

Learning Tree International, Inc.
Fiscal 2008 Third Quarter Conference Call

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

August 5, 2008

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 Item 1A that could affect us include risks associated with:

- The timely development, introduction, and customer acceptance of our courses;
- Competition;
- International operations, including currency fluctuations;
- Changing economic and market conditions;
- 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 covering our performance in our third quarter and first nine months of fiscal 2008, which ended June 27, 2008. During our third quarter, we realized increases in our revenues, our gross profit margin, our operating income and our net income compared to our third quarter in fiscal 2007. We are pleased with this continued improvement in our performance, and believe we are seeing initial results from the growth initiatives we began in the latter part of fiscal 2007 and have continued to implement this year. After discussing our results, I will speak further about those growth initiatives, and provide some forward-looking information about our fourth quarter of fiscal 2008. 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>.

On May 28, 2008, we announced that we were exploring the possible sale of the company. I will not comment further on that process during this presentation, other than to explain its effects on our financial performance during our third quarter of fiscal 2008 and its anticipated effects in

future quarters. As I will describe in more detail in our discussion of G&A, our third-quarter results reflect approximately \$560,000 in G&A expense related to our efforts to explore a possible sale. For our third quarter and first nine months of fiscal 2008, these expenses reduced our operating income and pre-tax income by \$560,000, our net income by \$350,000, and our earnings per share by \$0.02.

Let's start out by identifying some highlights of our operating results for our third quarter of fiscal 2008:

- Revenues increased to \$46.9 million from \$42.7 million, an improvement of 10.0% from the same quarter of fiscal 2007;
- Gross Profit increased to 58.2% of revenues from 57.1% for the same quarter of fiscal 2007;
- Operating Expenses were 46.8% of revenues compared to 45.3% for the same quarter of fiscal 2007;
- As a result of these factors, Income from Operations increased to \$5.4 million from \$5.0 million in the same quarter of fiscal 2007;
- Net Income increased to \$3.8 million compared to \$3.7 million in our third quarter of fiscal 2007;
- Earnings per share on a diluted basis were \$0.23 compared to \$0.22 in the third quarter of fiscal 2007; and
- Excluding the \$560,000 of costs associated with the potential sale of the company, Income from Operations and Net Income would have been \$5.9 million and \$4.2 million respectively, and earnings per share would have been \$0.25.

For our first nine months of fiscal 2008,

- Revenues increased to \$137.1 million, compared to \$123.0 million for the same period in fiscal 2007, an increase of 11.4%;
- Gross Profit increased to 57.9% of revenues from 56.2% for the first nine months of fiscal 2007;
- Operating Expenses increased to 47.3% of revenues from 46.3% for the first nine months of fiscal 2007;
- Income from Operations increased 19.3% to \$14.5 million from \$12.2 million in our first nine months of fiscal 2007;
- Net Income increased 20.7% to \$11.0 million, compared to \$9.2 million in our first nine months of fiscal 2007;
- Earnings per share on a diluted basis increased to \$0.67 compared to \$0.56 in the same period of fiscal 2007; and
- Excluding the \$560,000 of costs associated with the potential sale of the company, Income from Operations and Net Income would have been \$15.1 million and \$11.4 million respectively, and earnings per share would have been \$0.69.

Third Quarter Revenue and Participants

Revenues for our third quarter of fiscal 2008 increased by 10.0% compared to the same quarter in fiscal 2007. The increase in revenues compared to our third quarter of fiscal 2007 was primarily due to a 5.5% increase in the number of participants in our courses, a 4.0% increase in

average revenue per participant and a 0.5% increase due to higher revenues from daily rentals of our classrooms, which we rent out when they are not needed for our own classes.

Overall, during our third quarter of fiscal 2008, we trained a total of 24,074 course participants, a 5.5% increase from the 22,820 participants we trained in the same quarter last year.

During our third quarter of fiscal 2008, we provided 26,189 attendee-days of training in management courses, a 4.4% increase compared to 25,095 attendee-days in the same quarter of the prior year. We provided 62,743 attendee-days of training in IT courses during the quarter, a 2.6% increase compared to 61,182 attendee-days in our third quarter of fiscal 2007. Overall, we provided a total of 88,932 attendee-days of training in the quarter, a 3.1% increase compared to 86,278 attendee-days in our third quarter of fiscal 2007.

In our third quarter of fiscal 2008, average revenue per participant was 4.0% higher than in the same quarter of fiscal 2007, primarily due to a 3.8% effect of changes in foreign exchange rates as well as price increases, partly offset by an increased proportion of participants in shorter course events and on-site course events, which have a lower average revenue per participant than longer course events.

Third Quarter Results from Operations

I will now discuss our operations in our third quarter of fiscal 2008 and how they compare with the same quarter of fiscal 2007.

Cost of Revenues. Cost of revenues declined to 41.8% of revenues in our third quarter of fiscal 2008 compared to 42.9% in our third quarter of fiscal 2007, and our gross profit percentage accordingly increased to 58.2% compared to 57.1%. 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 improvement in cost of revenues as a percentage of revenues in our third quarter of fiscal 2008 reflects an 8.1% increase in average revenue per event, partially offset by a 5.6% increase in average cost per event. The increase in our average revenue per event was the result of a 4.0% increase in average participants per event and the 4.0% increase in average revenue per participant discussed earlier. The increase in average cost per event principally resulted from the effect of changes in foreign exchange rates and small increases in the direct costs of conducting our events.

During our third quarter of fiscal 2008, we presented 1,788 events, a 1.5% increase from the 1,762 events conducted during the same period in fiscal 2007.

Course Development Expense. During our third quarter of fiscal 2008, our spending on course development was \$2.6 million compared with \$2.3 million in the same quarter of our prior year. This resulted in course development expense of 5.6% of revenues in our third quarter of fiscal 2008 compared to 5.5% during the same quarter of fiscal 2007. Our higher spending in fiscal 2008 is principally due to our revenue growth initiative to significantly accelerate the rate at which we introduce new course titles. Our increased third quarter course development activity

was primarily for work on titles that will execute their first events in our fourth quarter of fiscal 2008 and our first quarter of fiscal 2009.

In our third quarter of fiscal 2008, we introduced nine new IT course titles and four new management course titles, and we retired one IT course title. Our library of instructor-led courses numbered 175 titles at the end of our third quarter of fiscal 2008 compared with 159 titles at the same point a year earlier. At the end of our third quarter this year we had 50 management titles in our course library, compared to 46 titles at the end of our third quarter in fiscal 2007. Our library of IT titles numbered 125 at the end of our third quarter, compared to 113 a year earlier.

Sales and Marketing Expense. Sales and marketing expense in our third quarter this year was \$11.2 million, or 23.9% of revenues, compared with \$9.4 million, or 22.1% for the same quarter in the fiscal 2007. The increase in sales and marketing expense was principally due to increases in personnel-related expenses and advertising costs, and the effect of changes in foreign exchange rates. Those increases were partly offset by reduced direct marketing expenses as a result of our ongoing refinements to our marketing through our continued business intelligence analysis, which resulted in our mailing fewer catalogs than in the same quarter in fiscal 2007.

General and Administrative Expense. G&A expense in our third quarter of fiscal 2008 was 17.3% of revenues compared with 17.7% in the same quarter of fiscal 2007. G&A expense in our third quarter was \$8.1 million compared to \$7.5 million in our third quarter last year.

As I mentioned earlier, our G&A expense for our third quarter of fiscal 2008 included \$560,000 of costs associated with our efforts to explore the potential sale of the company. These costs include transaction contribution bonuses for key personnel, principally in our finance and accounting department, as well as investment banker fees, legal fees and special committee fees associated with this process. Excluding the costs associated with the potential sale, G&A for our third quarter of fiscal 2008 would have been \$7.6 million, or 16.1% of revenue.

Results from Operations. As a result of these factors, in our third quarter of fiscal 2008 we achieved income from operations of \$5.4 million, or 11.4% of revenues, compared to income from operations of \$5.0 million, or 11.8% of revenues, in the same quarter of our prior year. Income from operations in our third quarter was reduced by the \$560,000 in G&A expense associated with the potential sale of the company. Excluding these costs, our income from operations for our third quarter of fiscal 2008 would have been \$5.9 million, an increase of 17.5% over our third quarter of fiscal 2007.

Other Income (Expense), Net. In our third quarter of fiscal 2008, Other Income Net was \$0.7 million compared with \$1.0 million in the same quarter of fiscal 2007. This decline primarily resulted from a \$0.2 million decline in interest income due principally to lower interest rates and a \$0.2 million foreign exchange transaction loss. These declines were partially offset by a \$0.2 million gain we realized during our third fiscal quarter upon the sale of our remaining shares in Rasmussen College.

Pre-Tax Income. As a result of the preceding factors, pre-tax income in our third quarter of fiscal 2008 was \$6.1 million, compared to pre-tax income of \$6.0 million in the third quarter of fiscal 2007. Our pre-tax income was reduced by \$560,000 as a result of the G&A expense associated with the potential sale of the Company. Excluding these costs, our pre-tax income for our third quarter of fiscal 2008 would have been \$6.6 million, an increase of 10.4% over our third quarter of fiscal 2007.

Income Taxes. For our third quarter of fiscal 2008, our effective tax rate was 37.3%, compared to 38.5% in the third quarter of fiscal 2007.

Net Income. In summary, net income for our third quarter of fiscal 2008 was \$3.8 million, or 8.1% of revenues, compared to net income of \$3.7 million, or 8.7%, in our third quarter of fiscal 2007. Our net income was reduced by \$350,000 as a result of the G&A expense associated with the potential sale of the company. Excluding these costs, our net income for our third quarter of fiscal 2008 would have been \$4.2 million, an increase of 12.6% over our third quarter of fiscal 2007.

Liquidity and Capital Resources

During the nine months ended June 27, 2008, the total of our cash and available for sale securities increased by \$3.6 million to \$92.1 million from \$88.5 million at September 28, 2007. This includes \$26.6 million of auction rate securities. As previously announced, in our second quarter of fiscal 2008 we reclassified our auction rate securities from current to non-current assets and recorded a temporary impairment in their value of \$4.3 million. At the end of our third quarter, these securities were again evaluated by an independent expert who concluded that their value had improved by \$0.8 million, and this improvement is reflected in our balance sheet at June 27, 2008. 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.

We sold \$2.7 million of our auction rate securities during our third quarter of fiscal 2008, and an additional \$600,000 after quarter end, all at full face value.

Net working capital at June 27, 2008, defined as current assets minus current liabilities, decreased to \$25.5 million compared to \$43.9 million as of September 28, 2007. The change in working capital was primarily due the reclassification of \$26.0 million of available for sale securities to non-current assets, partially offset by cash generated by operations. Excluding the reclassification of auction rate securities, net working capital increased by \$7.6 million since the end of our fiscal year 2007.

We did not repurchase any shares of our common stock during the quarter.

Revenue Growth Initiatives

Looking to the future, we are excited about our progress toward our goals of increased revenues and higher profitability, and the growth plan we have undertaken to achieve those goals. Our plan includes seven core growth initiatives, which aim to increase our revenues and further improve our profitability by leveraging our fixed cost infrastructure. We began implementing

these initiatives in late fiscal 2007 and have continued that implementation throughout fiscal 2008.

Here is a summary of our core growth initiatives, and some information on our progress to date:

1. **Significantly increase the rate of introduction of our new course titles.** We are working to accelerate our revenue growth through the rapid expansion of our course library, because we believe that additional course titles will allow us to serve more customers by meeting a broader set of professional development needs. Performance of new titles has a well-established historical track record, and new titles typically grow to full revenue contribution levels approximately two years after introduction.

We plan to advertise an average of 51 new course titles per year in each of fiscal years 2008, 2009 and 2010, which is a significant increase from the number of new titles we introduced in previous years. We are on track to advertise 55 new course titles in fiscal 2008, of which we expect 33 to be scheduled for their first events this fiscal year, with the remaining 22 to be scheduled for their first events in fiscal 2009.

2. **Expand the market for our management training.** We have been very successful at increasing the number of participants in our management courses and have tripled our management training revenues since fiscal 2004. Our customers primarily send managers from their IT departments to Learning Tree management courses. We believe we have a substantial opportunity to further increase our sales of management training by marketing our services to other departments within our existing clients, and also by introducing our management training services to new clients. We are currently developing and testing several marketing and sales approaches to achieve this objective.
3. **Develop and provide blended learning solutions.** While we remain firmly committed to the value of instructor-led classroom training as the center point of our business model, we believe there is an opportunity in certain situations to further increase the value of that training by integrating elements of e-Learning together with our classroom training in “blended learning” solutions. As a result, we believe that we can capture greater market share through offering these blended learning solutions to customers where appropriate. We are actively developing and testing blended learning programs to determine formats that are both educationally effective and commercially viable.
4. **Increase our marketing quantities.** In recent years, we have developed a proprietary system of cutting-edge business intelligence techniques which we have named POST™ (an acronym for Profit Optimization Selection Tree) and which we have used to increase the return on our investment in direct marketing. In recent years, we used our POST™ techniques to identify regions of our database which we were mailing unproductively; by eliminating such regions from our direct marketing and by adjusting the frequency of mailing to other database regions we increased our marketing return on investment by 67% between fiscal 2004 and fiscal 2007. We are now applying the same POST™ methods to identify new, profitable database regions in order to increase our quantities of direct mail and e-Mail and thus drive profitable increases in revenue.

5. **Improve the productivity of our telesales force.** Earlier this year we began applying our POST™ business intelligence techniques to the selection and prioritization of the leads to be fed to our outbound telesales force worldwide with the goal of increasing their sales productivity. While the full effects of this initiative are still building, our initial results have been consistent with our expectations based on the POST™ analysis.
6. **Implement tightly targeted direct mail, e-Mail and telemarketing campaigns.** We have begun to use POST™ business intelligence techniques to generate increased sales through tightly targeted marketing and sales campaigns, several of which are now in the initial stages of implementation.
7. **Significantly grow our direct sales force.** We believe we have a substantial opportunity to increase our market share of courses held at customer locations, particularly for large, enterprise-level customers, and we have therefore implemented a plan to increase our number of direct field sales representatives substantially by fiscal 2010. We have strong sales management in place, and our hiring of additional sales professionals is progressing according to plan.

Future Outlook

As we have for the past 34 years, we continue to emphasize excellence in educating and training managers and IT professionals from government and commercial organizations around the world. We believe that quality is a significant differentiator in the eyes of our customers, and that Learning Tree's proven long-term record of exceptional performance is a reason for their tremendous loyalty. It is worth noting that every single one of our top 100 customers from fiscal 2003 continues to be a Learning Tree customer five years later, in fiscal 2008. We continue our emphasis on excellence by focusing on our core strengths: our expert instructors, proprietary content library, state-of-the-art classrooms, application of technology to education, and worldwide course delivery systems.

We use the 52/53-week fiscal year method to better align our external financial reporting with the way we operate our business. Under this method, each fiscal quarter ends on the Friday closest to the end of the calendar quarter. Accordingly, fiscal 2008 is a 53-week year, and our fourth quarter this year will include 14 calendar weeks compared to the fourth quarter of fiscal 2007, which had 13 weeks.

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. We expect to report a favorable effect of approximately 2% due to changes in foreign exchange rates in our fourth quarter of fiscal 2008, which will have the effect of increasing both our revenues and our expenses compared to our fourth quarter of fiscal 2007.

Expenses Associated with the Potential Sale of the Company. Our projections for our fourth quarter of fiscal 2008 include approximately \$400,000 of G&A expense related to the potential sale of the company, which will reduce our projected operating income and pre-tax income by

that amount. Note that we expect to incur a similar expense in each of our first and second quarters of fiscal 2009.

Fourth Quarter Revenues. We currently expect revenues in our fourth quarter of fiscal 2008 to be between \$45.5 million and \$47.5 million, compared to \$44.2 million in the same quarter of fiscal 2007.

Fourth Quarter Gross Profit. We expect our gross profit percentage in our fourth quarter of fiscal 2008 to be between 56.1% and 57.6% compared to 56.9% in our fourth quarter of fiscal 2007.

Fourth Quarter Operating Expenses. We expect overall operating expenses for our fourth quarter of fiscal 2008 to be between \$22.0 and \$23.0 million.

Fourth Quarter Operating Income. As a result of the above factors, we expect operating income for our fourth quarter of fiscal 2008 to be between \$2.8 million and \$4.8 million, compared with operating income of \$2.3 million in the fourth quarter of fiscal 2007.

Fourth Quarter Interest Income. We expect fourth fiscal quarter interest income to be approximately \$0.9 million.

Fourth Quarter Pre-Tax Income. As a result of the above factors, we expect pre-tax income for our fourth quarter of fiscal 2008 to be between \$3.7 million and \$5.7 million, compared with pre-tax income of \$3.5 million in the fourth quarter of fiscal 2007.

Effective Tax Rate. We estimate that our effective tax rate in our fourth quarter of fiscal 2008 will be approximately 37.6%.

Full Fiscal Year 2008. For our full fiscal year 2008, we expect revenues to be between \$182.5 million and \$184.5 million compared with \$167.2 million for fiscal 2007 and, including the impact of G&A expenses of approximately \$1.0 million related to the potential sale of the company, we expect pre-tax income to be between \$21.4 million and \$23.4 million compared with \$18.7 million for fiscal 2007.

We believe these improvements reflect initial results from our revenue growth initiatives, as well as the results of our continued efforts to improve our profitability.

Fiscal 2009 and Beyond. During fiscal 2008 we have concentrated on implementing our core revenue growth initiatives with a concurrent goal of continuing to increase our profitability. We are pleased with the progress we have made toward both of these goals. We believe that our growth initiatives will largely bear fruit in fiscal 2009 and beyond, and we are working hard to achieve the results we envision.

Summary following discussion

For over 34 years, Learning Tree has built a strong position as the world's leading, vendor-independent provider of training for managers and technology professionals. 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 are excited about the continued improvement in our performance, and we are committed to continued improvements in both our revenues and our profitability. We look forward to continuing to help our customers maximize the productivity and the effectiveness of their people.