

**Learning Tree International, Inc.**  
**Fiscal Year 2011 Year-End Conference Call**

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

**December 13, 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 would like to begin today's presentation with an overview of our fourth quarter results and our overall accomplishments in fiscal 2011. After my overview, Bob Waldron, our Chief Financial Officer, would normally discuss our financial performance in our fourth quarter which ended September 30, 2011. Unfortunately, Bob is recuperating from some recently broken ribs, so we're going to let him conserve his energy and I will present our fourth quarter performance. I will then provide some forward-looking information. After my remarks, both Bob and I will be available to answer your questions.

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>.

First, two highlights from our full fiscal year 2011:

- Our revenues increased 5% compared to fiscal 2010. We are pleased to have achieved this modest increase. It reflects an increase in revenues from courses at

our Education Centers and from our base on-site course business, which was partially offset by a reduction in our training business with the Department of Veterans Affairs.

- Our customers have continued to show strong interest in training through Learning Tree AnyWare™, our patent-pending online learning platform. AnyWare allows individuals located anywhere in the world to use their Internet browser to participate online in live instructor-led classes being conducted in Learning Tree Education Centers or at customer locations. More than 6,000 participants attended Learning Tree courses via AnyWare in fiscal 2011, an increase of more than 50% over fiscal 2010. In the United States, AnyWare attendance represented more than 18% of our total public course participants in fiscal 2011.

### **Highlights of Financial Results**

Now let me highlight some key line items from our fourth quarter of fiscal 2011:

- Revenues in our fourth quarter of fiscal 2011 were \$34.3 million, compared to revenues of \$33.9 million in our fourth quarter of fiscal 2010;
- Our gross profit percentage in our fourth quarter was 55.9% of revenues, compared to 53.5% in our same quarter of fiscal 2010;
- Operating expenses in our fourth quarter of fiscal 2011 were \$16.3 million, or 47.4% of revenues, compared to \$16.0 million, or 47.1% of revenues, in our fourth quarter of fiscal 2010;
- Pre-tax income this year increased to \$3.0 million compared to \$2.1 million in our fourth quarter of fiscal 2010; and
- Earnings per share for our fourth quarter of fiscal 2011 were \$0.12 (diluted), compared to earnings per share of \$0.08 (diluted) for our fourth quarter of fiscal 2010.

For all of fiscal 2011:

- Revenues were \$133.8 million, an increase of \$6.3 million or 5.0% compared to revenues in fiscal 2010;
- Gross profit was 53.9% of revenues, compared to 53.6% for fiscal 2010;
- Operating expenses in fiscal 2011 were \$66.9 million, or 50.0% of revenues, compared to \$63.1 million for fiscal 2010, or 49.5% of revenues;
- Operating income for fiscal 2011 was \$5.2 million, the same as in fiscal 2010; and

- Earnings per share for fiscal 2011 were \$0.24 (diluted) compared to earnings per share of \$0.32 (diluted) for fiscal 2010. Fiscal 2010 earnings per share benefited by approximately \$0.08 due to a reduction in uncertain tax positions in fiscal year 2010 which resulted in a \$1.1 million decrease in tax expense for that year.

#### **Fourth Quarter Revenue and Participants**

As just noted, in our fourth quarter of fiscal 2011 our revenues of \$34.3 million were 1.2% higher than our revenues in our fourth quarter of fiscal 2010. This principally resulted from two largely offsetting factors:

- Revenue per participant increased by approximately 8.0% primarily because of the increase in the proportion of our events delivered at our education centers as well as a favorable effect of changes in foreign exchange rates of 3.8%.
- This was largely offset by a 6.9% reduction in course participants compared to the same quarter of our prior year, which resulted from reduced training activity in our contract with the Department of Veterans Affairs. (Aside from that contract, during our fourth quarter this year we had more participants at our Education Center courses and at on-site courses at customer locations other than the VA, compared to the same quarter last year.)

Overall, during our fourth quarter of fiscal 2011 we trained a total of 19,566 course participants, compared to 21,017 participants in our same quarter last year. Compared to our fourth quarter of fiscal 2010, during our fourth quarter of fiscal 2011:

- Attendee-days of IT training increased by 11.1%, to 41,289 from 37,157;
- Attendee-days of management training decreased by 27.4%, to 27,009 from 37,213. Almost all of that reduction resulted from the reduction in our training for the VA that I just noted; and
- Total attendee-days of training decreased by 8.2%, to 68,298 from 74,370.

#### **Fourth Quarter Operations**

Next, I'll discuss our operations in our fourth quarter of fiscal 2011 and how they compare with the same quarter of fiscal 2010.

**Cost of Revenues.** Cost of revenues was 44.1% of revenues in our fourth quarter of fiscal 2011 compared to 46.5% in our fourth quarter of fiscal 2010, and our gross profit percentage accordingly was 55.9% compared to 53.5% in our prior year. 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.

The change in cost of revenues as a percentage of revenues in our fourth quarter of fiscal 2011 primarily reflects a 0.3% increase in average revenue per event and a 4.9% decrease in average cost per event compared to the same quarter last year. The decrease in our average cost per event was due to reductions across a broad variety of expense categories.

During our fourth quarter of fiscal 2011, we presented 1,579 events, a 0.9% increase from the 1,565 events conducted during the same period in fiscal 2010.

**Course Development Expense.** During our fourth quarter of fiscal 2011, we spent \$1.8 million on course development, \$0.1 million less than in our same quarter of fiscal 2010. Course development expense was 5.3% of revenues in our fourth quarter of fiscal 2011 compared to 5.8% in the same quarter of fiscal 2010. The decrease was primarily due to normal quarterly fluctuations in the timing of our course development activities.

In our fourth quarter of fiscal 2011, we introduced 4 new IT course titles and retired 5 IT course titles, and we introduced 2 new management course titles and retired none.

Our library of instructor-led courses included a total of 220 titles at the end of our fourth quarter of fiscal 2011 compared with 214 titles at the same point a year earlier. At the end of our fourth quarter of fiscal 2011, we had 83 management titles in our course library, compared with 77 management titles at the end of our fourth quarter of fiscal 2010. Our library included 137 IT titles at the end of our fourth quarter of fiscal 2011, the same as a year earlier.

**Sales and Marketing Expense.** In our fourth quarter of fiscal 2011 our sales and marketing expense was \$7.3 million compared with \$8.2 million in the same quarter last year. The decrease primarily resulted from lower costs for printing and mailing our course catalogs and reduced costs for professional services as well as reductions in our sales expenses compared to the same quarter in our prior year. Changes in foreign exchange rates increased overall sales and marketing expense by 2.3% compared to our fourth quarter of fiscal 2010. Sales and marketing expense in our fourth quarter of fiscal 2011 was 21.3% of revenues, compared with 24.2% of revenues for the same quarter of fiscal 2010.

**General and Administrative Expense.** G&A expense during our fourth quarter of fiscal 2011 was \$7.1 million, or 20.8% of revenues, compared to \$5.8 million, or 17.1% of revenues, in our fourth quarter of fiscal 2010. The increase resulted primarily from higher legal fees and compensation expenses, the reversal in fiscal year 2010 of an asset retirement obligation from the renegotiation of a lease and the effect of changes in foreign exchange rates.

**Income from Operations.** In our fourth quarter of fiscal 2011, we achieved income from operations of \$2.9 million, or 8.5% of revenues, compared to income from operations of \$2.2 million, or 6.4% of revenues, in our same quarter of fiscal 2010.

**Other Income and Expense.** In our fourth quarter of fiscal 2011, other income, net was \$0.1 million, which was \$0.1 million higher than in our fourth quarter of fiscal 2010.

**Pre-Tax Income.** Pre-tax income in our fourth quarter of fiscal 2011 was \$3.0 million compared to pre-tax income of \$2.1 million in our fourth quarter of fiscal 2010.

**Income Taxes.** Income tax expense for our fourth quarter of fiscal 2011 was \$1.4 million, compared to tax expense of \$1.0 million in our fourth quarter of fiscal 2010.

**Net Income.** Net income for our fourth quarter was \$1.6 million, or 4.8% of revenues, compared to net income of \$1.2 million, or 3.4% of revenues in our fourth quarter of fiscal 2010.

### **Liquidity and Capital Resources**

During fiscal 2011, the total of our cash and available for sale securities increased to \$42.6 million at September 30, 2011 from \$39.4 million at October 2, 2010. This increase primarily resulted from cash from operations of \$9.9 million reduced by \$5.7 million for purchases of equipment, property and leasehold improvements, \$0.4 million for repurchases of common stock and \$0.5 million from the effect of changes in foreign exchange rates.

### **Growth Initiatives**

In our past two conference calls 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 and subsequent recession. We've continued to move forward with our plans, and restarted those growth initiatives at the onset of fiscal 2012. Those initiatives are:

- First, we are accelerating the introduction of new course titles in order to expand our course library. Our research continues to indicate that there are many course topics with good potential that we can develop and market. For fiscal 2012 we are implementing our plans to develop 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 the second half of fiscal 2012 and more significant revenue increases in fiscal 2013 and beyond.
- Second, we are increasing the size of our on-site sales force. Based on the time required to hire and train new personnel and the time for them to develop a productive sales pipeline, we believe we will start seeing increased revenues from our additional sales personnel in mid to late fiscal 2012, and then see more

significant revenue gains in fiscal 2013 and beyond.

- Third, we are continuing to expand our AnyWare platform to gain additional business. As I noted earlier, AnyWare contributed significant numbers of course participants in fiscal 2011. We believe there is further opportunity to take market share by leveraging the availability of our courses via AnyWare. In fiscal 2012 we plan to 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.

We are confident in the potential of these initiatives to generate future revenue growth based on the revenue increases generated from similar initiatives in 2007 and 2008. Also, our fixed cost structure can accommodate a substantially higher volume of course events and participants, and thus we believe that growth in our revenues is likely to be accompanied by higher gross profit and operating margins. As already noted, we expect to begin seeing some revenue contributions from these initiatives in fiscal year 2012 with 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.

### **First Quarter Fiscal 2012 Financial Guidance**

**Effect of Exchange Rates.** Over 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 U.S. dollars. If the exchange rates of December 5, 2011 remain constant for the remainder of our first quarter of fiscal year 2012, we would expect to report an unfavorable effect of approximately 0.5% on our revenues during our first quarter of fiscal year 2012 compared to the same quarter of fiscal year 2011.

**First Quarter Revenues.** We currently expect revenues for our first quarter of fiscal 2012 of between \$34.5 million and \$35.5 million, compared to revenues of \$35.6 million in our first quarter of fiscal 2011.

**First Quarter Gross Profit.** We expect a gross profit percentage in our first quarter of fiscal 2012 of between 54.0% and 55.0% compared to 55.7% in our first quarter of fiscal 2011, principally because of an expected reduction in the number of participants per event for course events held in our own Education Centers compared to our first quarter of fiscal 2011.

**First Quarter Operating Expenses.** We expect overall operating expenses for our first quarter of fiscal 2012 to be between \$17.0 million and \$17.5 million, compared to \$16.9 million in the same quarter a year earlier.

**First Quarter Income from Operations.** As a result of the above factors, we expect to achieve first quarter operating income of between \$1.3 million and \$2.3 million compared with \$3.0 million in our first quarter of fiscal 2011.

**First Quarter Interest Income.** We expect first quarter interest income to be less than \$0.1 million.

**First Quarter Pre-Tax Income.** Overall, we expect to report pre-tax income for our first quarter of fiscal 2012 of between \$1.3 million and \$2.4 million, compared with \$3.0 million in the first quarter of fiscal 2011.

**Effective Tax Rate.** We estimate that our effective tax rate in our first quarter of fiscal 2012 will be approximately 32.6%.

**Looking Further Forward.** We anticipate that in our second quarter of fiscal 2012, revenues and gross profit are likely to be similar to what they were in our second quarter of fiscal 2011. Because of our investments in developing a greater number of course titles and increasing the size of our sales force this year, we believe that operating expenses in our second quarter are likely to be higher than in the same quarter last year. We believe that these investments are likely to begin coming to fruition in the second half of fiscal 2012, and thus are likely to result in higher revenues and margins than in comparable quarters of our prior fiscal year.

In summary, we are heartened by our improved performance in fiscal 2011, especially considering the unexpected reduction in our VA training contract activity. We are excited about our growth initiatives and are encouraged by the continued steady performance of our core business model as a basis for future growth.

## **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 believe that our customers recognize the importance of continued professional development for their employees, particularly since success in today's business environment more than ever depends on a well-trained, competitive workforce able to adapt quickly and respond effectively to market needs and challenges. We look forward to continuing to work with our customers to apply both proven techniques and new technologies and approaches to maximize the productivity and the effectiveness of their employees, and the competitive capabilities of their organizations.