

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

Remarks by
Max Shevitz, President and Jamie Donelan, Controller

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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.

Jamie Donelan, our Corporate Controller, will discuss our performance in our third quarter of fiscal 2012, which ended June 29, 2012. Max Shevitz, our President, will then provide some forward-looking information about our fourth quarter of fiscal 2012 and our future plans. After those remarks, we'll open the floor for questions and discussion.

Third Quarter Results

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

- Revenues in our third quarter of fiscal 2012 were \$33.0 million, a decrease of 1.2% compared to revenues of \$33.5 million in our third quarter of fiscal 2011;
- Our gross profit percentage in our third quarter was 52.7% of revenues, compared to 52.4% in our same quarter of fiscal 2011;
- Operating expenses increased in our third quarter of fiscal 2012 to \$19.5 million, compared to \$16.6 million in our third quarter of fiscal 2011;
- During our third quarter of fiscal 2012 we took a charge of \$4.2 million to set up a valuation allowance against deferred tax assets in the U.S.

- Net loss in our third quarter of fiscal 2012 was \$6.8 million compared to net income of \$0.6 million in our third quarter of fiscal 2011; and
- Loss per share for our third quarter of fiscal 2012 was \$0.50 on a diluted basis, compared to income per share of \$0.05 in our third quarter of fiscal 2011.

Third Quarter Revenue and Participants

In our third quarter of fiscal 2012 our revenues of \$33.0 million were 1.2% lower than our revenues in the same quarter of fiscal 2011. This principally resulted from two factors:

- The number of participants increased by 0.9%, and
- Average revenue per participant declined 2.2%.

Overall, during our third quarter of fiscal 2012, we trained a total of 20,062 course participants, a 0.9% increase from the 19,879 participants we trained in our same quarter last year. Compared to the third quarter of fiscal 2011, during our third quarter of fiscal 2012:

- Attendee-days of IT training increased by 6.4% to 40,201 from 37,779;
- Attendee-days of management training decreased by 6.9% to 28,264 from 30,364; and
- Total attendee-days of training were 68,465, which was an increase from 68,143 in the third 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 2.8% adverse effect of changes in foreign exchange rates; an experimental program of promotional pricing for new customers in

one of our operating units; a favorable shift in mix between higher priced courses at our education centers and courses delivered onsite at client locations and shorter duration for courses delivered at client sites.

Third Quarter Operations

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

During our third quarter of fiscal 2012, we presented 1,671 events, a 4.4% increase from the 1,601 events conducted during the same period in fiscal 2011.

Cost of Revenues. Cost of revenues was 47.3% of revenues in our third quarter of fiscal 2012 compared to 47.6% in our third quarter of fiscal 2011, and our gross profit percentage accordingly was 52.7% compared to 52.4% in our prior year. The change in cost of revenues as a percentage of revenues in our third quarter of fiscal 2012 primarily reflects a reduction of 2.2% in revenue per participant while cost per participant decreased 2.6%.

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 third quarter of fiscal 2012, we spent \$2.2 million on course development, \$0.3 million more than in the same quarter of fiscal 2011. Course

development expense was 6.5% of revenues in our third quarter of fiscal 2012 compared to 5.6% in the same quarter of fiscal 2011.

In our third quarter of fiscal 2012, we introduced six new IT course titles. Also in our third quarter, we introduced three new management course titles. We retired five IT course titles and three management course titles in our third quarter.

Our library of instructor-led courses included a total of 216 titles at the end of our third quarter of fiscal 2012 compared with 219 titles at the same point a year earlier. At the end of our third quarter of fiscal 2012, we had 133 IT titles in our course library, compared with 138 IT titles at the end of our third quarter of fiscal 2011. Our library included 83 management titles at the end of our third quarter of fiscal 2012, compared to 81 a year earlier.

Sales and Marketing Expense. In our third quarter of fiscal 2012 our sales and marketing expense increased to \$9.7 million from \$7.8 million in the same quarter last year. The net increase of \$1.9 million resulted from increases in direct marketing and sales force expenditures.

General and Administrative Expense. G&A expense during our third quarter of fiscal 2012 was \$7.7 million, or 23.2% of revenues, compared to \$6.9 million, or 20.6%, in our third quarter of fiscal 2011. The change was due primarily to increases in severance of \$1.0 million offset by decreases in legal fees of \$0.2 million.

Loss from Operations. In our third quarter of fiscal 2012, we recorded a loss from operations of \$2.1 million, or 6.4% of revenues, compared to income from operations of \$1.0 million, or 2.9% of revenues, in the same quarter of our fiscal 2011.

Other Income and Expense. In our third quarter of fiscal 2012, other income, net was \$0.3 million, and in the third quarter of fiscal 2011 was less than \$0.1 million. The change was primarily due to unrealized foreign exchange gains in our U.S. Dollar denominated accounts in our foreign subsidiaries.

Pre-Tax Loss. Pre-tax loss in our third quarter of fiscal 2012 was \$1.8 million compared to a pre-tax income of \$1.0 million in our third quarter of fiscal 2011.

Income Taxes. Our tax provision for the third quarter of fiscal 2012 was \$5.0 million, for an effective year to date tax rate of (166.1)% compared to a provision of \$0.3 million at an effective year to date rate of 31.0% in our third quarter of fiscal 2011. Our current quarter provision reflects a one-time charge of \$4.2 million to establish a valuation allowance against our U.S. deferred tax assets.

Net Loss. Net loss for our third quarter was \$6.8 million, or 20.5% of revenues, compared to net income of \$0.6 million, or 1.9% of revenues in our third quarter of fiscal 2011.

Liquidity and Capital Resources

During our first nine months of fiscal year 2012, the total of our cash and available for sale

securities decreased by \$2.4 million to \$40.2 million at June 29, 2012 from \$42.6 million at September 30, 2011. This decrease primarily resulted from capital expenditures of \$2.8 million, repurchases of common stock of \$1.7 million and the effects of exchange rate changes on cash and cash equivalents of \$0.2 million; offset by cash provided from operations of \$2.6 million.

Fourth Quarter Fiscal 2012 Financial Guidance

As we previously stated in our second quarter Form 10-Q, over the past several months we have begun taking 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 our attendee loads.
- 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, as we previously stated in our second quarter Form 10-Q, 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 June 23, 2012 remain constant for the remainder of our fourth quarter of fiscal 2012, we would expect changes in foreign exchange rates to adversely affect revenues by about 2.4% in our fourth quarter compared to our same quarter of fiscal 2011.

For our fourth quarter, we expect the following:

Fourth Quarter Revenues. We currently expect revenues of between \$30.5 million and \$32.0 million in our fourth quarter of fiscal 2012, compared to revenues of \$34.3 million in our fourth quarter of fiscal 2011.

Fourth Quarter Gross Profit. We expect a gross profit percentage in our fourth quarter of fiscal 2012 of between 48.0% and 49.5% compared to 55.9% in our fourth quarter of fiscal 2011.

Fourth Quarter Operating Expenses. We expect overall operating expenses for our fourth quarter of fiscal 2012 to be between \$20.0 million and \$20.5 million, compared to \$16.2 million in the same quarter a year earlier.

Fourth Quarter Loss from Operations. As a result of the above factors, we expect to incur a fourth quarter operating loss of between \$4.2 million and \$5.9 million compared with operating income of \$2.9 million in our fourth quarter of fiscal 2011.

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

Fourth Quarter Pre-Tax Loss. Overall, we expect to report a pre-tax loss for our fourth quarter of fiscal 2012 of between \$4.1 million and \$5.8 million, compared with a pre-tax income of \$3.0 million in our fourth quarter of fiscal 2011.

Effective Tax Rate. The Company has determined that due to the establishment of a valuation allowance against deferred tax assets in the U.S., it will no longer be providing guidance on the next quarter's effective tax rate. This is due to the potential volatility of the effective tax rate as a result of the establishment of a valuation allowance.

Capital Expenditures

During the remainder of fiscal year 2012, we plan to make \$4.7 million in capital expenditures; this includes approximately \$3.9 million to upgrade the computer equipment used in our classrooms.

Looking Further Forward

We are excited about the attendee growth initiatives that we have begun implementing, 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. That said, as we previously stated in our second quarter Form 10-Q, we believe it may be several quarters before these effects are realized.

Summary

Over the past 38 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 are pleased with the energy this has generated within the company.