

**Learning Tree International, Inc.**  
**Fiscal 2011 Third Quarter Conference Call**

**Remarks by Mr. Nicholas Schacht, President and Chief Executive Officer, and  
Mr. Charles R. Waldron, Chief Financial Officer**

**August 10, 2011**

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.

I will begin today's presentation by providing a few business highlights, after which Bob Waldron, our Chief Financial Officer, will discuss our performance in our third quarter of fiscal 2011, which ended July 1, 2011. I will then provide some forward-looking information about our fourth quarter of fiscal 2011. After our remarks, we'll open the floor for questions and discussion.

For your convenience, we have posted the text of these prepared remarks in the Investor Relations section of our website. Go to: <http://www.learningtree.com/investor>.

Let me start with a few highlights of our performance and our growth initiatives.

- First, in our third quarter this year compared to the same quarter of our prior year, with the exception of our work for the U.S. Government, which declined because of congressional delays in passing the appropriations bill in April, the

other areas of our business continued to strengthen—growing by more than 6% compared to our third quarter of fiscal 2010.

- In our last conference call, I announced that we had re-started a number of growth initiatives which had driven our revenue growth in 2007 and 2008, but which we had put on hiatus during the economic downturn. One of those growth initiatives is the expansion of our use and marketing of Learning Tree AnyWare™, our proprietary online learning platform which allows individuals located anywhere in the world to use their Internet browser to participate in instructor-led classes being conducted live in Learning Tree Education Centers or at customer locations. We've now passed a major milestone with AnyWare. In the two years since we first introduced this remarkable new online capability, more than 10,000 of our course participants have attended their classes via AnyWare. We are enthusiastic about continuing to ramp up our AnyWare-enabled course titles, course locations, and marketing.
- Another growth initiative is to increase our rate of introducing new courses in order to expand the range of course titles we offer our customers. We are now in various stages of development on over 50 new course titles to be introduced in fiscal 2012. We are excited by the opportunities that these new titles will provide our customers for further training in topics beyond those we currently offer.

### **Third Quarter Results**

Let me start by summarizing some key line items from our third quarter of fiscal 2011:

- Revenues in our third quarter of fiscal 2011 were \$33.5 million, compared to revenues of \$32.8 million in our third quarter of fiscal 2010, an increase of 2.1%.
- Gross profit in our third quarter was 52.4% of revenues, compared to 52.1% in our same quarter of fiscal 2010;
- Operating expenses in our third quarter were \$16.6 million, compared to \$15.7 million in our third quarter of fiscal 2010;
- As a result of these factors, income from operations in our third quarter was \$1.0 million, compared to \$1.3 million in our third quarter of fiscal 2010;
- Income tax expense for our third quarter of fiscal 2011 was \$0.3 million compared to a tax benefit of \$0.5 million in our third quarter of fiscal 2010, when a number of uncertain tax positions expired under ASC 740;
- As a result, our net income in our third quarter was \$0.6 million, compared to net income of \$2.1 million in our third quarter of fiscal 2010; and
- Our fully diluted earnings per share in our third quarter were \$0.05, compared to \$0.15 in our third quarter of 2010.

### **Third Quarter Revenue and Participants**

As I just noted, our revenues of \$33.5 million for our third quarter of fiscal 2011 were 2.1% higher than our revenues in our third quarter of fiscal 2010. This was principally the result of an 8.4% increase in average revenue per participant, partly offset by a 5.9% reduction in the total number of participants in our courses compared to the same quarter of our prior year. The decrease in the number of participants in our courses compared to

the same quarter of our prior year resulted from a slowdown in our work for the U.S. Government during the quarter and from fewer participants in course events held at customer locations.

Average revenue per participant increased 8.4% in our third quarter of fiscal 2011 versus our third quarter of fiscal 2010. This was due to a positive 5.4% effect of changes in foreign exchange rates as well as the fact that we had proportionately more participants in course events held in our own Education Centers this year compared to the same quarter of our prior year. In general, events held in our own Education Centers have a higher average revenue per participant than events held at customer locations.

Overall, during our third quarter of fiscal 2011, we trained a total of 19,879 course participants, compared to the 21,124 participants we trained in our same quarter last year.

During our third quarter of fiscal 2011, attendee-days of IT course training decreased 3% to 37,811 compared to 38,911 in our third quarter of fiscal 2010. Attendee-days of management course training decreased 7% to 30,362 compared to 32,800 in the same quarter of our prior fiscal year. The decrease in attendee-days of management training was largely driven by a reduction in our VA training activities, as well as a reduction in management courses as a proportion of the mix of events held at customer locations. Total attendee-days of training in the quarter decreased 5% to 68,173, compared to 71,711 in our third quarter of fiscal 2010.

### **Third Quarter Operations**

Now let me walk you through the results of our operations in our third quarter of fiscal 2011 and how they compare with the same quarter of fiscal 2010.

**Cost of Revenues.** Cost of revenues was 47.6% of revenues in our third quarter of fiscal 2011 compared to 47.9% in our third quarter of fiscal 2010, and our gross profit percentage accordingly was 52.4% compared to 52.1% in the prior year. Changes in foreign exchange rates do not materially affect our gross profit percentage, since exchange rate changes increase our cost of revenues by approximately the same percentage as they increase our revenues.

The slight decrease in cost of revenues as a percentage of revenues in our third quarter of fiscal 2011 reflects a 4.5% increase in average revenue per event, largely offset by a 3.8% increase in average cost per event. The increase in our average revenue per event was the effect of the 8.4% increase in average revenue per participant, partly offset by a 3.5% decrease in average participants per event. The increase in our average cost per event was due to the effect of changes in foreign exchange rates, partly offset by a slightly lower fixed cost per event that resulted from spreading our fixed costs over a slightly greater number of events held in our own Education Centers compared to the same quarter a year ago.

During our third quarter of fiscal 2011, we presented a total of 1,601 events, a 2.4% decrease from the 1,642 events conducted during the same period in fiscal 2010.

**Course Development Expense.** We spent \$1.9 million on course development during our third quarter of fiscal 2011, \$0.1 million more than in the same quarter of our prior fiscal year. Course development expense was 5.6% of revenues in our third quarter of fiscal 2011 compared to 5.4% in the same quarter of fiscal 2010.

In our third quarter of fiscal 2011, we introduced 3 new IT course titles and retired 2. We introduced 4 new management course titles and retired 2. Our library of instructor-led courses numbered 219 titles at the end of our third quarter of fiscal 2011 compared with 217 titles at the same point a year earlier. At the end of our third quarter of fiscal 2011, we had 81 management titles in our course library, compared with 79 management titles at the end of our third quarter of fiscal 2010. Our library included 138 IT titles at the end of our third quarter of fiscal 2011, the same as a year earlier.

**Sales and Marketing Expense.** In our third quarter of this fiscal year our sales and marketing expense was \$7.8 million, the same as in our third quarter last year. Sales and marketing expense in our third quarter of this fiscal year was 23.3% of revenues, compared with 23.7% of revenues for the same quarter of our prior fiscal year.

**General and Administrative Expense.** G&A expense during our third quarter of fiscal 2011 was \$6.9 million, compared to \$6.2 million in our third quarter of fiscal 2010, primarily as a result of the effect of changes in foreign exchange rates, as well as higher personnel-related expenses and legal costs.

G&A expense in our third quarter was 20.6% of revenues compared with 19.0% in the same quarter of our prior year.

**Income from Operations.** As a result of these factors, in our third quarter of fiscal 2011 we had income from operations of \$1.0 million, or 2.9% of revenues, compared to income from operations of \$1.3 million, or 4.0% of revenues, in the same quarter of our prior fiscal year.

**Other Income and Expense.** In our third quarter of fiscal 2011, other income, net was less than \$0.1 million compared with \$0.2 million in the same quarter of fiscal 2010. The difference primarily resulted from a decrease of \$0.1 million in interest income due to lower cash balances and lower interest rates.

**Pre-Tax Income.** As a result of the preceding factors, pre-tax income in our third quarter of fiscal 2011 was \$1.0 million, compared to pre-tax income of \$1.5 million in our third quarter of fiscal 2010.

**Income Taxes.** Our income tax expense for our third quarter of fiscal 2011 was \$0.3 million compared to a tax benefit of \$0.5 million in our third quarter of fiscal 2010 when a number of uncertain tax positions expired under ASC 740 ;

**Net Income.** The final result of all these factors is that we recorded net income of \$0.6 million or 1.9% of revenues for our third quarter of fiscal 2011, compared to net income of \$2.1 million, or 6.3% of revenues, in our third quarter of fiscal 2010.

### **Liquidity and Capital Resources**

During our first nine months of fiscal 2011, the total of our cash and available for sale securities increased to \$40.2 million at July 1, 2011 from \$39.4 million at October 1, 2010. This increase was due to cash provided by operations of \$5.6 million, which was largely offset by capital expenditures of \$5.0 million.

And now I'll turn the call back to Nick to discuss our expectations for our fourth quarter of fiscal 2011.

### **Fourth Quarter Fiscal 2011 Financial Guidance**

Last quarter I explained that in light of our sustained growth during the past year, and our confidence in the improving business environment, we have decided to restart several growth initiatives that drove our revenue increases in 2007 and 2008, but which we suspended following the financial crisis. In the past quarter, we moved forward with those growth initiatives, and I'd like to review them with you briefly.

- First, we intend to significantly accelerate the introduction of new course titles, and further expand our course library. As I discussed in our last call, during the recession we scaled back our new course development efforts, introducing 23 new titles in fiscal 2010 with plans for 37 this year, compared to a new title introduction rate of 50 titles per year prior to the recession.

Our research continues to indicate that there are many high-potential course topics we can develop and market. For fiscal 2012 we have confirmed our plans to develop and introduce at least 50 new titles—adding more titles to our IT and management course libraries and also increasing our focus on professional certification credentials. Since it takes between one and two years for new titles to reach maturity in terms of customer demand, we would expect to see some increased revenues from our larger course library in fiscal 2012 and more significant revenue increases in fiscal 2013 and beyond.

- Second, we are planning to resume the growth of our on-site sales force. As we have noted in previous conference calls, our on-site sales held up well during the recession and we won some significant contracts with new customers. We believe one reason for this was our previous increase in the size of our field sales force.

We plan to begin with gradual growth in the number of our on-site sales representatives and accelerate the rate of growth as we see results. We expect to start seeing increased revenues from the additional sales personnel in mid to late fiscal 2012, based on the time required to hire and train new personnel and the time for them to develop a productive sales pipeline, and then see more significant

revenue gains in fiscal 2013 and beyond.

- Third, we believe that we can further expand the use of our AnyWare platform to gain additional business. As I noted at the beginning of the call, more than 10,000 individuals have now participated in our live classroom courses via AnyWare, participating online from all 50 states and more than 60 countries. We believe there is still significant opportunity to take market share through the availability of our courses via AnyWare. In fiscal 2012 we will increase:
  - The number of locations where we offer AnyWare class events;
  - The number of course titles we deliver with AnyWare; and
  - The territory reached by our marketing to increase our participants from beyond the areas surrounding our Education Centers where we currently concentrate the bulk of our marketing efforts.

Based on the revenue increases generated from similar initiatives in 2007 and 2008, we are confident in the potential for these initiatives to generate future revenue growth. Also note that our fixed cost structure can accommodate a substantially higher volume of course events and participants, and thus we expect growth in our revenues to be accompanied by higher gross profit and operating margins. As already noted, we expect to begin seeing revenue contributions from these initiatives in our next fiscal year and greater increases in future years.

At the same time, we are also investigating other potential avenues for growth and I will report back to you on those if and when we make specific determinations to pursue them.

**Effect of Exchange Rates.** One of the effects of the recent economic turmoil has been the volatility of the U.S. dollar compared to other currencies, where the dollar has alternately strengthened, weakened, and strengthened again in relatively short time periods. Approximately half 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 dollars. If the exchange rates of August 3, 2011 remain constant for the remainder of our fourth quarter of fiscal 2011, we would expect to report a favorable effect of approximately 3.5% on our revenues during our fourth quarter of fiscal 2011 compared to the same quarter of fiscal 2010. Of course, we would also see an unfavorable, though lesser, effect on our overall expenses. The effect of changes in foreign exchange rates is somewhat less pronounced on operating expenses than on revenues and cost of sales, primarily because a higher percentage of our operating expenses than our revenues are dollar-denominated, largely due to corporate management and our centralized IT, marketing and course development activities which are located here in the United States and which support our worldwide operations.

**Fourth quarter Revenues.** For our fourth quarter of fiscal 2011, we expect to achieve revenues of between \$34.0 million and \$36.0 million compared to revenues of \$33.9 million in our fourth quarter of fiscal 2010.

**Fourth quarter Gross Profit.** We expect to see continued improvement in our gross profit percentage as a result of our ongoing emphasis on prudent management and cost control. We expect a gross profit percentage in our fourth quarter of fiscal 2011 of between 55.0% and 56.5%, compared to 53.5% in our fourth quarter of fiscal 2010.

**Fourth quarter Operating Expenses.** We expect overall operating expenses for our fourth quarter of fiscal 2011 to be between \$15.7 million and \$16.2 million, compared to \$16.0 million in our fourth quarter last year.

**Fourth quarter Income from Operations.** As a result of the above factors, we expect income from operations for our fourth quarter of fiscal 2011 to be between \$3.0 million and \$4.5 million, compared to income from operations of \$2.2 million in our fourth quarter of fiscal 2010.

**Fourth quarter Interest Income.** We expect fourth quarter interest income to be less than \$0.1 million.

**Fourth quarter Pre-Tax Income.** As a result of the above factors, we expect pre-tax earnings for our fourth quarter of fiscal 2011 to be between \$3.0 million and \$4.5 million, compared with pre-tax income of \$2.1 million in our fourth quarter of fiscal 2010.

**Effective Tax Rate.** We estimate that our effective tax rate in our fourth quarter of fiscal 2011 will be approximately 37.5%, compared to an effective tax rate of 45.3% in our fourth quarter of fiscal 2010.

In summary, we believe that the improvements we have made in our business over the past several years have built a strong, effective position from which to address the challenges that lie ahead. We are continuing to work hard to generate more sales and to capitalize on our infrastructure and on our financial strength in order to take advantage of what we consider to be a period of enhanced opportunity to capture increased market share. We are confident in our long-term ability to grow our revenues and profits as economic conditions improve, and we remain enthusiastic about the future opportunities for Learning Tree.

### **Summary**

Over the past 37 years, Learning Tree has combined solid fundamental educational principles, innovative and pioneering technology, and data-intensive, process-focused business practices to create a business model that has provided the highest quality of service and extraordinarily consistent results for our clients. Throughout this period, we have demonstrated the durability of our business model and the enduring value we provide our customers by increasing the productivity and knowledge of their employees.

We remain committed to the proposition that the long-term success of our customers depends in part on their investment in technology and in the training of their personnel to leverage that investment. We look forward to continuing to help our customers maximize the productivity and the effectiveness of their employees, and the competitive capabilities of their organizations.