

Learning Tree International, Inc.
Fiscal Year 2011 First Quarter Conference Call

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

February 8, 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 accomplishments in our first quarter of fiscal 2011 which ended December 31, 2010. After my overview, Bob Waldron, our Chief Financial Officer, will discuss details of our performance in our first quarter. I will then provide some forward-looking information about our second quarter of fiscal 2011. 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>.

In our first quarter of fiscal 2011:

- The growth rate of our revenues continued to improve—our revenues grew by nearly 10% compared to the same quarter in our previous year;
- We achieved double-digit growth in attendee-days of training in both our IT and management programs, delivering a total of almost 13% more attendee-days of training than in the first quarter of our prior year; and

- Our customers continued to respond favorably to our proprietary AnyWare™ live online learning platform, which 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. In the quarter, nearly 1,400 attendees participated in Learning Tree classes via AnyWare.

We remain focused on continuing to increase our rate of revenue growth while making improvements to our margins and operating results.

First Quarter Result

Let me start by summarizing some key line items from our first quarter of fiscal 2011:

- Revenues in our first quarter of fiscal 2011 were \$35.6 million, an increase of 9.6% compared to revenues of \$32.5 million in our first quarter of fiscal 2010;
- Our gross profit percentage in our first quarter was 55.7% of revenues, compared to 56.8% in our same quarter of fiscal 2010. This change largely resulted from an increase in the proportion of our courses delivered at customer locations, and particularly those delivered under large contracts with the VA and NATO;
- Operating expenses in our first quarter of fiscal 2011 were \$16.9 million, compared to \$14.6 million in our first quarter of fiscal 2010. This largely resulted from increased investment in sales and marketing activities and higher G&A expense;
- Net income was \$2.0 million compared to net income of \$2.4 million in our first quarter of fiscal 2010; and
- Earnings per share for our first quarter of fiscal 2011 were \$0.14, compared to earnings per share of \$0.18 for our first quarter of fiscal 2010.

First Quarter Revenue and Participants

As I just noted, in our first quarter of fiscal 2011 our revenues of \$35.6 million were 9.6% higher than our revenues in our first quarter of fiscal 2010. This principally resulted from two factors:

- We had 10.8% more course participants during our first quarter of fiscal 2011 than in the same quarter of our prior year; and
- Our revenue per participant declined by approximately 1.2%, primarily because of a 1% adverse effect of changes in foreign exchange rates.

Overall, during our first quarter of fiscal 2011, we trained a total of 19,503 course participants, a 10.8% increase from the 17,600 participants we trained in our same quarter last year. Compared to the first quarter of fiscal 2010, during our first quarter of fiscal 2011:

- Attendee-days of management training increased by 16.1% to 27,460 from 23,655;
- Attendee-days of IT training increased by 10.6% to 42,264 from 38,200; and
- Total attendee-days of training increased by 12.7%, to 69,724 from 61,855.

First Quarter Operations

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

Cost of Revenues. Cost of revenues was 44.3% of revenues in our first quarter of fiscal 2011 compared to 43.2% in our first quarter of fiscal 2010, and our gross profit percentage accordingly was 55.7% compared to 56.8% in our prior year. The change in cost of revenues as

a percentage of revenues in our first quarter of fiscal 2011 primarily reflects a 2.9% decrease in average revenue per event slightly offset by a 0.2% decrease in average cost per event. The decrease in our average revenue per event was primarily the result of the 1.2% decrease in average revenue per participant I discussed earlier and a 1.9% decrease in average participants per event.

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.

During our first quarter of fiscal 2011, we presented 1,571 events, a 12.8% increase from the 1,393 events conducted during the same period in fiscal 2010.

Course Development Expense. During our first quarter of fiscal 2011, we spent \$2.0 million on course development, \$0.3 million more than in the same quarter of fiscal 2010. Course development expense was 5.6% of revenues in our first quarter of fiscal 2011 compared to 5.3% in the same quarter of fiscal 2010. The increase was primarily due to higher course production costs and higher personnel costs.

In our first quarter of fiscal 2011, we introduced 3 new IT course titles and retired 6 IT course titles, and we introduced 1 new management course title and retired none.

Our library of instructor-led courses included a total of 212 titles at the end of our first quarter of fiscal 2011 compared with 216 titles at the same point a year earlier. At the end of our first quarter of fiscal 2011, we had 78 management titles in our course library, compared with 77 management titles at the end of our first quarter of fiscal 2010. Our library included 134 IT titles at the end of our first quarter of fiscal 2011, compared to 139 a year earlier.

Our proprietary Learning Tree AnyWare™ learning platform allows individuals located anywhere in the world to use their Internet browser to participate online in more than 160 AnyWare-enabled course titles. AnyWare attendees can participate in our live instructor-led classroom courses presented at nine Education Centers across the US and Europe or in on-site events for individual clients, using a classroom at a customer's location. In addition, we are continuing our pilot program under which our customers can use AnyWare as a platform to extend the reach of their own content and instructors. We invite you to watch a short video explanation of AnyWare at www.learningtree.com/anyware/anywarevideos.htm or to sign up for a 45-minute live demonstration at www2.learningtree.com/promos/awdemo.aspx.

Sales and Marketing Expense. As the economy has slowly begun to improve, we have increased our investment in sales and marketing in an effort to increase our market reach and share. In our first quarter of fiscal 2011 we increased our sales and marketing expense to \$7.7 million from \$6.8 million in the same quarter last year. The increase primarily resulted from increased personnel expenses of \$0.5 million, higher catalog costs of \$0.3 million, and increased advertising expenses of \$0.2 million. Changes in foreign exchange rates reduced overall sales and marketing expense by 0.8% compared to our first quarter of fiscal 2010. Sales and

marketing expense in our first quarter of fiscal 2011 was 21.5% of revenues, compared with 21.0% of revenues for the same quarter of fiscal 2010.

General and Administrative Expense. G&A expense during our first quarter of fiscal 2011 was \$7.2 million, or 20.3% of revenues, compared to \$6.1 million in our first quarter of fiscal 2010. G&A expense in our first quarter of fiscal 2011 was higher primarily due to \$0.6 million in increased payroll, benefits and other gross pay, and \$0.3 million in professional fees, donations and other administrative expenses, as well as two non-recurring expenses: \$0.2 million associated with personnel restructuring in one of our operating units and a \$0.2 million increase in the loss accrual associated with subleases to our subtenants at our London education center. This increase of \$1.3 million was partially offset by a decrease in facilities expense of \$0.1 million. Changes in foreign exchange rates reduced overall general and administrative expense by 1.4% compared to our first quarter of fiscal 2010.

Income from Operations. In our first quarter of fiscal 2011, we achieved income from operations of \$3.0 million, or 8.3% of revenues, compared to income from operations of \$3.9 million, or 11.9% of revenues, in the same quarter of our fiscal 2010.

Other Income and Expense. In our first quarter of fiscal 2011, other income, net was \$0.1 million, which compares to \$0.2 million in our first quarter of fiscal 2010.

Pre-Tax Income. Pre-tax income in our first quarter of fiscal 2011 was \$3.0 million compared to pre-tax income of \$4.1 million in our first quarter of fiscal 2010.

Income Taxes. Our tax expense for the first quarter of fiscal 2011 was \$1.0 million, for an effective tax rate of 34.1%, compared to a tax expense of \$1.7 million at an effective rate of 41.0% in our first quarter of fiscal 2010. The different tax rates were primarily due to changes in reserves for uncertain tax positions.

Net Income. Net income for our first quarter was \$2.0 million, or 5.5% of revenues, compared to net income of \$2.4 million, or 7.5% of revenues in our first quarter of fiscal 2010.

Liquidity and Capital Resources

During our first three months of fiscal year 2011, the total of our cash and available for sale securities increased by \$0.3 million to \$39.7 million at December 31, 2010 from \$39.4 million at October 1, 2010. This increase includes cash provided by operations of \$2.0 million offset by capital expenditures of \$1.6 million.

During our first quarter of fiscal 2011, we did not repurchase any shares of our common stock on the open market. We may make additional purchases of common stock, but we have no commitments to do so.

Second Quarter Fiscal 2011 Financial Guidance

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 February 4, 2011 remain constant

for the remainder of our second quarter of fiscal 2011, we would expect changes in foreign exchange rates to have virtually no effect when comparing revenues or expenses during that quarter to our same quarter of fiscal 2010.

Second Quarter Revenues. We currently expect revenues for our second quarter of fiscal 2011 of between \$28.3 million and \$29.8 million, compared to revenues of \$28.3 million in our second quarter of fiscal 2010.

We have been delivering courses under our contract with the Department of Veterans Affairs for almost a year now, and as a result of these Learning Tree courses, nearly 4,000 VA course participants have gained the skills needed to improve the VA's ability to plan, manage and deliver major projects more quickly, effectively and efficiently. Based on the favorable response to these courses, the VA has recently exercised its option for the second year of our five-year contract. Moreover, the VA wants to make it easier for a greater number of VA employees to attend our courses, and we are working with the VA to make changes in our course formats to accommodate that desire. As a result, we have shifted much of the training initially planned for our second quarter of fiscal 2011 to our third and fourth fiscal quarters when these changes should be fully implemented. Although this shift should ultimately mean more revenues for us, it will adversely affect our second quarter revenues.

Second Quarter Gross Profit. We expect a gross profit percentage in our second quarter of fiscal 2011 of between 49.3% and 50.7% compared to 51.6% in our second quarter of fiscal 2010, largely because of increased freight, travel, instructor fees and other costs associated with classes held at customer locations compared to our second quarter of fiscal 2010. As a reminder, our gross profit percentage is generally at its lowest level during our second fiscal quarter because the seasonally lower business volume of our second quarter means that our fixed direct costs are allocated over a relatively smaller number of course events than in other quarters.

Second Quarter Operating Expenses. We expect overall operating expenses for our second quarter of fiscal 2011 to be between \$16.5 million and \$17.0 million, compared to \$16.8 million in the same quarter a year earlier.

Second Quarter Loss from Operations. As a result of the above factors, we expect to incur a second quarter operating loss of between \$1.5 million and \$2.5 million compared with an operating loss of \$2.2 million in our second quarter of fiscal 2010.

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

Second Quarter Pre-Tax Loss. Overall, we expect to report a pre-tax loss for our second quarter of fiscal 2011 of between \$1.5 million and \$2.5 million, compared with a pre-tax loss of \$2.0 million in our second quarter of fiscal 2010.

Effective Tax Rate. We estimate that our effective tax rate in our second quarter of fiscal 2011 will be approximately 38%.

In summary, we are pleased to have achieved a third consecutive quarter of improving revenue growth rates. Customers are beginning to communicate increases in their training needs, and employment trends are increasingly favorable. At the same time, we are committed to improving

our profitability even at current business volumes. We believe the combination of an orientation toward future growth with a continued emphasis on prudent day-to-day management will yield a strong operating position from which to address and capture future opportunities.

Summary

Over the past 36 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 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.