

Learning Tree International, Inc.
Fiscal 2009 First Quarter Conference Call

Remarks by Mr. Nicholas Schacht, President and Chief Executive Officer

February 10, 2009

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 some of the actions we have taken and are taking in response to current economic conditions, after which I will cover our performance in our first quarter of fiscal 2009, which ended January 2, 2009. I will then provide some forward-looking information about our second quarter of fiscal 2009. Following my presentation, we will open the floor for questions and discussion. Bob Waldron, our Chief Financial Officer, will join me in the Q&A section of this conference call.

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>.

The current business environment is among the most challenging we have faced in our 34-year history, as companies continue to cut back on spending of all kinds in response to the global economic crisis. As an indication of the effect this slowdown had on our business during our first quarter of fiscal 2009, the number of course participants per available training week declined by approximately 12% compared with our first quarter

of fiscal 2008. As I will report more fully below, our first-quarter revenues were also adversely affected by a 9% unfavorable effect of changes in foreign exchange rates, having one less week available for training in our first quarter this fiscal year compared to last fiscal year and several smaller factors, which together resulted in our overall revenues for our first quarter of fiscal 2009 declining by about 25% from those in our first quarter of fiscal 2008.

We have already taken some steps to reconfigure our business to meet these challenges:

- In November, we eliminated 73 positions, representing approximately 14% of our approved positions, across a wide range of levels, functions and locations. We expect to see savings from this restructuring starting in our second quarter of fiscal 2009, and we are continuing to evaluate our staffing levels as we strive to match the size of our infrastructure to our current business levels.
- We have focused on controlling our variable costs and adjusting our processes to maximize our gross profit. As a result, although we cannot quickly reduce certain fixed costs such as the cost of our education centers, our gross profit percentage only declined by three percentage points to 57 % during our first quarter of fiscal 2009.
- While we continue to believe that we can gain additional revenue by expanding our course library, we have scaled back our initiative to develop and offer increased numbers of new course titles, although we will continue to develop and introduce new course titles in response to market demand. Note that because we had already started developing many titles which were already well into the development and marketing pipeline, we still expect the number of titles we will introduce during fiscal 2009 to exceed the numbers introduced annually in the fiscal 2006-2008 period.
- We are also reviewing our sales and marketing expenses to find greater efficiencies, and focusing our sales and marketing investment on those activities which we expect to provide a rapid positive return.

We are continuing to evaluate all aspects of our business to identify additional opportunities to cut costs, operate more efficiently, and refine our processes and business model. Our goal is to ensure that Learning Tree is optimally positioned to deal with the challenges of today's economy, and to capitalize on opportunities to gain market share in these turbulent times.

First Quarter Results.

Before we get into the details of operating results, I'd first like to summarize some key line items for our first quarter of fiscal 2009:

- Revenues in our first quarter of fiscal 2009 were \$38.0 million, compared to revenues of \$50.9 million in our first quarter of fiscal 2008;
- Gross profit was 57.0% of revenues compared to 60.0% in the same quarter of fiscal 2008;
- Operating expenses were 50.0% of revenues compared to 43.3% of revenues for the same quarter of fiscal 2008;

- As a result of these factors, income from operations was \$2.7 million, a decrease of \$5.8 million from the same quarter of fiscal 2008; and
- Earnings per share on a fully diluted basis in our first quarter of fiscal 2009 were \$0.11 per share compared to \$0.35 per share in our first quarter of fiscal 2008.

First Quarter Revenue and Participants

As I noted earlier, the 25.4% decline in our revenues for our first quarter of fiscal 2009 compared to our first quarter of fiscal 2008 resulted from several factors:

- During our first quarter of fiscal 2009, we trained an average of approximately 12% fewer course participants per available week.
- Our reported revenues declined 9% as a result of changes in foreign exchange rates. This is less than the 12% effect we had expected at the time of our forecast in our prior earnings call on December 8, 2008, because the dollar weakened somewhat against most of our foreign subsidiaries' currencies between that call and the end of the quarter.
- Because of the timing of quarter-ends and holidays, our first quarter in fiscal 2009 had only 11 weeks during which we conducted class events, while our first quarter of fiscal 2008 had 12 weeks available for training.
- These factors were slightly offset by revenue increases due to the effects of price increases and a shift in the mix of single-seat, voucher, and passport participants in courses held in our own education centers, which were in turn slightly offset by a small reduction in the average length of our course events.

Overall, during our first quarter of fiscal 2009, we trained a total of 21,414 course participants, a 19.3% decrease from the 26,551 participants we trained in the same quarter last year, reflecting in part the fewer weeks available for training during the most recent quarter.

During our first quarter of fiscal 2009, attendee-days of management course training decreased 13.7% to 26,413 compared to 30,620 in the same quarter of our prior fiscal year. Attendee-days of IT course training decreased 24.0% to 50,749 compared to 66,736 in our first quarter of fiscal 2008. Total attendee-days of training in the quarter decreased 20.7% to 77,162, compared to 97,356 in our first quarter of fiscal 2008, again reflecting in part the fewer weeks available for training during fiscal 2009.

In our first quarter of fiscal 2009, average revenue per participant was 7.9% lower than in the same quarter of fiscal 2008. This decrease was primarily due to the changes in foreign exchange rates discussed above, as well as an increase in the relative proportion of participants in management course events which are shorter and therefore have a lower average revenue per participant than IT course events. These decreases were partially offset by the effects of price increases and a shift in the mix of single seat, voucher, and passport participants at courses held in our own education centers.

First Quarter Operations

Let's now discuss our operations in our first quarter of fiscal 2009 and how they compare with the same quarter of fiscal year 2008.

Cost of Revenues. Cost of revenues was 43.0% of revenues in our first quarter of fiscal 2009 compared to 40.0% in our first quarter of fiscal 2008, and our gross profit percentage accordingly was 57.0% compared to 60.0% in the prior year. Changes in foreign exchange rates do not materially affect our gross profit percentage, since exchange rate changes decrease our cost of revenues by approximately the same percentage as they decrease our revenues.

The change in cost of revenues as a percentage of revenues in our first quarter of fiscal 2009 reflects a 9.3% decrease in average revenue per event, partially offset by a 2.0% decrease in average cost per event. The decrease in our average revenue per event was the result of the 7.9% decrease in average revenue per participant I discussed earlier and a 1.5% decrease in average participants per event. The decrease in average cost per event principally resulted from the effect of changes in foreign exchange rates, largely offset by proportionately higher fixed costs per event. The increase in fixed costs per event was due to spreading our education center expense and equipment depreciation over fewer events compared to the prior fiscal year.

During our first quarter of fiscal 2009, we presented 1,613 events, an 18.1% decrease from the 1,969 events conducted during the same period in fiscal 2008.

Course Development Expense. As part of our previously announced initiative to increase the rate at which we develop and introduce new course titles, we spent \$2.2 million on course development during our first quarter of fiscal 2009. However, because we reduced spending on other aspects of our course development processes, we only spent \$0.1 million more than in the same quarter of our prior year. Largely due to the decline in our revenues, course development expense was 5.8% of revenues in our first quarter of fiscal 2009 compared to 4.0% in the same quarter of fiscal 2008.

In our first quarter of fiscal 2009, we introduced six new IT course titles and retired three IT course titles, and we introduced six new management course titles and retired one. Our library of instructor-led courses numbered 193 titles at the end of our first quarter of fiscal 2009 compared with 160 titles at the same point a year earlier. At the end of our first quarter of fiscal 2009, we had 59 management titles in our course library, compared with 45 management titles at the end of our first quarter of fiscal 2008. Our library included 134 IT titles at the end of our first quarter of fiscal 2009, compared to 115 a year earlier.

Sales and Marketing Expense. In our first quarter this fiscal year we reduced our expenditures on sales and marketing to \$9.1 million compared to \$10.5 million in the same quarter last year, primarily as a result of a reduction of \$1.0 million due to mailing fewer catalogs as well as a number of other partially offsetting factors including a reduction of professional service fees, a reduction in sales commissions due to lower revenues, and an increase in advertising expense. Sales and marketing expense amounted to 24.0% of revenues, compared with 20.7% of revenues for the same quarter of our prior year, because of the decline in our revenues in our first quarter of fiscal 2009.

Included in the overall sales and marketing expense reduction is an 8.0% effect of changes in foreign exchange rates.

General and Administrative Expense. G&A expense during our first quarter of fiscal 2009 was \$7.7 million, compared to \$9.5 million in our first quarter of fiscal 2008. Approximately \$0.6 million of this was due to reductions in cash and equity incentive compensation expenses in our first quarter of fiscal 2009. Additionally, our first quarters of both fiscal 2009 and fiscal 2008 included significant items not associated with current operations:

- Our first quarter of fiscal 2009 included \$0.4 million for costs associated with exploring a potential sale of the company, including non-contingent transaction contribution bonuses for certain employees, principally in our finance and accounting department, as well as legal fees and special committee fees, and \$0.4 million of restructuring costs incurred as a result of our November staff reductions.
- Our first quarter of fiscal 2008 included \$0.8 million in one-time professional service fees, \$0.3 million related to lapsed stock options and \$0.2 million for contingency accruals.

The remainder of the difference was due to various cost reduction actions. Included in the total reduction in G&A expense is a 5.2% effect of changes in foreign exchange rates.

Again, despite the reduction in our absolute expenditure on G&A, the reduction in revenues resulted in G&A expense in our first quarter of 20.2% of revenues compared with 18.6% in the same quarter of our prior year.

Income from Operations. As a result of these factors, in our first quarter of fiscal 2009 we achieved income from operations of \$2.7 million, or 7.0% of revenues, compared to income from operations of \$8.5 million, or 16.7% of revenues, in the same quarter of our prior fiscal year.

Other Income and Expense. In our first quarter of fiscal 2009, other income, net was \$0.4 million compared with \$0.9 million in the same quarter of fiscal 2008. The difference primarily resulted from a decrease of \$0.6 million in interest income due to lower interest rates, partly offset by a decrease in foreign currency transaction losses of \$0.1 million.

Pre-Tax Income. As a result of the preceding factors, pre-tax income in our first quarter of fiscal 2009 was \$3.1 million, compared to pre-tax income of \$9.4 million in our first quarter of fiscal 2008.

Income Taxes. In our first quarter of fiscal 2009 we recorded tax expense of \$1.2 million based on an effective tax rate of 39.6%. This compares to tax expense of \$3.5 million and an effective tax rate of 37.3% in our first quarter of fiscal 2008. The increase in our effective tax rate was primarily due to the effect of permanent differences principally associated with stock option compensation expense and lower tax-exempt interest income.

Net Income. Net income for our first quarter of fiscal 2009 was \$1.8 million, or 4.9% of revenues, compared to net income of \$5.9 million, or 11.6%, in our first quarter of fiscal 2008.

Liquidity and Capital Resources

During our first quarter of fiscal 2009, the total of our cash and available for sale securities decreased by \$11.1 million to \$83.1 million at January 2, 2009 from \$94.2 million at October 3, 2008. This decrease included the effects of \$3.7 million used in repurchasing our stock, \$3.3 million due to changes in foreign exchange rates, and \$2.0 million due to a non-cash charge for additional temporary impairment of our auction rate securities. In addition, most of our working capital accounts declined as a result of seasonality factors and the overall decline in our revenues. These decreases were partly offset by our net profit for the quarter.

Our cash and available for sale securities includes \$21.5 million of auction rate securities stated at fair value, after a \$4.6 million temporary impairment based on a valuation by an independent expert. 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.

During our first quarter of fiscal 2009, we sold \$3.2 million of our auction rate securities, all at par value, including \$2.7 million which we sold to Wachovia Securities pursuant to a repurchase agreement. In addition, we have signed a repurchase agreement with UBS under which we have the right to sell all of our remaining auction rate securities at their par value of \$26.1 million starting June 30, 2010.

During our first quarter of fiscal 2009, we repurchased 353,195 shares of our common stock at an average price of \$10.36. Between October 15, 2007, and February 4, 2009, we repurchased a total of 597,617 shares at an average price of \$9.94. We may make additional purchases of common stock through open market transactions, but we have no commitments to do so.

Second Quarter 2009 Financial Guidance

Effect of Exchange Rates. One of the effects of the recent economic turmoil has been the strengthening of the U.S. dollar during the last six months. 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 5, 2009 remain constant for the remainder of our second quarter of fiscal 2009, we would expect to report an unfavorable effect of approximately 12% on our revenues during our second quarter of fiscal 2009 compared to the same quarter of fiscal 2008. Of course, we would also see a favorable, 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 due to a greater proportion of dollar-denominated operating expenses, including 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.

Revenues. As many of you will recall, our business does have a seasonality, and our second fiscal quarter, from January through March, is almost always the weakest quarter of our fiscal year for both revenues and profitability. We currently expect revenues for our second quarter of fiscal 2009 to be between \$28.5 million and \$30.0 million, which represents a reduction of between 23% and 27% compared to revenues of \$39.2 million in our second quarter of fiscal 2008. This includes the 12% effect of changes in foreign exchange rates I just discussed.

Second Quarter Gross Profit. Although we are working to maintain nearly the same number of participants per event in our second quarter of fiscal 2009 that we achieved in the same quarter of fiscal year 2008, we expect a gross profit percentage in our second quarter of fiscal 2009 of between 47.2% and 48.7 % compared to 54.9% in our second quarter of fiscal 2008, largely because the fixed costs of our education centers and classroom equipment will be allocated to fewer expected events this year.

Second Quarter Operating Expenses. Operating expenses for our second fiscal quarter of 2009 will include the last \$0.4 million of expenses associated with the transaction contribution bonuses for certain employees. We expect overall operating expenses for our second quarter of fiscal 2009 to be between \$17.5 million and \$18.5 million, a reduction of between 11% and 16% compared to \$20.8 million in the same quarter a year earlier. We expect approximately 8% of that reduction to be due to the expected effect of changes in foreign exchange rates and the remainder to our efforts to control our costs.

Second Quarter Operating Loss. As a result of the above factors, we expect to report a second quarter operating loss of between \$3.5 million and \$5.0 million compared with operating income of \$0.7 million in our second quarter of fiscal 2008.

Second Quarter Interest Income. We expect second quarter interest income of approximately \$0.5 million.

Second Quarter Pre-Tax Loss. Overall, we expect to report a pre-tax loss for our second quarter of fiscal 2009 of between \$3.0 million and \$4.5 million, compared with pre-tax income of \$2.2 million in the second quarter of our prior year.

Effective Tax Rate. We project an effective tax rate for our second quarter of fiscal 2009 of approximately 40%.

We expect to face a challenging business climate for an indeterminate period. 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 continue to evaluate our plans and actions in response to the changing face of the economic situation. As discussed, we have already made significant adjustments to our business model in response to current conditions and we continue to look for further operating efficiencies in our business. 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. Long term, we are confident in our abilities to grow our revenues and profits when economic conditions improve, and we remain enthusiastic about the future potential for Learning Tree.

Summary following discussion

Over our 34-year history, Learning Tree has weathered numerous financial downturns and capitalized on numerous periods of economic expansion. In that time, we have established a preeminent position as the world's leading vendor-independent provider of training for managers and IT professionals, and we have built a strong financial base. During the present financial crisis, 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 to increase our market share; and our instructors, our content, our classrooms and our worldwide delivery systems continue to raise the standards for quality and effectiveness in the industry. The goal of our quality processes and training methods is that each and every individual we train acquires the skills and knowledge needed to succeed in his or her job. 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.