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

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

May 12, 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 second quarter of fiscal 2009, which ended April 3, 2009. I will then provide some forward-looking information about our third 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.

As I commented in our conference call last quarter, the current business environment is the most challenging we have faced in our 34-year history, as our current and prospective customers carefully manage their spending in response to the global economic crisis. We have continued to reconfigure our business to meet these challenges:

- During our first and second quarters of fiscal 2009, we reduced our staffing levels by a total of 97 people, across a wide range of levels, functions and locations, representing approximately 18% of our workforce at the start of our fiscal year. We began realizing cost savings from these actions in our second quarter and will realize increased cost savings over the remainder of our fiscal year.

- Effective April 1, 2009, we reduced the salaries of our staff in our corporate headquarters and our United States subsidiary and payments to Directors by an annualized amount of approximately $780,000, and also eliminated corporate management incentive compensation for corporate executives for fiscal 2009.
- We made certain other changes to reduce the costs of employee compensation and benefits, representing an annualized amount of approximately $725,000.
- Although in the short term it is difficult to reduce certain of our fixed costs such as the cost of our education centers, by focusing on controlling our variable costs we were able to minimize the effect that the significant reduction in our revenues had on our gross profit. As a result, we achieved a gross profit percentage of 52.8% during our second quarter of fiscal 2009 compared to 54.9% during our second quarter of fiscal 2008. Our gross profit for our first six months of fiscal 2009 decreased to 55.2% as compared to 57.8% for the same period in fiscal 2008.
- While we have scaled back our initiative to develop and offer increased numbers of new course titles, we have continued to develop and introduce new course titles in response to market demand. Because at the start of fiscal 2009 many new titles were already well into the development pipeline, we expect the number of titles introduced this fiscal year to exceed the annual numbers we introduced between 2006 and 2008.
- We have continued to refine the focus of our sales and marketing investment, emphasizing those activities which we expect to provide a rapid positive return.
- We have also focused on reducing and controlling our general and administrative expenses in order to maintain an infrastructure matched to our current revenues.

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 ensure that Learning Tree is optimally positioned to meet the challenges of today’s economy, and to capitalize on opportunities to gain market share in these turbulent times.

Second Quarter and Year-to-Date Results.
Before we get into the details of operating results, I’d first like to summarize some key line items for our second quarter of fiscal 2009:

- Revenues in our second quarter of fiscal 2009 were $30.5 million, compared to revenues of $39.2 million in our second quarter of fiscal 2008, a decline of 22.2%. These results are somewhat better than we anticipated at the time of our prior conference call, due to slightly higher-than-expected sales volumes late in the quarter;
- Our gross profit percentage in our second quarter was higher than we previously anticipated, at 52.8% of revenues compared to 54.9% in the same quarter of fiscal 2008.

- We reduced our operating expenses to $18.6 million during the second quarter of fiscal 2009 from $20.8 million in the same quarter of fiscal 2008, however because of the reduction in our revenues, operating expenses represented 60.9% of revenues compared to 53.1% of revenues for the same quarter of fiscal 2008;
- As a result of these factors, we had a loss from operations of $2.5 million, compared to income from operations of $0.7 million in the second quarter of fiscal 2008; and
- Our loss per share on a fully diluted basis in our second quarter of fiscal 2009 was $0.09 compared to earnings per share of $0.08 in our second quarter of fiscal 2008.

And, for our first six months of fiscal 2009,

- Revenues were $68.5 million, compared to $90.1 million for the same period in fiscal 2008, a decrease of 24%;
- Gross profit was 55.2% of revenues compared to 57.8% for the first six months of our prior fiscal year;
- Operating expenses decreased to $37.6 million, compared to $42.9 million for the first six months of our prior fiscal year;
- Income from operations decreased to $0.2 million from $9.2 million;
- Net income was $0.5 million compared to $7.2 million in our first six months of fiscal 2008; and
- Earnings per share on a diluted basis were $0.03 compared to $0.44 in the same period of fiscal 2008.

Second Quarter Revenue and Participants

As I noted earlier, the 22.2% decline in our revenues for our second quarter of fiscal 2009 compared to the same quarter of fiscal 2008 resulted from several factors:

- During our second quarter of fiscal 2009, we trained an average of approximately 18.5% fewer course participants per available week.
- Our reported revenues were adversely affected by 11.6% as a result of changes in foreign exchange rates.
- These factors were partly offset by a small impact of price increases, and by an approximately 7% effect of having one additional week of training in our second quarter this year compared to our second quarter in fiscal 2008, as well as the lack of a second quarter “Easter Effect” (since Easter falls in our third quarter this year but fell in our second quarter last year).

Overall, during our second quarter of fiscal 2009, we trained a total of 17,958 course participants, an 11.6% decrease from the 20,309 participants we trained in the same quarter last year.

During our second quarter of fiscal 2009, attendee-days of management course training increased 4.3% to 23,571 compared to 22,596 in the same quarter of our prior fiscal year. Attendee-days of IT course training decreased 20.9% to 40,430 compared to 51,091 in our second quarter of fiscal 2008. Total attendee-days of training in the quarter decreased 13.1% to 64,001, compared to 73,687 in our second quarter of fiscal 2008.

In our second quarter of fiscal 2009, average revenue per participant was 13.0% lower than in the same quarter of fiscal 2008. This decrease was principally due to the 11.6% impact from changes in foreign exchange rates discussed above, as well as an increase in the relative proportion of participants in management course events and events held at customer locations which have a lower average revenue per participant than IT course events and events held in our own Education Centers. These decreases were partly offset by the effects of price increases.

Second Quarter Operations
Let's now turn to our operations in our second quarter of fiscal 2009 and how they compare with the same quarter of fiscal 2008.

Cost of Revenues. Cost of revenues was 47.2% of revenues in our second quarter of fiscal 2009 compared to 45.1% in our second quarter of fiscal 2008, and our gross profit percentage accordingly was 52.8% compared to 54.9% in the prior year.

As I mentioned previously, our gross profit percentage for our second quarter exceeded our expectations at the time of our last conference call. This was principally due to three factors: sales strengthened and enrollee cancellation rates declined somewhat toward the end of the quarter compared with what we had anticipated, so that we achieved a higher-than-expected number of participants per event; our fixed costs were distributed over a larger number of events than we had previously expected; and we were able to realize some of the results of our cost-saving initiatives more quickly than we had anticipated.

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 second quarter of fiscal 2009 reflects a 19.4% decrease in average revenue per event, partly offset by a 14.9% decrease in average cost per event. The decrease in our average revenue per event was the result of the 13.0% decrease in average revenue per participant I discussed earlier and a 7.4% decrease in average participants per event. The decrease in average cost per event principally resulted from the effect of changes in foreign exchange rates in addition to decreases in certain costs of sales compared to our second quarter in fiscal 2008.

During our second quarter of fiscal 2009, we presented 1,503 events, a 4.5% decrease from the 1,574 events conducted during the same period in fiscal 2008.

Course Development Expense. We spent $2.0 million on course development during our second quarter of fiscal 2009, $0.6 million less than in the same quarter of our prior year. The reduction in course development expense was principally due to our decision to scale back our new course initiative as I discussed earlier. Course development expense was 6.5% of revenues in our second quarter of fiscal 2009 compared to 6.6% in the same quarter of fiscal 2008.

In our second quarter of fiscal 2009, we introduced six new IT course titles and retired two IT course titles, and we introduced nine new management course titles and retired none. As I noted earlier, we had begun the development of many of these course titles prior to scaling back our course development growth initiative in response to current economic conditions. Our library of instructor-led courses numbered 206 titles at the end of our second quarter of fiscal 2009 compared with 163 titles at the same point a year earlier. At the end of our second quarter of fiscal 2009, we had 68 management titles in our course library, compared with 46 management titles at the end of our second quarter of fiscal 2008. Our library included 138 IT titles at the end of our second quarter of fiscal 2009, compared to 117 a year earlier.

Sales and Marketing Expense. In our second quarter of this fiscal year we reduced our sales and marketing expense to $8.8 million compared to $10.5 million in the same quarter last year. Approximately $0.9 million of that reduction was due to fewer catalogs and reductions in other marketing activities, as well a reduction in sales commissions due to lower revenues. Also included in the overall reduction in sales and marketing expense was a 9.0% effect of changes in foreign exchange rates. Sales and marketing expense was 29.0% of revenues, compared with 26.8% of revenues for the same quarter of our prior fiscal year.

General and Administrative Expense. G&A expense during our second quarter of fiscal 2009 was $7.8 million, compared to $7.7 million in our second quarter of fiscal 2008. G&A expense in our second quarter of fiscal 2009 included $0.8 million of restructuring costs incurred as a result of our March staff reductions and the final $0.3 million for costs associated with our now-discontinued efforts to explore 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. G&A expense for our second quarter of fiscal 2009 reflected a decrease of approximately 7.8% due to changes in foreign exchange rates, compared to our second quarter of fiscal 2008.

Principally due to the reduction in our revenues, G&A expense in our second quarter was 25.4% of revenues compared with 19.7% in the same quarter of our prior year.

Income from Operations. As a result of these factors, in our second quarter of fiscal 2009 we incurred a loss from operations of $2.5 million, or 8.1% of revenues, compared to income from operations of $0.7 million, or 1.8% of revenues, in the same quarter of our prior fiscal year.

Other Income and Expense. In our second quarter of fiscal 2009, other income, net was $0.3 million compared with $1.5 million in the same quarter of fiscal 2008. The difference primarily resulted from a decrease of $0.7 million in interest income due to lower interest rates and lower cash balances, and a $38,000 foreign currency transaction loss as opposed to a gain of $327,000 in the same quarter in fiscal 2008.

Pre-Tax Loss. As a result of the preceding factors, our pre-tax loss in the second quarter of fiscal 2009 was $2.1 million, compared to pre-tax income of $2.2 million in our second quarter of fiscal 2008.

Income Taxes. In our second quarter of fiscal 2009 we recorded tax benefit of $0.8 million based on an effective tax rate of 35.7%. This compares to tax expense of $0.9 million and an effective tax rate of 39.6% in our second quarter of fiscal 2008.

Net Loss. Our net loss for the second quarter of fiscal 2009 was $1.4 million, or 4.5% of revenues, compared to net income of $1.3 million, or 3.4%, in our second quarter of fiscal 2008.

Liquidity and Capital Resources

During our first six months of fiscal 2009, the total of our cash and available for sale securities decreased by $18.4 million to $75.8 million at April 3, 2009 from $94.2 million at October 3, 2008. This decrease included the effects of $13.3 million used in repurchasing our stock, $4.3 million due to changes in foreign exchange rates, and $2.6 million due to a non-cash charge for additional temporary impairment of our auction rate securities. These decreases were slightly offset by $2.4 million in net cash provided by operations during our first six months of fiscal 2009. In addition, most of our working capital accounts declined as a result of the overall decline in our revenues.

During our second quarter of fiscal 2009, we repurchased 1,140,388 shares of our common stock at an average price of $8.46. From the end of our second quarter through May 7, we repurchased an additional 122,607 shares of our common stock at an average price of $9.30. And in summary, since reinitiating our repurchase program on October 15, 2008, through May 7, 2009 we have repurchased a total of 1,616,190 shares at an average price of $8.94. This brings our total outstanding shares to 14,968,946 as of May 7, 2009. We may make additional purchases of common stock through open market transactions, but we have no commitments to do so.

Our cash and available for sale securities at April 3, 2009 includes $20.9 million of auction rate securities stated at fair value after a $5.2 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.

Third 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 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 May 5, 2009 remain constant for the remainder of our third quarter of fiscal 2009, we would expect to report an unfavorable effect of approximately 11% on our revenues during our third 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 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.

Revenues. We currently expect revenues for our third quarter of fiscal 2009 to be between $31.0 million and $33.0 million, which represents a reduction of between 30% and 34% compared to revenues of $46.9 million in our third quarter of fiscal 2008. This includes the 11% effect of changes in foreign exchange rates I just discussed.

Some of our forecasted reduction in third quarter revenues compared to our prior year is due to the "Easter effect"—Easter this year occurs in our third fiscal quarter rather than in our second fiscal quarter as it did last year. Easter typically reduces revenues in the quarter in which it occurs by about 2% compared to a corresponding quarter in which Easter does not occur.

While it would appear at first glance that we expect a greater reduction in revenues in our third quarter than in our second quarter this year, that difference primarily reflects the changes in available training weeks as a result of the timing of year-end holidays and Easter. Excluding calendar effects, year-over-year revenue changes should be fairly consistent in our second and third fiscal quarters: we expect our revenues per training week in our third quarter, like those in our second quarter, to be approximately 30% lower than in the equivalent period of fiscal 2008. Approximately 11% of this expected reduction is due to changes in foreign exchange rates, with the remainder due to the combined net effect of reduced sales volumes, price increases, and changes in product mix.

Third Quarter Gross Profit. We expect a gross profit percentage in our third quarter of fiscal 2009 of between 52.0% and 54.0 % compared to 58.2% in our third 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 compared to the same quarter of our prior year, and to a lesser extent because we expect to have somewhat fewer participants per event in our third quarter of this fiscal year than in our third quarter last year.

Third Quarter Operating Expenses. We expect overall operating expenses for our third quarter of fiscal 2009 to be between $15.0 million and $15.5 million, a reduction of between 30% and 32% compared to $22.0 million in the same quarter a year earlier. We expect approximately 6% of that reduction to be due to the expected effect of changes in foreign exchange rates and the remainder to our efforts to manage our costs.

Third Quarter Income from Operations. As a result of the above factors, we expect to report third quarter operating income of between $1.0 million and $2.5 million compared with operating income of $5.4 million in our third quarter of fiscal 2008.

Third Quarter Interest Income. We expect third quarter interest income to be approximately $0.2 million.

Third Quarter Pre-Tax Income. Overall, we expect to report pre-tax income for our third quarter of fiscal 2009 of between $1.2 million and $2.7 million, compared with pre-tax income of $6.1 million in the third quarter of our prior year.

Effective Tax Rate. We project an effective tax rate for our third quarter of fiscal 2009 of approximately 41%.

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 have built a strong, effective position from which to address the challenges that lie ahead. We have already significantly adjusted our business model in response to current conditions and we will continue to make further adjustments as needed in response to the exigencies of the current environment. 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 following discussion

Over our 34-year history, Learning Tree has weathered repeated 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 our financial strength. Meanwhile, we intend to continue to capitalize on our market position, competitive advantages and financial strength to increase our market share. 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.