

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

**Remarks by**  
**Max Shevitz, President and David Asai, Interim CFO**

**December 18, 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 2012 Form 10-K filed today. 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;
- Attracting and retaining qualified personnel.

and

- Outcome of recently received tender offers and expressions of interest to acquire the company.

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).

David Asai, our Interim Chief Financial Officer, will discuss our performance in our fourth quarter of fiscal 2012, which ended September 28, 2012. Max Shevitz, our President, will then provide some forward-looking information about our first quarter of fiscal 2013 and our future plans. After those remarks, we'll open the floor for questions and discussion.

### **Fourth Quarter Results**

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

- Revenues in our fourth quarter of fiscal 2012 were \$32.1 million, a decrease of 6.4% compared to revenues of \$34.3 million in our fourth quarter of fiscal 2011;
- Our gross profit percentage in our fourth quarter was 47.1% of revenues, compared to 55.9% in our same quarter of fiscal 2011;
- Operating expenses increased in our fourth quarter of fiscal 2012 to \$19.2 million, compared to \$16.2 million in our fourth quarter of fiscal 2011;

- During our fourth quarter of fiscal 2012 we took a charge of \$1.3 million for severance costs related to a reduction in force and accelerated amortization of leasehold costs related to the closure of our corporate office facility in El Segundo, CA. This move will consolidate all corporate functions at our Reston, VA headquarters.
- Net loss in our fourth quarter of fiscal 2012 was \$4.8 million compared to net income of \$1.6 million in our fourth quarter of fiscal 2011; and
- Loss per share for our fourth quarter of fiscal 2012 was \$0.37 on a diluted basis, compared to income per share of \$0.12 in our fourth quarter of fiscal 2011.

**For all of fiscal 2012:**

- Revenues were \$129.0 million, a decrease of \$4.7 million or 3.5% from revenues of \$133.8 million in fiscal 2011;
- Gross profit was 51.3% of revenues, compared to 53.9% for fiscal 2011;
- Operating expenses for fiscal 2012 were \$73.2 million, or 56.7% of revenues, compared to \$66.9 million for fiscal 2011, or 50.0% of revenues;
- Loss from operations was \$6.9 million, compared to income from operations of \$5.2 million for fiscal 2011;
- Net loss for fiscal 2012 was \$11.9 million, compared to net income of \$3.2 million for fiscal 2011. The net loss in fiscal 2012 includes the establishment of a valuation allowance against our US and French deferred tax assets;
- Loss per share for fiscal 2012 was \$0.89 (diluted) compared to income per share of \$0.24 (diluted) for fiscal 2011.

## **Fourth Quarter Revenue and Participants**

In our fourth quarter of fiscal 2012 our revenues of \$32.1 million were \$2.2 million or 6.4% lower than our revenues in the same quarter of fiscal 2011. This principally resulted from two factors:

- The number of participants decreased by 2.2%, and
- Average revenue per participant declined 3.9%.

Overall, during our fourth quarter of fiscal 2012, we trained a total of 19,131 course participants, compared to 19,566 participants who we trained in our same quarter last year. Compared to the fourth quarter of fiscal 2011, during our fourth quarter of fiscal 2012:

- Attendee-days of IT training decreased by 6.2% to 38,729 from 41,289;
- Attendee-days of management training increased by 4.1% to 28,112 from 27,009; and
- Total attendee-days of training were 66,841, a decrease of 2.1% from 68,298 in the fourth 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 factors including: a 1.1% adverse effect of changes in foreign exchange rates; an experimental program of promotional pricing for new customers in one of our operating units; and an unfavorable shift in mix between higher priced courses at our education centers and courses delivered onsite at client locations

## **Fourth Quarter Operations**

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

During our fourth quarter of fiscal 2012, we presented 1,593 events, a 0.9% increase from the 1,579 events conducted during the same period in fiscal 2011.

**Cost of Revenues.** Cost of revenues was 52.9% of revenues in our fourth quarter of fiscal 2012 compared to 44.1% in our fourth quarter of fiscal 2011, and our gross profit percentage accordingly was 47.1% compared to 55.9% in our prior year. The change in cost of revenues as a percentage of revenues in our fourth quarter of fiscal 2012 primarily reflects a reduction of 3.9% in revenue per participant while cost per participant increased 14.9%. The increase in the cost per participant was driven by increased instructor costs, higher depreciation expense reflecting the decision to upgrade classroom computers and equipment, and severance costs related to the reduction in force.

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 fourth quarter of fiscal 2012, we spent \$2.4 million on course development, \$0.6 million more than in the same quarter of fiscal 2011, of which \$0.2 million was severance costs resulting from the relocation of the course development group from California to Virginia. Course development expense was 7.5% of revenues in our fourth quarter of fiscal 2012 compared to 5.3% in the same quarter of fiscal 2011.

In our fourth quarter of fiscal 2012, we introduced seven new IT course titles. Also in our fourth quarter, we introduced three new management course titles. We retired seven IT course titles and ten management course titles in our fourth quarter.

Our library of instructor-led courses included a total of 209 titles at the end of our fourth quarter of fiscal 2012 compared with 220 titles at the same point a year earlier. At the end of our fourth quarter of fiscal 2012, we had 133 IT titles in our course library, compared with 137 IT titles at the end of our fourth quarter of fiscal 2011. Our library included 76 management titles at the end of our fourth quarter of fiscal 2012, compared to 83 a year earlier.

**Sales and Marketing Expense.** In our fourth quarter of fiscal 2012 our sales and marketing expense increased to \$9.5 million from \$7.3 million in the same quarter last year. The net increase of \$2.2 million primarily resulted from increases in direct marketing as we continued to implement various testing programs aimed at increasing revenues, and to a lesser extent from \$0.3 million in severance costs related to the reduction in force of the sales organization.

**General and Administrative Expense.** G&A expense during our fourth quarter of fiscal 2012 was \$7.4 million, a \$0.3 million increase over the \$7.1 million in our fourth quarter of fiscal 2011. The increase was due primarily to severance expense related to the reduction in force and accelerated amortization of leasehold improvements on our El Segundo, CA office, partially offset by lower professional fees.

**Loss from Operations.** In our fourth quarter of fiscal 2012, we recorded a loss from operations of \$4.1 million, or 12.9% of revenues, compared to income from operations of \$2.9 million, or 8.5% of revenues, in the same quarter of our fiscal 2011.

**Other Income and Expense.** In our fourth quarter of fiscal 2012, other income and expense was a net expense of \$0.2 million, compared to other income, net of \$0.1 million in the fourth quarter of fiscal 2011. 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 fourth quarter of fiscal 2012 was \$4.4 million compared to a pre-tax income of \$3.0 million in our fourth quarter of fiscal 2011.

**Income Taxes.** Our tax provision for the fourth quarter of fiscal 2012 was \$0.5 million, compared to a provision of \$1.4 million in our fourth quarter of fiscal 2011. The tax provision for the fourth quarter of fiscal 2012 relates to foreign taxes and US state taxes.

**Net Loss.** Net loss for our fourth quarter was \$4.8 million, or 15.1% of revenues, compared to net income of \$1.6 million, or 4.8% of revenues in our fourth quarter of fiscal 2011.

### **Liquidity and Capital Resources**

During our fiscal year 2012, the total of our cash and available for sale securities decreased by \$10.7 million to \$31.9 million at September 28, 2012 from \$42.6 million at September 30, 2011. This decrease primarily resulted from capital expenditures of \$7.4 million, repurchases of

common stock of \$1.7 million, cash used in operations of \$1.2 million, and the effects of exchange rate changes on cash and cash equivalents of \$0.1 million.

### **Management Focus**

During the past year, we have focused on improving our operations with the goal of increasing the value our clients receive from our training services, and thereby increasing our competitive position and revenues. Among the initiatives we have undertaken are:

- Adjusting our course scheduling with the objective of increasing both our course execution rates and numbers of participants per event
- Increasing our direct marketing expenditures
- Improving the quality of our direct mail catalogs and website
- Improving the quality of our sales processes and the skills of our sales personnel
- Upgrading the hands-on equipment used in our classrooms to provide an enhanced experience for our course participants
- Improving the quality of AnyWare™, our proprietary system that provides IT professionals and managers the opportunity to participate in our classroom courses by connecting to the classroom over the Internet from their offices or homes.

We believe that these initiatives will begin to bear fruit in fiscal 2013. However, the adverse economic headwinds and government budget uncertainties make it difficult to predict whether these measures will be sufficient for us to advance, or at what rate, or precisely when.

Nevertheless, we are excited by what we have already accomplished, and remain committed to the proposition that by providing our customers with training that equips their IT professionals



and managers with skills that increase their on-the-job productivity, we will ultimately increase our course attendance and revenues.

## **First Quarter Fiscal 2013 Financial Guidance**

### **ONE TIME ITEMS**

In the first quarter of 2013, we have incurred several one-time expense items as follows:

- Hurricane Sandy forced the cancellation of 28 courses and the relocation of another 19 to local hotels. In total, we are estimating the eventual net impact of Hurricane Sandy to be approximately \$1.0 million; however we expect the impact in the first quarter to be higher because many cancelled participants have rescheduled to attend courses that will take place in future quarters.
- We are closing our El Segundo, CA corporate office at the end of the first quarter. The estimated cost of the remaining lease liability net of estimated sublease revenues, accelerated write-off of the remaining leasehold improvements, and employee severance will add approximately \$1.1 million of expense to our first quarter.
- On September 19, 2012, we announced that our Board of Directors received a non-binding proposal from Dr. David C. Collins, our Chairman of the Board and Chief Executive Officer, and his wife, Mary C. Collins, to acquire all of our outstanding shares that they do not already own for a \$5.25 per-share price in cash. In response to the proposal from Dr. Collins, our Board of Directors established a Special Committee of the Board comprised of all of our independent

directors to consider, among other things, the proposal and strategic alternatives. In addition to the proposal from the Collins', the Special Committee has received additional indications of interest regarding an acquisition of the Company since the announcement of the Collins' proposal.

On October 29, 2012, Mill Road Capital, L.P. filed a Schedule 13D with the SEC to disclose its non-binding proposal to acquire all of our outstanding shares for \$5.80 per share. On November 13, 2012, and November 19, 2012, Mill Road Capital amended its Schedule 13D to indicate that they have entered into a voting agreement with Lane Five Partners LP, Lane Five Capital Management LP, and Pleiades Investment Partners-LA, L.P., each a shareholder of the Company, to, among other things, support any proposed acquisition of control of the Company by Mill Road Capital or an affiliate thereof.

We caution our shareholders and others considering trading in our securities that no decisions have been made by the Board or the Special Committee with respect to these proposals and there can be no assurance that any agreement will be executed or that one of these proposals, or any other transaction, will be approved or consummated.

In light of Collins' proposal and the additional indications of interest, the Special Committee is evaluating all strategic alternatives available to the Company. The special committee has retained its own lawyers and consultants to advise them in this process. The work of the Special Committee and its advisors has added \$1.1 million in additional expense to the first quarter.

The projected first quarter 2013 results which follow include all of the above one-time expenses.

**First Quarter Revenues.** We currently expect revenues of between \$32.8 million and \$33.6 million in our first quarter of fiscal 2013, compared to revenues of \$35.0 million in our first quarter of fiscal 2012.

**First Quarter Gross Profit.** We expect a gross profit percentage in our first quarter of fiscal 2013 of between 49.7% and 50.9% compared to 55.3% in our first quarter of fiscal 2012.

**First Quarter Operating Expenses.** We expect overall operating expenses for our first quarter of fiscal 2013 to be between \$18.3 million and \$19.1 million, compared to \$16.5 million in the same quarter a year earlier.

**First Quarter Loss from Operations.** As a result of the above factors, we expect to incur a first quarter operating loss of between \$1.2 million and \$2.8 million compared with operating income of \$2.8 million in our first quarter of fiscal 2012.

**First Quarter Other Income (Expense), Net.** We expect first quarter other income (expense), net to be approximately \$0.1 million.

**First Quarter Pre-Tax Loss.** Overall, we expect to report a pre-tax loss for our first quarter of fiscal 2013 of between \$1.1 million and \$2.7 million, compared with a pre-tax income of \$2.9 million in our first quarter of fiscal 2012.

**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 effect of the valuation allowance.

**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 December 1, 2012 remain constant for the remainder of our first quarter of fiscal 2013, we would expect changes in foreign exchange rates to adversely affect revenues by about 0.3% in our first quarter compared to our same quarter of fiscal 2012.

## **Looking Forward**

As we look at the economic indicators of the major markets that we serve, we continue to see downward trends. As such, we continue our focus on improving our ability to market and sell to our customers, and improving the quality of service we provide our customer.

This means that during the first quarter of Fiscal Year 2013:

- We have continued testing in our major marketing programs;
- We have right-sized our sales force and conducted training to try to improve sales-force productivity in future quarters;
- We have begun relocation of our product development organization in order to locate that group closer to the markets we serve;

While we expect these changes to result in improved sales and marketing productivity over future quarters, the impact of current economic conditions worldwide and the threat of the Fiscal Cliff in our largest market continue to adversely impact our course revenues.

### **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 are hard at work to build on this strong foundation.