

Learning Tree International, Inc.
Fiscal 2010 First Quarter Conference Call

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

February 9, 2010

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 commenting on the success of the adjustments we made to our business model over the past year in response to the present business climate, after which Bob Waldron, our Chief Financial Officer, and I will discuss our performance in our first quarter of fiscal 2010, which ended January 1, 2010. I will then provide some forward-looking information about our second quarter of fiscal 2010. 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>.

We are encouraged that the actions we have taken to manage our business under the challenging economic conditions of the past year are achieving their intended effects. We continue to realize significant benefits from the profitability improvements and cost savings that we implemented in fiscal 2009 and our first quarter this fiscal year. Despite 14.4% lower revenues in our first quarter of fiscal 2010 than in the same quarter of our

previous year, we achieved a gross profit of 56.8%, almost the same as the 57.0% we achieved in our first quarter of fiscal 2009. We also reduced our operating costs for the first quarter of fiscal 2010 to 45% of revenues compared to 50% in the same period last year. As a result, in our first quarter we achieved higher operating and net income than in the same quarter last year despite our lower revenues. Later in this presentation Bob and I will discuss some of the key contributors to these results.

As I mentioned in our last earnings call, during our fourth quarter of fiscal 2009 we began to deliver training using Learning Tree AnyWare™, our new patent-pending live e-Learning platform, which allows individuals located anywhere to use their Internet browser to participate in live instructor-led classes being conducted in Learning Tree Education Centers or at customer locations.

AnyWare remote participants receive the same live instructor-led experience they would get in a Learning Tree classroom. They see and hear their instructor and their classmates through a live high-quality video feed from the classroom and communicate with them over the integrated VoiP audio channel as well as through text chat. They participate in class discussions, Q&A, and breakout sessions. They simultaneously see both of the projection displays used by the instructor, as well as all annotations and enhancements the instructor makes on those display in real time, using Learning Tree's MagnaLearn™ instructional enhancement system. And remote AnyWare participants perform every hands-on exercise by remotely controlling their own in-class PCs, so their instructor can see what they are doing and coach them just as if they were sitting in the classroom.

Early customer feedback has been enthusiastic and enrollments of remote participants have continued to grow, corroborating our belief that AnyWare is very different from other e-learning formats, and is significantly more effective in achieving multi-day job-related online learning. We now offer more than 150 of our course titles through AnyWare, and we expect to continue expanding our AnyWare™ course offerings in the coming months.

We are continuing to evaluate all aspects of our business to identify additional opportunities to grow revenues, cut costs, operate more efficiently and refine our processes and business model consistent with current market conditions. Our goal is to meet the challenges of today's turbulent economy, while positioning Learning Tree to capitalize on opportunities to gain market share and ultimately grow.

First Quarter Results

Now let me summarize some key line items from our first quarter of fiscal 2010:

- Revenues in our first quarter of fiscal 2010 were \$32.5 million, compared to revenues of \$38.0 million in our first quarter of fiscal 2009, a decline of 14.4%;
- As I just noted, our gross profit percentage in our first quarter was 56.8% of revenues, which was higher than expected and only slightly less than the 57.0% we achieved in our same quarter of fiscal 2009;
- We reduced our operating expenses to \$14.6 million during our first quarter of fiscal 2010 from \$19.0 million in the same quarter of our prior fiscal year;

- As a result of these factors, we increased our income from operations 45% to \$3.9 million, compared to \$2.7 million in our first quarter of fiscal 2009;
- Net income increased 32% to \$2.4 million compared to \$1.8 million in our first quarter of fiscal 2009; and
- Our fully diluted earnings per share were \$0.18 in our first quarter of fiscal 2010 compared to \$0.11 in our first quarter of fiscal 2009. This includes the impact of a 15% reduction in the weighted average of the number of our outstanding common shares as a result of our stock repurchases, which Bob will discuss later.

First Quarter Revenue and Participants

As I just noted, our revenues of \$32.5 million for our first quarter of fiscal 2010 were 14.4% lower than our revenues in our first quarter of fiscal 2009. This was primarily driven by three factors:

- During our first quarter of fiscal 2010, we delivered 19.9% fewer attendee-days of training than in the same quarter of our prior year.
- Changes in foreign exchange rates improved our reported revenues by 3.9%; and
- Price increases positively affected our revenues by 1.3%.

Overall, during our first quarter of fiscal 2010, we trained a total of 17,600 course participants, a 17.8% decrease from the 21,414 participants we trained in our same quarter last year.

During our first quarter of fiscal 2010, attendee-days of management course training decreased 10.4% to 23,638 compared to 26,376 in the same quarter of our prior fiscal year. Attendee-days of IT course training decreased 24.9% to 38,110 compared to 50,742 in our first quarter of fiscal 2009. Total attendee-days of training in the quarter decreased 19.9% to 61,748, compared to 77,118 in our first quarter of fiscal 2009.

In our first quarter of fiscal 2010, average revenue per participant was 3.8% higher than in the same quarter of fiscal 2009. This increase resulted from the 3.9% positive effect of changes in foreign exchange rates and the impact of price increases noted earlier, partially offset by a 2.6% reduction in the average number of attendee-days per participant compared to last year (shorter courses are generally priced lower than their longer counterparts).

First Quarter Operations

Let me walk you through the results of our operations in our first quarter of fiscal 2010 and how they compare with the same quarter of fiscal 2009.

Cost of Revenues. Cost of revenues was 43.2% of revenues in our first quarter of fiscal 2010 compared to 43.0% in our first quarter of fiscal 2009, and our gross profit percentage accordingly was 56.8% compared to 57.0% in the prior year.

As we mentioned previously, our actual gross profit percentage for our first quarter exceeded our expectations at the time of our last conference call. This was principally due to two factors: improved enrollments and reduced last-minute cancellations

compared with what we had been expecting; and the fact that during the quarter we began to see an impact from incremental AnyWare remote participants attending existing events. We have continued to pay close attention to all aspects of our operating model in an effort to maximize our gross profit.

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 small increase in cost of revenues as a percentage of revenues in our first quarter of fiscal 2010 reflects a 1.2% decrease in average revenue per event, partly offset by a 0.5% decrease in average cost per event. The decrease in our average revenue per event was primarily the result of a 4.8% decrease in average participants per event, largely offset by the 3.8% increase in average revenue per participant we discussed earlier.

During our first quarter of fiscal 2010, we presented 1,393 events, a 13.6% decrease from the 1,613 events conducted during the same period in fiscal 2009.

Course Development Expense. We spent \$1.7 million on course development during our first quarter of fiscal 2010, \$0.5 million less than in the same quarter of our prior fiscal year. As part of our cost saving efforts, we have reduced course development expense, principally by reducing the number of new course titles under development compared to the same quarter in our prior year. Course development expense was 5.3% of revenues in our first quarter of fiscal 2010 compared to 5.8% in the same quarter of fiscal 2009.

In our first quarter of fiscal 2010, we introduced two new IT course titles and retired six IT course titles, and we introduced one new management course title and retired three.

Our library of instructor-led courses numbered 213 titles at the end of our first quarter of fiscal 2010 compared with 193 titles at the same point a year earlier. At the end of our first quarter of fiscal 2010, we had 74 management titles in our course library, compared with 59 management titles at the end of our first quarter of fiscal 2009. Our library included 139 IT titles at the end of our first quarter of fiscal 2010, compared to 134 a year earlier.

Sales and Marketing Expense. In our first quarter of this fiscal year we reduced our sales and marketing expense to \$6.8 million from \$9.1 million in the same quarter last year. Approximately \$1.1 million of that reduction was due to mailing fewer catalogs, \$0.8 million was due to reductions of personnel and related benefits and \$0.3 million was due to lower advertising costs compared to our first quarter of fiscal 2009. The remainder of the reduction was spread among several expense categories. Slightly offsetting these decreases was an overall increase of approximately 2.9% due to changes in foreign exchange rates. Sales and marketing expense in our first quarter of this fiscal year was 21.0% of revenues, compared with 24.0% of revenues for the same quarter of our prior fiscal year.

General and Administrative Expense. G&A expense during our first quarter of fiscal 2010 was \$6.1 million, compared to \$7.7 million in our first quarter of fiscal 2009. Approximately \$0.4 million of our reduction in G&A expense was due to lower compensation-related expense, including lower accruals for incentive compensation and equity-based compensation, and \$0.4 million was due to lower expenses for professional services. Also, our first quarter of fiscal 2009 included \$0.4 million of one-time costs associated with exploring a potential sale of the company and \$0.4 million of one-time restructuring costs incurred as a result of reductions in staff taken in November 2008. The remainder of the reduction was spread among several expense categories. And, overall, G&A expense for our first quarter of fiscal 2010 increased approximately 2.9% due to changes in foreign exchange rates compared to our first quarter of fiscal 2009.

G&A expense in our first quarter was 18.6% of revenues compared with 20.2% in the same quarter of our prior year.

Income from Operations. As a result of these factors, in our first quarter of fiscal 2010 we achieved income from operations of \$3.9 million, or 11.9% of revenues, compared to income from operations of \$2.7 million, or 7.0% of revenues, in the same quarter of our prior fiscal year.

Other Income and Expense. In our first quarter of fiscal 2010, other income, net was \$0.2 million compared with \$0.4 million in the same quarter of fiscal 2009. The difference primarily resulted from a decrease of \$0.4 million in interest income due to lower interest rates and lower cash balances. This was partially offset by changes in foreign currency gains and losses. In our first quarter of fiscal 2010 we had a foreign currency gain of less than \$0.1 million, which compares to a foreign currency loss of \$0.2 million in our first quarter of fiscal 2009.

Pre-Tax Income. As a result of the preceding factors, we achieved pre-tax income in our first quarter of fiscal 2010 of \$4.1 million, compared to pre-tax income of \$3.1 million in our first quarter of fiscal 2009.

Income Taxes. In our first quarter of fiscal 2010 we recorded tax expense of \$1.7 million based on an effective tax rate of 41.0%. This compares to tax expense of \$1.2 million and an effective tax rate of 39.6% in our first quarter of fiscal 2009. The increase in the fiscal 2010 effective tax rate is due to an increase in the permanent differences associated with stock option compensation expense and a reduction in the amount of tax-exempt interest income.

Net Income. The final result of all these factors is that we achieved net income for our first quarter of fiscal 2010 of \$2.4 million, or 7.5% of revenues, compared to net income of \$1.8 million, or 4.9% of revenues, in our first quarter of fiscal 2009.

Liquidity and Capital Resources

During our first three months of fiscal 2010, the total of our cash and available for sale securities decreased to \$72.7 million at January 1, 2010, from \$73.8 million at October 2, 2009. This decrease is primarily due to our use of \$1.0 million to repurchase our stock on the open market and \$0.8 million for purchases of furniture and computer equipment for our education centers. These decreases were partially offset by \$0.7 million in net cash provided by operations during our first three months of fiscal 2010.

During our first quarter of fiscal 2010, we repurchased 90,957 shares of our common stock at an average price of \$11.47. From the end of our first quarter through February 8, 2010, we repurchased an additional 66,650 shares of our common stock at an average price of \$11.55. This brings our total outstanding shares to 13,744,075 as of February 8, 2010. We may make additional purchases of common stock through open market transactions, but we have no commitments to do so.

In the first quarter of fiscal 2010, we sold \$0.5 million of our auction rate securities at their face value. This latest sale reduced the total face value of our remaining auction rate securities to \$16.5 million at the end of our first quarter, compared to a face value of \$26.1 million at the end of our first quarter of fiscal 2009. As a result of the redemption, and based on a new valuation of our remaining auction rate securities by an independent expert, we have reduced our temporary impairment related to auction rate securities to \$2.3 million, establishing a fair value of \$14.2 million for those remaining securities. We intend to exercise our right to sell all of our remaining auction rate securities to UBS at their face value starting June 30, 2010. As a result, this \$14.2 million fair value is classified in current available for sale securities in our first quarter balance sheet. Because we do not believe that the value of these securities is permanently affected, impairments to these assets do not affect our reported net income.

Second Quarter Financial Guidance

Effect of Exchange Rates. One of the effects of the recent economic turmoil has been the weakening of the U.S. dollar compared to a year earlier. 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 February 8, 2010 remain constant for the remainder of our second quarter of fiscal 2010, we would expect to report a favorable effect of approximately 3.0% on our revenues during our second quarter of fiscal 2010 compared to the same quarter of fiscal 2009. 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 since our operating expenses are more heavily dollar-denominated, largely because of 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.

Second Quarter Revenues. The second quarter of our fiscal year is typically our lowest revenue quarter because of seasonality factors, including winter weather. For our second quarter of fiscal 2010, we expect the year-over-year percentage decline in our revenues to

be less than in any quarter since the start of the economic downturn. We expect to achieve revenues of between \$27.0 million and \$29.0 million, which would represent a decline of between 5% and 11% from revenues of \$30.5 million in our second quarter of fiscal 2009. This includes the positive effect of changes in foreign exchange rates I just mentioned.

Second Quarter Gross Profit. We expect a gross profit percentage in our second quarter of fiscal 2010 of between 51.5% and 53.0%, compared to 52.8% in our second quarter of fiscal 2009. We expect to allocate the fixed costs of our education centers and classroom equipment over fewer events in our second quarter this year compared to our second quarter of fiscal 2009, and we expect the resulting increased allocation per event to exceed other reductions we have made in our costs of revenues.

Second Quarter Operating Expenses. We expect overall operating expenses for our second quarter of fiscal 2010 to be between \$15.0 million and \$16.0 million, a reduction of between 14% and 19% compared to \$18.6 million in the same quarter a year earlier.

Second Quarter Income (Loss) from Operations. As a result of the above factors, we expect earnings from operations for our second quarter of fiscal year 2010 to be between a loss of \$1.5 million and income of \$0.6 million, compared with an operating loss of \$2.5 million in the second quarter of fiscal year 2009.

Second Quarter Interest Income. We expect second quarter interest income to be approximately \$0.2 million.

Second Quarter Pre-Tax Income (Loss). As a result of the above factors, we expect pre-tax earnings for our second quarter of fiscal year 2010 to be between a loss of \$1.3 million and income of \$0.8 million, compared with a pre-tax loss of \$2.1 million in the second quarter of fiscal year 2009.

Effective Tax Rate. We estimate that our effective tax rate in our second quarter of fiscal year 2010 will be approximately 40.0%.

In summary, we expect that today's challenging business climate will continue for an indeterminate period. We believe that the improvements we have made in our business over the past several years, as well as the adjustments we made to our business model over the past twelve months, 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 foresee as a period of enhanced opportunity to capture increased market share. We are confident in our long-term ability to grow our revenues and profits when economic conditions improve, and we remain enthusiastic about the future opportunities for Learning Tree.

Summary

Over the past 35 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. Since our company's founding in 1974, Learning Tree has weathered repeated financial downturns and capitalized on numerous periods of economic expansion. And as we have built a preeminent position as the world's leading vendor-independent provider of training for managers and IT professionals, we have also built a strong financial base on which to grow and prosper.

In this challenging economy, we have taken and are continuing to take the actions necessary to maintain that financial strength. Meanwhile, we intend to continue to capitalize on our market position, competitive advantages and financial strength in order to increase our market share. We remain committed to the proposition that the long-term success of our customers depends in part on the skills and effectiveness of their managers and IT personnel. 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.