

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

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

May 10, 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 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 2011, which ended April 1, 2011. I will then provide some forward-looking information about our third quarter of fiscal 2011 and our strategic growth plans. 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.

Over the past several quarters, we have seen our business strengthen as the world economic recovery gained some momentum and our customers started to increase their spending on training their employees. Today I am pleased to report to you that in our second quarter of fiscal 2011 we recorded our fourth consecutive year-on-year quarterly revenue increase, and that we are seeing improved performance broadly across our business.

This growth is mirrored by our customers' statements regarding their anticipation of spending on training—we recently conducted a survey in which 40% of respondents said that they expected their organizations to spend more on training in the coming year than in the past year, while another 50% said they expect their spending on training to remain constant. These responses are markedly more optimistic than when we conducted the same survey a year ago, in the middle of the recession, and also more positive than the same survey we conducted six months ago in November 2010.

We are hopeful that the trend of recent quarters signals a return to growth, which historically has been accompanied by increases in our profitability.

I'd like especially to point out three highlights for our second quarter of fiscal 2011:

- First, our second quarter revenues were 7.5% higher than in our second quarter of fiscal 2010.
- Second, we are continuing to see good results from our ongoing cost control and profitability improvement efforts. We achieved an improvement of \$0.6 million in our operating income this quarter compared to the same quarter a year ago, and during the quarter we initiated further cost control actions. We expect those actions to result in even greater improvements to both gross profit and operating income margins in our third quarter and beyond, as I'll discuss in detail later.
- Third, since the introduction less than two years ago of Learning Tree AnyWare™, our patent-pending live on-line learning platform, over 7,500 on-line attendees have participated in classroom-based Learning Tree courses over the Internet via AnyWare. AnyWare allows individuals located anywhere in the world to use their Internet browser to participate in our live instructor-led classes being conducted in Learning Tree Education Centers or at customer locations. We now offer our customers the ability to attend approximately 75% of our course titles through AnyWare.

Second Quarter Results

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

- Revenues in our second quarter of fiscal 2011 were \$30.4 million, an increase of \$2.1 million compared to revenues of \$28.3 million in our second quarter of fiscal 2010. As Nick just mentioned, this represents an increase of 7.5%;
- Our gross profit percentage in our second quarter was 51.3% of revenues, compared to 51.6% in our same quarter of fiscal 2010;
- Operating expenses in our second quarter of fiscal 2011 were \$17.2 million, compared to \$16.8 million in our second quarter of fiscal 2010;

- From the \$2.1 million increase in our revenues for the quarter, we recorded a \$0.6 million increase to our operating margin compared to our same quarter in fiscal 2010; and
- Loss per share for our second quarter of fiscal 2011 was \$0.07, compared to a loss per share of \$0.09 for our second quarter of fiscal 2010.

Second Quarter Revenue and Participants

As I just noted, in our second quarter of fiscal 2011 our revenues of \$30.4 million were 7.5% higher than our revenues in our second quarter of fiscal 2010. This principally resulted from two factors:

- 6.3% more participants attended our courses during our second quarter of fiscal 2011 than in the same quarter of our prior year; and
- Our revenue per participant increased by approximately 1.4%. This resulted from a positive effect of changes in foreign exchange rates of approximately 2.6% compared to our second quarter last year, and price increases of 0.3%. These factors were partially offset by the effect of holding proportionately more course events at customer locations, which have a lower revenue per participant than courses held in our own education centers.

Overall, during our second quarter of fiscal 2011, we trained a total of 17,471 course participants, a 6.3% increase from the 16,435 participants we trained in our same quarter last year. Compared to our second quarter of fiscal 2010, during our second quarter of fiscal 2011:

- Total attendee-days of training increased by 8.8%, to 61,580 from 56,578;
- Attendee-days of management training increased by 27.5%, to 26,545 from 20,813; and
- Attendee-days of IT training decreased by 2.0%, to 35,035 from 35,765.

Second Quarter Operations

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

Cost of Revenues. Cost of revenues was 48.7% of revenues in our second quarter of fiscal 2011 compared to 48.4% in our second quarter of fiscal 2010, and our gross profit percentage accordingly was 51.3% compared to 51.6% in our prior year. 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.

The change in cost of revenues as a percentage of revenues in our second quarter of fiscal 2011 primarily reflects a 1.2% decrease in average revenue per event, largely offset by a 0.8% decrease in average cost per event. The decrease in our average revenue per event was primarily the result of conducting proportionately more events at customer locations, which have a lower revenue per event than events held in our own education centers. The decrease in average cost

per event was due primarily to the fact that our fixed costs associated with courses in our own education centers were spread over a larger number of events in our second quarter of this fiscal year than in the same quarter of our prior year.

We continue to focus closely on our revenue and cost structures, with the goal of improving our gross profit percentages. As Nick just mentioned and as he will discuss later, we expect the cost control actions we took in our second quarter to result in improved profit margins in our third quarter and beyond.

During our second quarter of fiscal 2011, we presented 1,427 events, a 9.1% increase from the 1,308 events conducted during the same period in fiscal 2010.

Course Development Expense. During our second quarter of fiscal 2011, we spent \$1.8 million on course development, \$0.1 million less than in the same quarter of fiscal 2010. Course development expense was 6.1% of revenues in our second quarter of fiscal 2011 compared to 6.6% in the same quarter of fiscal 2010.

In our second quarter of fiscal 2011, we introduced four new IT course titles and retired two IT course titles, and we introduced three new management course titles and retired one.

Our library of instructor-led courses included a total of 216 titles at the end of our second quarter of fiscal 2011 compared with 217 titles at the same point a year earlier. At the end of our second quarter of fiscal 2011, we had 79 management titles in our course library, compared with 78 management titles at the end of our second quarter of fiscal 2010. Our library included 137 IT titles at the end of our second quarter of fiscal 2011, compared to 139 a year earlier.

We introduced our Learning Tree AnyWare live on-line learning platform in our third quarter of fiscal 2009, and we have steadily expanded the number of AnyWare-enabled course titles from the original 40 to more than 165. AnyWare allows individuals located anywhere in the world to use their Internet browser to participate on-line in our live instructor-led classroom courses. We now conduct AnyWare events at nine of our Education Centers across the US and Europe. We also use AnyWare to conduct on-site events for individual clients, using a classroom at a customer's location with additional individuals from the same customer participating remotely via AnyWare.

Sales and Marketing Expense. In our second quarter of fiscal 2011 we increased our sales and marketing expense to \$8.1 million from \$7.7 million in the same quarter last year. Sales and marketing expense in our second quarter of fiscal 2011 was 26.5% of revenues, compared with 27.2% of revenues for the same quarter of fiscal 2010.

General and Administrative Expense. G&A expense during our second quarter of fiscal 2011 was \$7.3 million, or 24.0% of revenues, compared to \$7.2 million in our second quarter of fiscal 2010 which included a charge of \$1.1 million for an expected period of vacancy due to the exercise of an option to terminate by one of our London education center sub tenants. Without that charge G&A expense for our second quarter of fiscal 2010 would have been \$6.2 million or 21.6% of revenues. Aside from that one-time factor, G&A expense in our second quarter of fiscal 2011 was higher primarily due to \$0.8 million in compensation expense including

incentive compensation accruals; \$0.1 million in severance and an increase in other general and administrative expenses of \$0.3 million, partially offset by various cost reductions.

Loss from Operations. In our second quarter of fiscal 2011, we had a loss from operations of \$1.6 million, or 5.3% of revenues, a \$0.6 million improvement compared to a loss from operations of \$2.2 million, or 7.7% of revenues, in our same quarter of fiscal 2010.

Other Income and Expense. In our second quarter of fiscal 2011, other expense, net was less than \$0.1 million, compared to other income of \$0.1 million in our second quarter of fiscal 2010.

Pre-Tax Loss. Pre-tax loss in our second quarter of fiscal 2011 was \$1.6 million compared to a pre-tax loss of \$2.0 million in our second quarter of fiscal 2010.

Income Taxes. We had a tax benefit of \$0.6 million in our second quarter of fiscal 2011 for an effective tax rate of 38.9%, compared to a tax benefit of \$0.8 million in our second quarter of fiscal 2010.

Net Loss. Net loss for our second quarter of fiscal 2011 was \$1.0 million, or 3.3% of revenues, compared to a net loss of \$1.3 million, or 4.5% of revenues in our second quarter of fiscal 2010.

Liquidity and Capital Resources

The total of our cash and available for sale securities increased to \$41.1 million at April 1, 2011 from \$39.4 million at October 1, 2010. This increase primarily resulted from net cash provided by operating activities of \$5.6 million which was partially offset by \$4.0 million used to purchase equipment, property and leasehold improvements.

During our second quarter of fiscal 2011, we repurchased 47,058 shares of our common stock on the open market at an average price of \$9.11. We may make additional purchases of common stock, but we have no commitments to do so.

Third Quarter Fiscal 2011 Financial Guidance

As I mentioned earlier, we've seen our overall business climate improve, and we have recorded four consecutive year-on-year quarterly revenue increases. As a result, we believe it's time to begin investing again in growing our business. You may recall that in fiscal years 2007 and 2008 we launched a series of growth initiatives that resulted in trends of accelerating revenue and profit growth, which were interrupted by the recession. Among our responses to the impact of the recession on our business, we stopped spending on these growth initiatives—we put growth on hold and adopted a conservative financial posture in order to preserve profitability. Now that we have seen our base business begin to grow consistently again, we have restarted the three principal growth initiatives that proved themselves so successful in 2007-2008.

- First, we intend to significantly accelerate the introduction of new course titles, and further expand our course library. Our previous initiative had the objective of introducing at least 50 new course titles per year and as a result of this plan we did introduce 50 new course titles in fiscal 2009. With our cautious approach through the

recession, we reduced our course development activity and only introduced 23 new titles in fiscal 2010. This fiscal year we are on track to introduce 37 new titles.

Our research continues to indicate that there are many high-potential course topics we can develop and market. For fiscal 2012 we have established a goal of at least 50 new course titles. Since it takes between one and two years for new titles to reach maturity in terms of customer demand, we would expect to see some increased revenues from a larger course library in fiscal 2012 but more significant revenue increases in fiscal 2013 and beyond.

- Second, we intend to resume the growth of our on-site sales force. As we have noted in previous quarterly conference calls, our on-site sales held up well during the recession and we won some significant contracts with new customers. We believe one reason for this was our previous increase in the size of our field sales force. As our customers have increased their spending on training with us, we believe the time is right to resume growing our field sales staff. We plan to begin with gradual growth and accelerate the rate of growth as we see results. We expect to start seeing increased revenues from the additional sales personnel in mid to late fiscal 2012, due to the time required to hire and train new personnel and the time for them to develop a productive sales pipeline.
- Third, we believe that we can further expand the use of our AnyWare platform to gain additional business. AnyWare emerged from our 2007-2008 initiative to develop a blended learning approach, and has grown steadily since its introduction in late fiscal 2009. We now intend to increase:
 - The number of locations where we offer AnyWare class events;
 - The number of course titles we deliver with AnyWare; and
 - The territory reached by our marketing to increase our participants from outside the areas surrounding our Education Centers where we currently concentrate the bulk of our marketing efforts.

Because participation in AnyWare classes is not constrained by geographic limits, each additional AnyWare class event represents a cost-effective opportunity for customers outside our core geographic territories to meet their professional development needs with high-quality, immediately effective Learning Tree training.

Based on the revenue increases generated from these initiatives in our earlier growth strategy, we are confident in their potential for generating future revenue growth. I'll also note that historically, largely due to the fact that our fixed cost structure can accommodate a substantially higher volume of course events and participants, growth in our revenues has been accompanied by improvements in our gross profit and operating margins. We expect to begin seeing revenue contributions from these initiatives in our next fiscal year and greater increases in future years. At the same time, we are also investigating other potential avenues for growth and will report back to you on those if and when we make specific determinations to pursue them.

Effect of Exchange Rates. 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, 2011 remain constant for the remainder of our third quarter of fiscal 2011, we would expect to report a favorable effect of approximately 2.5% on our revenues during our third quarter of fiscal 2011 compared to the same quarter of fiscal 2010. Of course, we would also see an increase in our overall expenses, although this effect is less pronounced because more of our expenses are denominated in dollars, including our corporate management and centralized IT, marketing and course development activities which are located here in the United States.

Third Quarter Revenues. We currently expect revenues in our third quarter of fiscal 2011 to be between \$33.4 million and \$35.4 million, compared to \$32.8 million in the same quarter of fiscal 2010.

Third Quarter Gross Profit. We expect our gross profit percentage in our third quarter of fiscal 2011 to be between 53.0% and 54.5% compared to 52.1% in our third quarter of fiscal 2010. We have continued to evaluate our costs of operations and our operating expenses carefully and at the end of our second quarter this year we took a series of further cost control actions to refine our business model and improve our profitability. We expect to begin seeing the results of those actions in our third quarter of this year, as indicated by our gross profit guidance for the quarter.

Third Quarter Operating Expenses. We expect overall operating expenses for our third quarter of fiscal 2011 to be between \$16.5 million and \$17.0 million, compared to \$15.8 million in our third quarter of fiscal 2010.

Third Quarter Income from Operations. We expect income from operations for our third quarter of fiscal 2011 to be between \$1.6 million and \$2.6 million, compared to \$1.3 million in our third quarter of fiscal 2010.

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

Third Quarter Pre-Tax Income. As a result of the above factors, we expect pre-tax earnings for our third quarter of fiscal 2011 to be between \$1.6 million and \$2.6 million, compared to \$1.5 million in the third quarter of fiscal 2010.

Effective Tax Rate. We estimate that our effective tax rate in our third quarter of fiscal year 2011 will be approximately 35.9%.

In summary, while we remain cautious, we are increasingly optimistic about the revenue trends of recent quarters. We believe that now is the right time to invest in our growth, and expect that investment to pay off in our next fiscal year and beyond.

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.