

**Learning Tree International, Inc.**  
**Fiscal Year 2012 Second Quarter Conference Call**

**Remarks by**  
**Max Shevitz, President and Jamie Donelan, Controller**

**May 8, 2012**

As a reminder, except for historical statements, the matters addressed in this conference call are forward-looking statements. Please do not put undue reliance on these forward-looking statements, since they are based on key assumptions about future risks and uncertainties.

Although we believe that our assumptions are reasonable, inevitably some will prove to be incorrect. As a result, our actual future results can be expected to differ from those discussed in this call, and those differences may be material. We are not undertaking any obligation to update forward-looking statements.

To help you assess the major risks in our business, we have identified many, but not all, of them in Item 1A of our Form 10-K. Please read those risk factors carefully. Some of the factors discussed in our Form 10-K that could affect us include risks associated with:

- Changing economic and market conditions;
- The timely development, introduction, and customer acceptance of our courses;
- Competition;
- International operations, including currency fluctuations;

- Technology development and new technology introduction;
- Efficient delivery and scheduling of our courses;
- Adverse weather conditions, strikes, acts of war or terrorism and other external events;
- and
- Attracting and retaining qualified personnel.

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](http://www.learningtree.com/investor).

Jamie Donelan, our Corporate Controller, will discuss our performance in our second quarter of fiscal 2012, which ended March 30, 2012. Max Shevitz, our President, will then provide some forward-looking information about our third quarter of fiscal 2012 and our future plans. After those remarks, we'll open the floor for questions and discussion.

## **Second Quarter Results**

First I'll summarize some key line items from our second quarter of fiscal year 2012:

- Revenues in our second quarter of fiscal 2012 were \$28.9 million, a decrease of 4.8% compared to revenues of \$30.4 million in our second quarter of fiscal 2011;
- Our gross profit percentage in our second quarter was 49.7% of revenues, compared to 51.3% in our same quarter of fiscal 2011;
- Operating expenses increased in our second quarter of fiscal 2012 to \$17.9 million, compared to \$17.2 million in our second quarter of fiscal 2011;

- Net loss in our second quarter of fiscal 2012 was \$2.1 million compared to \$1.0 million in our second quarter of fiscal 2011; and
- Loss per share for our second quarter of fiscal 2012 was \$0.16 on a diluted basis, compared to a loss of \$0.07 per share in our second quarter of fiscal 2011.

## **Second Quarter Revenue and Participants**

In our second quarter of fiscal 2012 our revenues of \$28.9 million were 4.8% lower than our revenues in the same quarter of fiscal 2011. This principally resulted from two factors:

- The number of participants increased by 1.3%, and
- Average revenue per participant declined 6.7%.

Overall, during our second quarter of fiscal 2012, we trained a total of 17,696 course participants, a 1.3% increase from the 17,471 participants we trained in our same quarter last year. Compared to the second quarter of fiscal 2011, during our second quarter of fiscal 2012:

- Attendee-days of IT training increased by 0.9% to 35,349 from 35,049;
- Attendee-days of management training decreased by 4.6% to 25,314 from 26,542; and
- Total attendee-days of training were 60,663, which was a decrease from 61,591 in the second quarter of fiscal 2011.

The decrease in average revenue per participant compared to the same quarter of our prior year was the cumulative result of several smaller factors including: a 1.4% adverse effect of changes in foreign exchange rates; an experimental program of promotional pricing for new customers in

one of our operating units; a shift in mix between higher priced courses at our education centers and courses delivered onsite at client locations; shorter duration for courses delivered at client sites; and a reduction in average price across most product lines.

## **Second Quarter Operations**

Next, I'll discuss our operations in our second quarter of fiscal 2012 and how they compare with our same quarter of fiscal 2011.

During our second quarter of fiscal 2012, we presented 1,454 events, a 1.9% increase from the 1,427 events conducted during the same period in fiscal 2011.

**Cost of Revenues.** Cost of revenues was 50.3% of revenues in our second quarter of fiscal 2012 compared to 48.7% in our second quarter of fiscal 2011, and our gross profit percentage accordingly was 49.7% compared to 51.3% in our prior year. The change in cost of revenues as a percentage of revenues in our second quarter of fiscal 2012 primarily reflects a reduction of 6.7% in revenue per participant while cost per participant decreased proportionately less at 3.6%.

Changes in foreign exchange rates do not materially affect our gross profit percentage, since exchange rate changes affect our cost of revenues by approximately the same percentage as they affect our revenues.

**Course Development Expense.** During our second quarter of fiscal 2012, we spent \$2.0 million on course development, \$0.2 million more than in the same quarter of fiscal 2011. Course

development expense was 7.1% of revenues in our second quarter of fiscal 2012 compared to 6.1% in the same quarter of fiscal 2011.

In our second quarter of fiscal 2012, we introduced five new IT course titles on cloud computing, security, server administration and mobile application development. Also in our second quarter, we introduced two new management course titles on project management. We retired five IT course titles and two management course titles in our second quarter.

Our library of instructor-led courses included a total of 215 titles at the end of our second quarter of fiscal 2012 compared with 216 titles at the same point a year earlier. At the end of our second quarter of fiscal 2012, we had 132 IT titles in our course library, compared with 137 IT titles at the end of our second quarter of fiscal 2011. Our library included 83 management titles at the end of our second quarter of fiscal 2012, compared to 79 a year earlier.

**Sales and Marketing Expense.** In our second quarter of fiscal 2012 our sales and marketing expense increased to \$8.4 million from \$8.1 million in the same quarter last year. The net increase of \$0.3 million resulted from increases of \$0.6 million in sales force and direct marketing expenditures partially offset by a reduction in certain severance expenses of \$0.3 million taken in the second quarter of fiscal 2011.

**General and Administrative Expense.** G&A expense during our second quarter of fiscal 2012 was \$7.5 million, or 25.8% of revenues, compared to \$7.3 million, or 24.0%, in our second quarter of fiscal 2011. The change was due primarily to increases in severance of \$0.7 million

and increases in professional service fees of \$0.1 million which were largely offset by reductions in incentive related compensation of \$0.4 million and facilities' expense of \$0.2 million.

**Loss from Operations.** In our second quarter of fiscal 2012, we recorded a loss from operations of \$3.5 million, or 12.1% of revenues, compared to a loss from operations of \$1.6 million, or 5.3% of revenues, in the same quarter of our fiscal 2011.

**Other Income and Expense.** In our second quarter of fiscal 2012, other expense, net was \$0.2 million, and in the second quarter of fiscal 2011 was less than \$0.1 million. The change was primarily due to unrealized foreign exchange losses in our U.S. Dollar denominated accounts in our foreign subsidiaries.

**Pre-Tax Loss.** Pre-tax loss in our second quarter of fiscal 2012 was \$3.7 million compared to a pre-tax loss of \$1.6 million in our second quarter of fiscal 2011.

**Income Taxes.** Our tax benefit for the second quarter of fiscal 2012 was \$1.6 million, for an effective tax rate of 42.8%, compared to a tax benefit of \$0.6 million at an effective rate of 38.9% in our second quarter of fiscal 2011.

**Net Loss.** Net loss for our second quarter was \$2.1 million, or 7.3% of revenues, compared to net loss of \$1.0 million, or 3.3% of revenues in our second quarter of fiscal 2011.

## **Liquidity and Capital Resources**

During our first six months of fiscal year 2012, the total of our cash and available for sale securities increased by \$2.6 million to \$45.2 million at March 30, 2012 from \$42.6 million at September 30, 2011. This increase primarily resulted from cash provided by operations of \$3.5 million that was partially offset by capital expenditures of \$1.1 million.

During our second quarter of fiscal 2012, we did not repurchase any shares of our common stock. Our Board of Directors has authorized \$4.5 million to be used for the repurchase of our common stock. We may begin repurchasing shares as soon as May 11, 2012, however, we have made no commitment to do so and we are under no obligation to repurchase any shares.

## **Third Quarter Fiscal 2012 Financial Guidance**

During the last 2 months of our 2nd quarter of 2012, we began taking initial steps intended to identify and test opportunities to produce revenue growth.

We expect for the next several quarters:

- To make significant investments in direct marketing and sales force productivity in order to attempt to achieve growth in the number of our attendees.
- To focus our course development efforts on the greatest needs of our customers.

- To adjust our course scheduling to better match demand.
- To invest in our infrastructure and course equipment to enhance the already high level of course quality we provide to our attendees

We have already begun to increase our expenditures on direct marketing in order to increase the penetration of the thousands of clients we already serve, and to gain business from new clients through a combination of direct mail and electronic marketing. We also intend to invest in systems, personnel and training to increase the productivity of our sales force.

In focusing on our course development process, we intend to develop those courses most in demand by our customers rather than to develop a fixed number of courses per quarter or per year.

Due to the lead times in our business, we would only expect to begin to see positive impacts on revenue growth after several more quarters.

We believe that we have enjoyed the benefits of long-term customer loyalty as a direct result of the extraordinarily high levels of customer satisfaction with every aspect of our service: from the interactions with our sales and customer service staff before a course, to the training itself, to our post-course follow-up. We intend to further enhance the quality of our customer services by



investing in new hands-on equipment for use in our courses and by making further improvements to our course development, maintenance and support processes.

Because we expect that any revenue growth from these changes may take time to appear, we anticipate that these investments will result in operating losses for the Company for several quarters.

**Effect of Exchange Rates.** Because we conduct approximately half of our business in currencies other than U.S. dollars, fluctuations in exchange rates will affect revenues and expenses when translated into dollars. If the exchange rates of April 27, 2012 remain constant for the remainder of our third quarter of fiscal 2012, we would expect changes in foreign exchange rates to adversely affect revenues by about 1% in our third quarter compared to our same quarter of fiscal 2011.

For our third quarter, we expect the following:

**Third Quarter Revenues.** We currently expect revenues of between \$31.0 million and \$33.0 million in our third quarter of fiscal 2012, compared to revenues of \$33.5 million in our third quarter of fiscal 2011.

**Third Quarter Gross Profit.** We expect a gross profit percentage in our third quarter of fiscal 2012 of between 49.5% and 51.0% compared to 52.4% in our third quarter of fiscal 2011.

**Third Quarter Operating Expenses.** We expect overall operating expenses for our third quarter of fiscal 2012 to be between \$19.3 million and \$19.8 million, compared to \$16.6 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 \$2.4 million and \$4.4 million compared with operating income of \$1.0 million in our third quarter of fiscal 2011.

**Third Quarter Interest Income.** We expect third quarter interest income 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 2012 of between \$2.4 million and \$4.4 million, compared with a pre-tax income of \$1.0 million in our third quarter of fiscal 2011.

**Effective Tax Rate.** We estimate that our effective tax rate in our third quarter of fiscal 2012 will be approximately 36.7%.

### **Capital Expenditures**

During the remainder of fiscal year 2012, we plan to make \$6.9 million in capital expenditures; this includes approximately \$5.0 million to upgrade the computer equipment used in our classrooms. This upgrade became the preferred option after our significant testing showed that cloud-based solutions currently do not produce the level of quality in the classroom that our customers have come to expect.

### **Looking Further Forward**

We are excited about the attendee growth initiatives that we have begun to implement, and which we will continue to roll out in the coming quarters. We believe that these and other initiatives that we have mentioned will have the effect of increasing the number of our course participants over time. We anticipate that as the number of course participants increases, the average number

of participants per event as well as the number of events will increase, and these impacts will likely result in increased gross margins and operating profits. That said, as I mentioned earlier, we believe it may be several quarters before these effects are realized.

## **Summary**

Over the past 37 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 now are hard at work to build on this strong foundation. We are excited about the growth initiatives we have undertaken to increase our future revenues and margins and are pleased with the energy this has generated within the company.