platform that integrates participants in remote online locations into live class events in another location. Remote participants use an ordinary Internet connection to connect to our AnyWare™ classroom interface. Once logged in, remote AnyWare™ class participants see and hear their classroom-based instructor and classmates in real time, and view the instructor's annotations on two in-class MagnaLearn™ projection screens. They are able to participate in discussions, ask questions,

work in breakout sessions, and complete the same hands-on exercises under the guidance of an expert instructor as their in-class counterparts. They gain the full benefit of our proprietary courseware, and achieve the same level of knowledge and skill transfer as in-class participants. Through AnyWare™, we effectively apply technology to leverage the strengths of our classroom offerings providing greater flexibility for our customers by providing them with more scheduled course dates from which to choose. With the use of our AnyWare™ product, our clients anywhere in the world can choose to participate in any course event being taught at any of our Education Centers, at customer locations, or at specially equipped facilities, without the need to travel or commute to the actual course site.

Our instructors are not full time employees of Learning Tree; rather, they are practicing professionals with expert subject knowledge. Our average instructor has over 20 years of “hands-on, real world” experience in the fields that they teach. Learning Tree instructors teach an average of approximately seven course events per year on an “as-needed” basis. During the rest of the year, they work for other organizations either as full-time employees or as independent technical or management consultants.

In the United Kingdom, our courses can be used to gain a Master’s degree in Professional Computing at Staffordshire University under a program administered by the Faculty of Computing, Engineering and Technology. We are a trusted continuing professional education (“CPE”) provider of the International Information Systems Security Certification Consortium. In addition, we are on the National Association of State Boards of Accountancy National Registry of CPE sponsors; a Registered Education Provider of the Project Management Institute; an APMG International Accredited Training Organization; an International Institute of Business Analysis (“IIBA”) Endorsed Education Provider; an AXELOS Global Best Practice Strategic Partner; a GCHQ Certified Cyber Security Training Provider; a BCS Accredited Training Organization; and a SFIA Foundation Accredited Training Partner.

STRATEGIC INITIATIVES

Business Strategy

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, Learning Tree is 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. As such, our business strategy has evolved to encompass three objectives:

Offer a full range of Workforce Optimization Solutions that augment our traditional hands-on, instructor-led training capabilities. Our Workforce Optimization Solutions cover the life-cycle of workforce development needs, from helping organizations define their organization structures, processes, and job roles; to assessing the current knowledge, skills and abilities (KSAs) of the staff; to supporting the implementation of the means to enhance the KSAs through training, coaching, mentoring of staff along with supporting organizational process improvements; and to providing an outsourcing service in which Learning Tree provides the full management of an organization's learning initiatives. These additional solutions augment and support our traditional training service offerings. These solutions can also help ensure that an organization's investment in training is relevant and leveraged to improving overall organization performance. As an example, the use of Learning Tree's automated skills assessments can provide staff members objective feedback on their strengths and weaknesses in their professional disciplines; such information is particularly valuable in creating custom learning plans, to include recommended training courses to maximize a staff member's effectiveness on the job. From an organizational perspective, our instructors, who are practitioners in their field, can go well beyond the classroom to support organizations in driving process changes, in areas as diverse as planning and budgeting, service management, and agile project implementation.

Add e-Learning capabilities to our training solutions. Based on existing studies, instructor-led training currently remains the best way to learn a subject area. Yet we recognize that self-directed e-Learning (meaning online courses without an instructor) continues to grow and gain market acceptance, given the convenience and cost factors involved. Learning Tree believes that a "blended learning" approach, in which we work with an organization to harness the best of both instructor-led and e-learning is the most effective way to deliver our courses and for attendees to learn today. To that end, we have and will continue to work with our clients to develop customized e-Learning modules that are optimized to augment related instructor-led classes. We can extend this model and work with other e-Learning platform providers, tailoring our classes to maximize the effectiveness of a blended learning solution.

Provide a comprehensive suite of training courses to meet the needs of IT organizations. Learning Tree develops and maintains its own proprietary courseware for its training courses worldwide. In addition to our own proprietary library of courses, we have begun to strategically broaden our course offerings by adding titles from certification

organizations, hardware and software vendors, and from other training vendors. As an example, we are partnering with ISC², an organization offering cyber security professional certifications, to offer their courses for preparation of the exams to become a Certified Information Systems Security Professional (“CISSP”) and a Certified Cloud Security Professional (“CCSP”). In regards to vendor partners, we have recently entered an agreement to offer official Microsoft courseware that will be taught by our instructors at our Education Centers. This will significantly broadens our Microsoft curriculum through the addition of more than 70 new course titles. We are also now offering courses provided by other training providers for a wide range of courses, to include training on Cisco, Adobe, IBM, and Red Hat products. By providing a comprehensive suite of training courses to IT organizations, we are able to more effectively partner in providing the full complement of courses needed by our customers.

We continue to experience a decline in course attendance at our public courses that are taught at our Education Centers. To address this decline, the Company has been working to leverage resellers and other partner models to increase our sales reach, amplifying the growth of our internal sales teams, and partnering with certification organizations and other appropriate training providers to broaden and deepen the training products we offer as described above. Our overall objective is to stabilize the revenue from training offered via our Education Centers, grow our revenue from Workforce Optimization Solutions for enterprise clients, and reverse the year-over-year declines in revenue.

Comprehensive Cost Reduction Program

We have implemented and continue to execute on our comprehensive cost reduction program for fiscal year 2017 with the objective of significantly reducing our overall expenses in the range of \$10.0 million to \$12.0 million when compared to our expenses for fiscal year 2016. These reductions were initiated to right-size our operations, modernize our business operations to meet changing customer demand and preserve capital. We have taken the following actions:

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. 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.

Worked to further streamline our operations, including changes that have resulted in lower hardware shipping costs and lower instructor travel costs.

As part of this comprehensive cost reduction program, we will continue to review and take appropriate actions in fiscal year 2017 to streamline our operations in order to reduce or eliminate excess costs. For the first six months of fiscal year 2017, we have reduced our cost of revenues by \$4.3 million and our total operating expense by \$4.8 million for a total of \$9.1 million when compared to the first six months of fiscal year 2016.

Other Strategic Options

Learning Tree is continuing to explore other strategic options available to it to enhance stockholder value. Learning Tree does not expect to comment further or update the market with any additional information on the strategic options it is evaluating, unless and until its Board of Directors deems disclosure appropriate or necessary.

Going Concern

The independent auditors' report accompanying our September 30, 2016 financial statements contains an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern. This means unless we are able

to reduce our dependence on our remaining cash and cash equivalents to fund operations and improve our overall liquidity that there is substantial doubt about the Company's ability to continue as an ongoing business.

The unaudited condensed consolidated financial statements included in this Form 10-Q have been prepared on a going concern basis which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As a result, the financial statements included in this Form 10-Q should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2016.

As discussed in more detail above, the Company continues to execute upon new business strategies, its Comprehensive Cost Reduction Program and has entered into a lending arrangement with Action Capital in order to improve its overall profitability, cash flows from operations and liquidity. While the Company believes that these efforts will result in improving our liquidity and our continued operation, there is no assurance that we will be successful in executing upon some or all of these strategies at levels necessary to address the Company's cash flow and liquidity needs and continue as a going concern. As a result, there is substantial doubt about the Company's ability to continue as an on-going business.

The Company is continuing to evaluate obtaining additional sources of capital and financing in order to improve its liquidity. There is no assurance that additional capital and/or financing will be available to the Company, and even if available, whether it will be on terms acceptable to us or in amounts required.

KEY METRICS OF OUR SECOND QUARTER AND SIX MONTHS OF FISCAL YEAR 2017

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. Accordingly, our second quarter of the current fiscal year ended on March 31, 2017, and our second quarter of the prior fiscal year ended on April 1, 2016.

The following is an overview of our results of operations for the second quarter of fiscal year 2017 which ended March 31, 2017, compared to the same quarter of fiscal year 2016:

• Revenues decreased to \$16.1 million from \$18.7 million.

• Gross profit percentage increased to 40.1% of revenues from 32.3% of revenues.

• Operating expenses declined by \$2.8 million to \$8.5 million from \$11.3 million. Operating expenses were 52.9% of revenues compared to 60.3% of revenues.

• Loss from operations was \$2.1 million compared to a loss of \$5.2 million.

• Net loss totaled \$2.3 million compared to a net loss of \$5.4 million.

In addition, the following are key balance sheet items at March 31, 2017 compared to September 30, 2016:

• Cash and cash equivalents decreased to \$5.3 million compared to \$8.5 million.

• Net working capital (current assets minus current liabilities) decreased to \$(12.6) million compared to \$(10.5) million.

The following is an overview of our results of operations for the six months ended March 31, 2017, compared to the equivalent period of fiscal year 2016:

- Revenues decreased to \$34.6 million from \$38.8 million.
- Gross profit percentage increased to 41.6% of revenues from 36.9% of revenues.
- Operating expenses decreased by \$4.8 million to \$17.0 million from \$21.8 million. Operating expenses were 49.0% of revenues compared to 56.2% of revenues.
- Loss from operations was \$2.6 million compared to a loss from operations of \$7.5 million.
- Net loss totaled \$2.7 million compared to a net loss of \$7.6 million.

RESULTS OF OPERATIONS

The following table summarizes our consolidated statements of operations for the periods indicated, expressed as a percentage of our revenues for these periods:

	Three months ended		Six months ended	
	March 31, 2017	April 1, 2016	March 31, 2017	April 1, 2016
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	59.9 %	67.7 %	58.4 %	63.1 %
Gross profit	40.1 %	32.3 %	41.6 %	36.9 %
Operating expenses:				
Course development	4.7 %	7.1 %	4.4 %	6.8 %
Sales and marketing	21.7 %	26.2 %	20.4 %	24.5 %
General and administrative	24.1 %	27.0 %	23.1 %	24.9 %
Restructuring charge	2.4 %	0.0 %	1.1 %	0.0 %
	52.9 %	60.3 %	49.0 %	56.2 %
Loss from operations	-12.8 %	-28.0 %	-7.4 %	-19.3 %
Other income (expense):				
Interest income, net	-0.1 %	0.0 %	0.0 %	0.0 %
Foreign exchange losses	-0.5 %	-0.3 %	0.3 %	0.0 %
Other, net	-0.1 %	-0.1 %	0.0 %	0.0 %
	-0.7 %	-0.4 %	0.3 %	0.0 %
Loss from operation before provision for income taxes	-13.5 %	-28.4 %	-7.1 %	-19.3 %
Provision for income taxes	1.1 %	0.3 %	0.7 %	0.4 %
Net loss	-14.6 %	-28.7 %	-7.8 %	-19.7 %

THREE MONTHS AND SIX MONTHS ENDED MARCH 31, 2017 COMPARED WITH THE THREE MONTHS AND SIX MONTHS ENDED APRIL 1, 2016

Revenues. Revenues from operations of \$16.1 million in our second quarter of fiscal year 2017 were 14.0% lower than revenues of \$18.7 million in the same quarter of fiscal year 2016. The decrease in revenues is primarily the result of a 12.6% decrease in average revenue per participant and a 1.6% decrease in the number of course participants. The decrease in the average revenue per participant was caused primarily by certain pricing initiatives put in place to attract new customers and by changes in foreign exchange rates, primarily the United Kingdom, which negatively impacted revenues by approximately 2.5% quarter over quarter. Revenues from customers who purchased courses under our U.S. Government General Service Administration (“GSA”) contract schedules totaled \$3.9 million for the second quarter of fiscal year 2017 which was \$0.7 million lower than the second quarter of fiscal year 2016. We

believe that the start of the new presidential administration combined with the uncertainty over the fiscal 2017 federal budget was the reason our US Federal Government sales declined quarter over quarter.

During our second quarter of fiscal year 2017, we trained 12,368 course participants, a 1.6% decrease from the 12,567 course participants we trained in our second quarter of fiscal year 2016. During our second quarter of fiscal year 2017, we provided 39,119 attendee-days of training, compared to 39,766 attendee-days of training in the same quarter in fiscal year 2016.

Our revenues from operations of \$34.6 million during our first six months of fiscal year 2017 were 10.8% lower than revenues of \$38.8 million in the same period of fiscal year 2016. The decrease in revenues primarily resulted from an 11.7% decrease in average revenue per participant partially offset by a 1.0% increase in the number of course participants when compared to the first six months of fiscal year 2016. The decrease in average revenue per participant was caused primarily by lower average revenue from the use of aggressive pricing promotions during the period to attract new and retain existing course attendees, and changes in foreign exchange rates. Revenues were negatively impacted by approximately 3.7% period over period as a result of changes in foreign exchange rates. Revenues from customers who purchased courses under our U.S. Government General Service Administration (“GSA”) contract schedules totaled \$7.2 million for the first six months of fiscal year 2017 which was \$1.4 million lower than the first six months of fiscal year 2016.

During our first six months of fiscal year 2017, we trained 25,742 course participants, a 1.0% increase from the 25,475 course participants we trained in our first six months of fiscal year 2016. During our first six months of fiscal year 2017, we provided 80,705 attendee-days of training, compared to 80,176 attendee-days in the same period in fiscal year 2016.

Cost of Revenues. Our cost of revenues primarily includes the costs of course instructors and their travel expenses, course materials, classroom facilities, equipment, freight and refreshments.

During our second quarter of fiscal year 2017, we presented 1,060 events, a 15.3% decrease from 1,251 events during the same period in fiscal year 2016 primarily due to an increased focus on improving gross profit. During the second quarter of fiscal year 2017, we did not guarantee to run as many events as we had done in the same period in fiscal year 2016. Our cost of revenues for our second quarter of fiscal year 2017 was \$9.6 million, or 59.9% of revenues, compared to \$12.7 million, or 67.7% of revenues, in the same period in fiscal year 2016. Accordingly, our gross profit percentage for our second quarter of fiscal year 2017 was 40.1% compared to 32.3% in the same period of the prior fiscal year.

The change in cost of revenues as a percentage of revenues in our second quarter of fiscal year 2017 primarily reflects 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 23.9% decrease in the costs of revenues reflect the impact of our cost reduction program instituted in fiscal year 2016 as well as lower real estate costs due to closure of an education center and select AnyWare centers, the reduction in the 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 fluctuations in exchange rates affect our cost of revenues by approximately the same percentage as they affect our revenues.

During our first six months of fiscal year 2017, we presented 2,222 events, a 5.1% decrease from 2,342 events during the same period in fiscal year 2016. Our cost of revenues for our first six months of fiscal year 2017 was \$20.2 million, or 58.4% of revenues, compared to \$24.5 million, or 63.1% of revenues, in the same period in fiscal year 2016. Accordingly, our gross profit percentage for our first six months of fiscal year 2017 was 41.6% compared to 36.9% in the same period of the prior fiscal year.

The change in cost of revenues as a percentage of revenues during our first six months of fiscal year 2017 primarily reflects an 18.4% decrease in the cost per participant partially offset by the 11.7% decrease in revenue per participant. The decrease in cost per participant is primarily the result of a 17.5% decrease in the cost of revenues and the 1.0% increase in participants. The decrease in the cost of revenues was primarily the impact of our cost reduction program, the lower number of events, and the positive impact on expenses from changes in foreign exchange rates.

Course Development Expenses. Costs incurred to develop new courses and update our existing courses are expensed when incurred and are included in course development expenses. These costs are principally for internal product development staff and for subject matter experts.

During our second quarter of fiscal year 2017, course development expenses were 4.7% of revenues, compared to 7.1% in our second quarter of fiscal year 2016. Overall spending on course development in our second quarter of fiscal year 2017 was \$0.8 million, compared to \$1.3 million in our second quarter of fiscal year 2016.

Course development expense during our first six months of fiscal year 2017 was \$1.5 million, a decrease of \$1.1 million compared to \$2.6 million in the same period of fiscal year 2016.

In our second quarter of fiscal year 2017, we introduced four new IT course titles and two new management course titles. We retired seven IT course titles, one management course title, and 20 one-day course titles. At the end of our second quarter of fiscal year 2017, our library of instructor-led courses numbered 304 titles compared with 369 titles at the end of the same quarter of fiscal year 2016. At the end of our second quarter of fiscal year 2017, we had 136 multi-day IT titles in our course library, compared with 127 multi-day titles at the end of the same quarter of fiscal year 2016. Our library of multi-day management titles numbered 72 at the end of our second quarter of fiscal year 2017, compared with 70 multi-day titles at the end of the second quarter of fiscal year 2016. Our library of one day courses numbered 96 at the end of our second quarter of fiscal year 2017, compared to 172 at the end of the same quarter of fiscal year 2016.

Sales and Marketing Expenses. Sales and marketing expenses include the costs of distributing marketing e-mails; maintaining and further developing our website; compensation and travel for sales and marketing personnel; and information systems to support these activities.

Sales and marketing expenses in our second quarter of fiscal year 2017 were 21.7% of revenues, compared to 26.2% in the same quarter of fiscal year 2016. Sales and marketing expenses were \$3.5 million in our second quarter of fiscal year 2017, compared to \$4.9 million during our second quarter of fiscal year 2016. The decrease was driven primarily by reductions in direct marketing costs and personnel expenses as part of our cost reduction program.

Sales and marketing expenses from operations during our first six months of fiscal year 2017 were \$7.1 million, a decrease of \$2.4 million compared to \$9.5 million in the same period of fiscal year 2016. The decrease is driven primarily by decreases in direct marketing costs and personnel expenses as part of our cost reduction program.

General and Administrative Expenses. General and administrative expenses in our second quarter of fiscal year 2017 were 24.1% of revenues, compared with 27.0% for the same quarter in fiscal year 2016. General and administrative expenses during our second quarter of fiscal year 2017 were \$3.9 million, a decrease of \$1.1 million, compared to \$5.0 million in our second quarter of fiscal year 2016. The decrease reflects the results of the ongoing cost reduction program.

General and administrative expenses during our first six months of fiscal year 2017 were \$8.0 million, a decrease of \$1.7 million compared to \$9.7 million in the same period of fiscal year 2016, primarily the result of our ongoing cost reduction program.

Restructure Charge. In fiscal year 2016, we recognized a \$1.9 million restructuring charge related to our Reston, Virginia facility. We previously determined this facility was surplus classroom space as a result of the classroom space that became available in fiscal year 2016 at our new facility in Herndon, Virginia. In March 2017, we re-evaluated the estimated cash flows from sublease rentals and operating expenses. As a result, we recorded an additional \$0.4 million restructuring charge in our second quarter of fiscal year 2017.

Loss from Operations. Our loss from operations for our second quarter of fiscal year 2017 was \$2.1 million compared to a loss from operations of \$5.2 million for our second quarter of fiscal year 2016.

For the first six months of fiscal year 2017, our loss from operations was \$2.6 million compared to a loss of \$7.5 million in the first six months of fiscal year 2016.

Other Income (Expense), Net. Other income (expense), net consists primarily of interest income and foreign currency transaction gains and losses.

During our second quarter of fiscal year 2017, we had other expense of \$0.1 million compared to other expense of \$0.1 million in the second quarter of fiscal year 2016, both primarily from net foreign exchange losses.

During our first six months of fiscal year 2017, other income totaled less than \$0.1 million compared to zero in our first six months of fiscal year 2016.

Income Taxes. Our income tax provision in our second quarter of fiscal year 2017 was \$0.2 million, compared to \$0.1 million in our second quarter of fiscal year 2016. The provisions for each of these quarters are primarily related to state income taxes and the income tax expense of the Company's foreign subsidiaries.

Our income tax provision for our first six months of fiscal year 2017 was \$0.3 million, compared to \$0.1 million for our first six months of fiscal year 2016, and are primarily related to state income taxes and the income tax expense of the Company's foreign subsidiaries.

Net Loss. Our net loss for our second quarter of fiscal year 2017 was \$2.3 million compared to a net loss of \$5.4 million for our second quarter of fiscal year 2016.

Our net loss for our first six months of fiscal year 2017 was \$2.7 million compared to net loss of \$7.6 million for our first six months of fiscal year 2016.

Effects of Foreign Exchange Rates. Although our consolidated financial statements are stated in U.S. dollars, all of our subsidiaries outside of the U.S. have functional currencies other than the U.S. dollar. Gains and losses arising from the translation of the balance sheets of our subsidiaries from the functional currencies to U.S. dollars are reported as adjustments to stockholders' equity. Fluctuations in exchange rates may also have an effect on our results of operations. The strengthening of the U.S. dollar against the functional currencies of our foreign subsidiaries has negatively impacted our results of operations. 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. The impact of future exchange rates on our results of operations cannot be accurately predicted. To date, we have not sought to hedge the risks associated with fluctuations in exchange rates, and therefore we continue to be subject to such risks. Even if we undertake such hedging transactions in the future, there can be no assurance that any hedging techniques we implement would be successful in eliminating or reducing the effects of currency fluctuations. See Item 1A "Risk Factors" in our 2016 10-K.

FLUCTUATIONS IN QUARTERLY RESULTS

Our quarterly results are affected by many factors, including the number of weeks during which courses can be conducted in a quarter, the nature and extent of our marketing, the timing of the introduction of new courses, competitive forces within the markets we serve, the mix of our course events between IT and management and customer site or education center venues, and currency fluctuations.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity. As of the second quarter of fiscal year 2017 which ended March 31, 2017, we reported an accumulated deficit of \$18.0 million. We have also reported negative cash flow from operations in fiscal year 2016 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. While we have, and 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 is substantial doubt about the Company's ability to continue as a going concern. Our registered independent public accounting firm's report on our audited financial statements for the year ended September 30, 2016 that is included in our 2016 Form 10-K contained an explanatory paragraph related to the Company's ability to continue as a going concern.

We have been executing upon new strategies to increase the number of attendees in our public courses and expand our overall customer base. Many of these strategies relate to pricing initiatives to attract new customers or to re-engage old customers that have not used our services in many years.

We have accelerated our Comprehensive Cost Reduction Program with the goal of significantly reducing our fiscal year 2017 overall expenses when compared to the Company's expenses for fiscal year 2016. These reductions have been initiated to right-size the Company's operations, modernize its business operations to meet customer demand and preserve capital. We are starting to see the results of the cost reduction program as cost of revenues decreased \$4.3 million for the first six months of fiscal year 2017 when compared to the same period of fiscal year 2016, and operating expense decreased \$4.8 million for the 2017 six month period over 2016 six month period.

To further address our liquidity needs in the near term, on January 12, 2017, we entered into a Financing Agreement with Action Capital, which provides the Company with access to borrow through advances of funds up to a maximum aggregate principal amount of \$3.0 million. Pursuant to the Financing Agreement, the amount advanced to the Company will be based upon an agreed advance rate of up to 85% of the net amount of certain customer accounts receivable of the Company that are approved by Action Capital and assigned to it as collateral. The amounts advanced under the Financing Agreement will also be secured by the Company's accounts receivable from its U.S. operations.

Through the date of this Form 10-Q, we have not borrowed any funds under the Financing Agreement.

We are also continuing to evaluate additional sources of capital and financing. We have retained the services of a financial advisor to assist us in assessing strategic options available to the Company to improve liquidity. However, there is no assurance that additional capital and/or financing will be available to the Company, and even if available, whether it will be on terms acceptable to us or in amounts required.

The stabilization of revenues and reduction in costs are integral to our goal of achieving a break even operating income line and a positive cash flow from operations. We cannot provide assurances that our plans will not change, that changed circumstances will not result in the depletion of our capital resources more rapidly than we currently anticipate, or that we will be successful in securing additional liquidity.

At March 31, 2017, our net working capital deficit (current assets minus current liabilities) was \$(12.6) million, a \$2.1 million increase from the \$(10.5) million working capital deficit balance at September 30, 2016. Current assets decreased \$5.5 million during the period, due primarily to decreases in trade accounts receivable and cash. Current liabilities decreased \$3.4 million during the period, primarily due to decreases in deferred revenues.

Cash Flows. Our cash and cash equivalents decreased \$3.2 million to \$5.3 million at March 31, 2017 from \$8.5 million at September 30, 2016.

(in thousands)	Six months ended		
	March 31, 2017	April 1, 2016	Net Change
Cash used in operating activities	\$(3,077)	\$(6,405)	\$ 3,328
Cash used in investing activities	(13)	(714)	701
Effects of exchange rate changes on cash and cash equivalents	(123)	(48)	(75)
Net decrease in cash and cash equivalents	\$(3,213)	\$(7,167)	\$ 3,954

Cash used in operating activities decreased \$3.3 million in the first six months of fiscal year 2017, compared to the first six months of fiscal year 2016, primarily due to the reduced net loss for the current period of \$2.7 million compared to a net loss of \$7.6 million for the first six months of fiscal year 2016 partially offset by lower non-cash charges and a reduction in the balance of deferred revenues. Cash used in investing activities decreased by \$0.7 million in the first six months of fiscal year 2017 compared to the first six months of fiscal 2016, due to decreased capital spending for equipment and leasehold improvements.

Capital Requirements. During the six months ended March 31, 2017, we made capital expenditures of less than \$0.1 million. We plan to purchase less than \$0.5 million in equipment and other capital assets during the remainder of fiscal year 2017. Our contractual obligations as of March 31, 2017 are consistent in all material respects with our fiscal year-end disclosure in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations–Liquidity and Capital Resources–Capital Requirements” of our 2016 10-K.

We have a number of operating leases for our administrative offices and education center classroom facilities located worldwide. These leases expire at various dates over the next ten years. In addition to requiring monthly or quarterly payments for rent, some of the leases contain asset retirement provisions whereby we are required to return the leased facility back to a specified condition at the expiration of the lease.

OFF-BALANCE SHEET ARRANGEMENTS

We have no off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

Management's discussion and analysis of our financial condition and results of operations is based on our unaudited condensed consolidated financial statements. The preparation of these consolidated financial statements is based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and notes. We believe some of the more critical estimates and policies that affect our financial condition and results of operations are in the areas of revenue recognition, operating leases, AROs, stock-based compensation and income taxes. For more information regarding our critical accounting estimates and policies, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates and Policies" of our 2016 10-K. We have discussed the application of these critical accounting policies and estimates with the Audit Committee of our Board of Directors.

FUTURE OUTLOOK

This presentation sets forth select expected future results of the Company based on estimates, assumptions and information available to the Company as of the filing of this Form 10-Q. Since the financial and other information presented below are estimates of future results and performance, the actual results and outcomes may be different and such differences may be material.

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 third quarter of fiscal year 2017.

Effect of Exchange Rates. Approximately 42% of our business annually is conducted in currencies other than U.S. dollars and fluctuations in exchange rates will affect future revenues and expenses when translated into U.S. dollars. If the exchange rates as of May 1, 2017 were constant for our third quarter of fiscal year 2017, then we would expect foreign exchange rates to negatively impact third quarter revenues by approximately 2.6% when compared to the third quarter of fiscal year 2016. 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 2017 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 Revenues. We currently expect revenues for our third quarter of fiscal year 2017 of between \$16.8 million and \$17.8 million, compared to revenues of \$21.1 million in our third quarter of fiscal year 2016.

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

Third Quarter Operating Expenses. We expect overall operating expenses for our third quarter of fiscal year 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 Loss from Operations. As a result of the above factors, we expect to incur a third quarter operating loss of between \$0 and \$1.0 million compared with an operating loss of \$3.0 million in our third quarter of fiscal year

2016.

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

Third Quarter Pre-Tax Loss. Overall, we expect to report a pre-tax loss for our third quarter of fiscal year 2017 of between \$0 and \$1.1 million, compared with a pre-tax loss from operations of \$2.8 million in our third quarter of fiscal year 2016.

Full year fiscal 2017. Our fourth quarter is historically our strongest quarter, and our goal is still to reach break-even on the operating income line. Based on an improving pipeline and anticipated improvement in enrollments from the U.S. federal government, we anticipate the 4th quarter to continue to track historically as the strongest quarter of our fiscal year. However, with the six-months to date operating loss through the second quarter at \$(2.6) million and the outlook for our third quarter above, our objective of breaking even will be more difficult to achieve.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not required for a smaller reporting company.

Item 4. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

As of the end of the period covered by this report, management performed an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that we believe have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

As of March 31, 2017, other than routine legal proceedings and claims incidental to our business, we are not involved in any legal proceedings that we believe could reasonably be expected to have a material adverse effect on our financial condition or results of operations.

Item 1A. RISK FACTORS.

There were no material changes to the risk factors as previously disclosed under Part I, Item 1A of the 2016 10-K. The risks described in the 2016 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also adversely affect our business, financial condition, or future results.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES.

None.

Item 4. MINE SAFETY DISCLOSURES.

Not applicable.

Item 5. OTHER INFORMATION.

None.

Item 6. EXHIBITS.

Exhibit No.	Document Description	Incorporation by Reference
10.1	Financing and Security Agreement between Learning Tree International, Inc. and Action Capital Corporation, dated January 12, 2017	Incorporated by reference from Registrant's Current Report on Form 8-K filed January 13, 2017.
10.2	First Amendment to the Employment Agreement between Registrant and Richard Spires, dated April 18, 2017**	Incorporated by reference from Registrant's Current Report on Form 8-K filed April 18, 2017.
10.3	Employment Agreement by and between Magnus Nylund and Learning Tree International, Inc., dated January 26, 2017**	Incorporated by reference from Registrant's Current Report on Form 8-K filed January 27, 2017.
31.1	Certification of Chief Executive Officer. Pursuant to Rule 13a-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934, as amended.	Filed herewith.
31.2	Certification of Chief Financial Officer. Pursuant to Rule 13a-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934, as amended.	Filed herewith.
32.1	Certification of Chief Executive Officer. Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32.2	Certification of Chief Financial Officer. Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
101 INS	XBRL Instance Document.	Filed herewith.
101 SCH	XBRL Taxonomy Extension Schema Document.	Filed herewith.
101 CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	Filed herewith.
101 DEF	XBRL Taxonomy Extension Definition.	Filed herewith.
101 LAB	XBRL Taxonomy Extension Label Linkbase Document.	Filed herewith.
101 PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	Filed herewith.

** This exhibit is a management contract, compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

May 11, 2017

LEARNING TREE
INTERNATIONAL, INC.

By: /s/ Richard A. Spires

Richard A. Spires
Chief Executive Officer
(Principal Executive
Officer)

By: /s/ David W. Asai

David W. Asai
Chief Financial Officer
(Principal Financial and
Accounting Officer)

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