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

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

May 11, 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 some recent business developments, after which Bob Waldron, our Chief Financial Officer, will discuss our performance in our second quarter of fiscal 2010, which ended April 2, 2010. I will then provide some forward-looking information about our third 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.

Let me start by bringing you up to date on several items of interest since our last call.

First, in April we finalized a settlement with the U.S. Government regarding a dispute over the terms of our passport and voucher programs. The Government contended that the terms of those programs violated the contract and applicable Government regulations. Although we continue to believe that we have complied with both the terms of our contract and applicable Government regulations, we decided to settle this issue because it made no sense to continue a dispute with one of our best customers. We are pleased to put this matter behind us and look forward to continuing our long and mutually beneficial relationship with the U.S. Government. The terms of our settlement included a $4.5 million cash payment, and were consistent with our previous announcements about this matter. We had fully reserved for this impact in our fiscal 2009 financial statements when it became probable that we would reach such a settlement.

Second, in March we announced that we had been awarded an IDIQ contract for delivering FAC-P/PM training nationwide to employees of the U.S. Department of Veterans Affairs. FAC-P/PM is a Government-specific project and program management discipline that has been mandated throughout the U.S. Government by the Office of Federal Procurement Policy and is seen as central to the Government's efforts to improve the effectiveness of its investment in its Information Technology infrastructure. We believe that FAC-P/PM represents a potentially significant future market and we have designed our courses in this area specifically to satisfy that training need..

The contract we were awarded consists of a base year and four option years, with a total value of up to $60 million. We estimate first-year revenues from this contract of between $10 and $15 million, and we began delivering training under this contract in February.

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

AnyWare online 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 an 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 displays 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.

Customer feedback from over 2,500 AnyWare participants has been enthusiastic and AnyWare enrollments have continued to be strong, corroborating our belief that AnyWare is significantly more effective than other online-learning formats 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 economy, while positioning Learning Tree to capitalize on opportunities to gain market share and grow.

Second Quarter Results

Let me start by summarizing some key line items from our second quarter of fiscal 2010:

- Revenues in our second quarter of fiscal 2010 were $28.3 million, compared to revenues of $30.5 million in our second quarter of fiscal 2009, a decline of 7.3%. We are encouraged that this is the smallest decline in quarterly revenues of the past year and a half, and as we will discuss later we expect that our third quarter revenues will be approximately equal to and possibly slightly greater than what they were in the third quarter of our prior year;
- Our gross profit in our second quarter was 51.6% of revenues, compared to 52.8% in our same quarter of fiscal 2009;
- Despite a $1.1 million accrual for reduced sublease income in our UK education center which I will discuss later in this presentation, we reduced our operating expenses to $16.8 million during our second quarter of fiscal 2010 from $18.6 million in the same quarter of our prior fiscal year, which included $0.8 million of one-time restructuring costs and $0.4 million of one-time costs associated with exploring a potential sale of the company;
- As a result of these factors, we decreased our loss from operations to $2.2 million, compared to $2.5 million in our second quarter of fiscal 2009;
- Our net loss decreased 7%, to $1.3 million, compared to $1.4 million in our second quarter of fiscal 2009; and
- Our fully diluted loss per share was $0.09 in our second quarter of fiscal 2010, the same as in our second quarter of fiscal 2009. This includes the impact of a 12% reduction in the weighted average of the number of our outstanding common shares as a result of our stock repurchases.

Second Quarter Revenue and Participants

As I just noted, our revenues of $28.3 million for our second quarter of fiscal 2010 were 7.3% lower than our revenues in our second quarter of fiscal 2009. This was primarily driven by three factors:

- A decrease of 11.5% in the number of attendee-days of training compared to the same quarter of our prior year;
- An increase in the relative proportion of participants in onsite courses, which have a lower average revenue per participant; and
- Changes in foreign exchange rates, which improved our reported revenues by 4.9% compared to the same quarter of our prior year.

Overall, during our second quarter of fiscal 2010, we trained a total of 16,442 course participants, an 8.4% decrease from the 17,954 participants we trained in our same quarter last year. This represents the smallest such decline of the past six quarters.

During our second quarter of fiscal 2010, attendee-days of management course training decreased 11.6% to 20,821 compared to 23,565 in the same quarter of our prior fiscal year. Attendee-days of IT course training decreased 11.5% to 35,765 compared to 40,405 in our second quarter of fiscal 2009. Total attendee-days of training in the quarter decreased 11.5% to 56,586, compared to 63,970 in our second quarter of fiscal 2009.

In our second quarter of fiscal 2010, average revenue per participant was 0.9% higher than in the same quarter of fiscal 2009. This increase resulted from the 4.9% positive effect of changes in foreign exchange rates, partially offset by the effects of a 3.4% reduction in the average number of attendee-days per participant compared to last year (shorter courses are generally priced lower than their longer counterparts).

Second Quarter Operations

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

Cost of Revenues. Cost of revenues was 48.4% of revenues in our second quarter of fiscal 2010 compared to 47.2% in our second quarter of fiscal 2009, and our gross profit percentage accordingly was 51.6% compared to 52.8% in the prior year. 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 increase in cost of revenues as a percentage of revenues in our second quarter of fiscal 2010 reflects a 9.3% increase in average cost per event, partially offset by a 6.2% increase in average revenue per event. The increase in our average cost per event was the result of start-up costs (such as instructor recruitment and training) associated with our recently announced contract with the VA and, to a lesser extent, costs associated with our continued expansion of our AnyWare course offerings. We expect to see the VA contract-related start-up costs continue through the remainder of fiscal 2010 and then abate. The increase in our average revenue per event was primarily the result of a 5.2% increase in average participants per event and by the 0.9% increase in average revenue per participant we discussed earlier.

During our second quarter of fiscal 2010, we presented 1,308 events, a 13.0% decrease from the 1,503 events conducted during the same period in fiscal 2009.

Course Development Expense. We spent $1.9 million on course development during our second quarter of fiscal 2010, $0.1 million less than in the same quarter of our prior fiscal year. The decrease in expense relates primarily to reductions in royalties to course authors as well as reductions in personnel costs. Course development expense was 6.6%

of revenues in our second quarter of fiscal 2010 compared to 6.5% in the same quarter of fiscal 2009.

In our second quarter of fiscal 2010, we introduced three new IT course titles and retired three IT course titles, and we introduced three new management course titles and retired two. A major focus of our course development activities during our second quarter was the continued introduction of additional titles available through our AnyWare system for online participation at our classroom courses.

Our library of instructor-led courses numbered 214 titles at the end of our second quarter of fiscal 2010 compared with 206 titles at the same point a year earlier. At the end of our second quarter of fiscal 2010, we had 75 management titles in our course library, compared with 68 management titles at the end of our second quarter of fiscal 2009. Our library included 139 IT titles at the end of our second quarter of fiscal 2010, compared to 138 a year earlier.

Sales and Marketing Expense. In our second quarter of this fiscal year we reduced our sales and marketing expense to $7.7 million from $8.8 million in the same quarter last year. Approximately $0.9 million of that reduction was due to mailing fewer catalogs and $0.4 million was due to reductions in personnel and related benefits compared to our second quarter of fiscal 2009. Slightly offsetting these decreases was an overall increase of approximately 3.6% due to changes in foreign exchange rates. Sales and marketing expense in our second quarter of this fiscal year was 27.2% of revenues, compared with 29.0% of revenues for the same quarter of our prior fiscal year.

General and Administrative Expense. G&A expense during our second quarter of fiscal 2010 was $7.2 million, which includes a $1.1 million pre-tax loss provision related to a reduction of sublease income from our education center in London.

On March 31, 2010 one of our subtenants at our London Education center gave notice that it intends to terminate its sublease effective October 7, 2010, and accordingly we are required to accrue a loss for the present value of lost future sublease income. This accrual may be reversed, either in whole or in part, if we can secure a replacement subtenant. Even with this additional $1.1 million charge as well as a 3.0% increase due to changes in foreign exchange rates, G&A expense during our second quarter of fiscal 2010 decreased to $7.2 million, compared to $7.8 million in our second quarter of fiscal 2009. Our second quarter of fiscal 2009 included $0.8 million of one-time restructuring costs incurred as a result of reductions in staff taken in April 2009 and $0.4 million of one-time costs associated with exploring a potential sale of the company. Excluding the one-time items in both years, the reduction in G&A expense compared to the prior year was principally due to reduced personnel-related expenses, slightly offset by the effect of changes in foreign exchange rates.

G&A expense in our second quarter was 25.5% of revenues compared with 25.4% in the same quarter of our prior year.

Loss from Operations. As a result of these factors, in our second quarter of fiscal 2010 we had a loss from operations of $2.2 million, or -7.7% of revenues, compared to a loss from operations of $2.5 million, or -8.1% of revenues, in the same quarter of our prior fiscal year.

Other Income and Expense. In our second quarter of fiscal 2010, other income, net was $0.1 million compared with $0.3 million in the same quarter of fiscal 2009. The difference primarily resulted from a decrease of $0.2 million in interest income due to lower interest rates and lower cash balances.

Pre-Tax Loss. As a result of the preceding factors, we had a pre-tax loss in our second quarter of fiscal 2010 of $2.0 million, compared to a pre-tax loss of $2.1 million in our second quarter of fiscal 2009.

Income Taxes. In our second quarter of fiscal 2010 we recorded a tax benefit of $0.8 million based on an effective tax rate of 37.5%. This compares to a tax benefit of $0.8 million and an effective tax rate of 35.7% in our second quarter of fiscal 2009. The increase in the fiscal 2010 effective tax rate is due to a reduction in the amount of our tax-exempt interest income.

Net Loss. The final result of all these factors is that we recorded a net loss for our second quarter of fiscal 2010 of $1.3 million, or -4.5% of revenues, compared to a net loss of $1.4 million, or -4.5% of revenues, in our second quarter of fiscal 2009.

Liquidity and Capital Resources

During our first six months of fiscal 2010, the total of our cash and available for sale securities decreased to $71.5 million at April 2, 2010, from $73.8 million at October 2, 2009. This decrease is primarily due to our use of $2.0 million to repurchase our stock on the open market and $1.8 million for purchases of furniture and computer equipment for our education centers. Changes in exchange rates caused our reported cash balances to decrease by $0.5 million. These decreases were partially offset by $1.9 million in net cash provided by operations during our first six months of fiscal 2010.

During our second quarter of fiscal 2010, we repurchased 79,165 shares of our common stock at an average price of $11.56. We may make additional purchases of common stock through open market transactions, but we have no commitments to do so.

In our second quarter of fiscal 2010, we sold $0.1 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 $16.4 million at the end of our second quarter, compared to a face value of $17.0 million at the end of fiscal 2009. As a result of the redemption, and based on a valuation of our remaining auction rate securities by an independent expert, we maintained our temporary impairment related to auction rate securities at $2.3 million, establishing a fair value of $14.1 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 when our right to do so starts, on June 30, 2010.

Forward Look

Effect of Exchange Rates. One of the effects of the recent economic turmoil has been the volatility of the U.S. dollar compared to other currencies, where the dollar has alternately strengthened, weakened, and strengthened again in relatively short time periods. 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 6, 2010 remain constant for the remainder of our third quarter of fiscal 2010, we would expect to report a favorable effect of approximately 1% on our revenues during our third 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 because our operating expenses are more heavily dollar-denominated, largely due to 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.

Third Quarter Revenues. For our third quarter of fiscal 2010, we expect that our revenues will be approximately the same as they were in the same quarter of fiscal 2009, and may even show small growth for the first time in any quarter since the start of the economic downturn. We expect to achieve revenues of between $32.2 million and $34.2 million, compared to revenues of $32.3 million in our third quarter of fiscal 2009.

Third Quarter Gross Profit. We expect a gross profit percentage in our third quarter of fiscal 2010 of between 53.5% and 55.0%, compared to 55.3% in our third quarter of fiscal 2009. This decline reflects a decline in gross profit percentage associated with the training programs we conduct at customer locations as well as the effects of allocating the fixed costs of our education centers and classroom equipment over fewer events in our third quarter this year compared to our third quarter of fiscal 2009.

Third Quarter Operating Expenses. We expect overall operating expenses for our third quarter of fiscal 2010 to be between $15.5 million and $16.5 million, an increase of between 6% and 13% compared to $14.6 million in the same quarter a year earlier. Our expected increase in operating expenses results from planned increases in sales and marketing expenditures.

Third Quarter Income from Operations. As a result of the above factors, we expect income from operations for our third quarter of fiscal 2010 to be between $1.2 million and $2.8 million, compared with earnings from operations of $3.2 million in our third quarter of fiscal 2009.

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

Third Quarter Pre-Tax Income. As a result of the above factors, we expect pre-tax earnings for our third quarter of fiscal 2010 to be between $1.4 million and $3.0 million, compared with pre-tax earnings of $3.5 million in the third quarter of fiscal 2009.

Effective Tax Rate. We estimate that our effective tax rate in our third quarter of fiscal 2010 will be approximately 0% due to the release of certain ASC 740-10 reserves (ASC 740-10 was formerly known as FIN 48).

In summary, 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 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 consider to be a period of enhanced opportunity to capture increased market share. We are confident in our long-term ability to grow our revenues and profits as economic conditions improve, and we remain enthusiastic about the future opportunities for Learning Tree.

Summary Following Discussion

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.

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.