

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

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

August 11, 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 results we've achieved in adjusting our operations to current market conditions, after which I will cover our performance in our third quarter of fiscal 2009, which ended July 3, 2009. I will then provide some forward-looking information about our fourth 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>.

While we continue to operate in a challenging economy, we are encouraged that the actions we have taken to manage our business have achieved their intended effects, some even earlier than we had expected. Most notably, during our third quarter of fiscal 2009 we realized significant benefits from the profitability improvements and cost savings that we implemented in our first and second quarters. We achieved a gross profit of 55.3% in

our third quarter, exceeding the 52% to 54% range we had projected at the end of our second quarter. Additionally, we were able to realize greater savings from our operating cost-cutting than we had originally anticipated, further enhancing our third quarter profitability. Later in this presentation I will discuss some of the key contributors to these results.

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 turbulent economy, while positioning Learning Tree to capitalize on opportunities to gain market share and ultimately grow.

Third Quarter Results.

I'd like to summarize some key line items for our third quarter of fiscal 2009:

- Revenues in our third quarter of fiscal 2009 were \$32.3 million, compared to revenues of \$46.9 million in our third quarter of fiscal 2008, a decline of 31.2%, of which 6.7% was the result of changes in foreign exchange rates;
- As I just noted, our gross profit percentage in our third quarter was 55.3% of revenues which, while higher than expected, was less than the 58.2% we achieved in the same quarter of fiscal 2008;
- We reduced our operating expenses to \$14.6 million during the third quarter of fiscal 2009 from \$22.0 million in the same quarter of our prior fiscal year;
- As a result of these factors, our income from operations was \$3.2 million, compared to \$5.4 million in our third quarter of fiscal 2008;
- Net income was \$2.1 million compared to \$3.8 million in our third quarter of fiscal 2008; and
- Our earnings per share on a fully diluted basis in our third quarter of fiscal 2009 were \$0.15 compared to \$0.23 in our third quarter of fiscal 2008. This includes the impact of a 6% reduction in the number of our weighted average of outstanding common shares as a result of our stock repurchases, which I will discuss later.

Third Quarter Revenue and Participants

As I just noted, our revenues of \$32.3 million for our third quarter of fiscal 2009 were 31.2% lower than our revenues in our third quarter of fiscal 2008. This was due to several factors:

- During our third quarter of fiscal 2009, we delivered 26.4% fewer attendee-days of training than in the same quarter of our prior year.
- As just mentioned, changes in foreign exchange rates adversely affected our reported revenues by 6.7%.
- These factors were partly offset by a 1.9% positive effect of price increases.

Overall, during our third quarter of fiscal 2009, we trained a total of 19,117 course participants, a 20.7% decrease from the 24,094 participants we trained in our same quarter last year. Our participant levels were slightly adversely affected by the "Easter effect." Easter this year occurred in our third fiscal quarter rather than in our second

fiscal quarter as it did last year. Easter typically reduces the number of participants in the quarter in which it occurs by about 2% compared to a corresponding quarter in which Easter does not occur.

During our third quarter of fiscal 2009, attendee-days of management course training decreased 13.7% to 22,659 compared to 26,265 in the same quarter of our prior fiscal year. Attendee-days of IT course training decreased 31.7% to 42,899 compared to 62,833 in our third quarter of fiscal 2008. Total attendee-days of training in the quarter decreased 26.4% to 65,558, compared to 89,098 in our third quarter of fiscal 2008.

In our third quarter of fiscal 2009, average revenue per participant was 13.6% lower than in the same quarter of fiscal 2008. This decrease was principally due to the 6.7% impact from changes in foreign exchange rates noted earlier, as well as an increase in the relative proportion of participants in shorter management course events and events held at customer locations which have lower average revenue per participant than longer IT course events and events held in our own Education Centers. These decreases were partly offset by the effects of price increases.

Third Quarter Operations

Now I'll turn to our operations in our third quarter of fiscal 2009 and how they compare with the same quarter of fiscal 2008.

Cost of Revenues. Cost of revenues was 44.7% of revenues in our third quarter of fiscal 2009 compared to 41.8% in our third quarter of fiscal 2008, and our gross profit percentage accordingly was 55.3% compared to 58.2% in the prior year.

As I mentioned previously, our actual gross profit percentage for our third quarter exceeded our expectations at the time of our last conference call. This was principally due to two factors: improved enrollments and reduced last-minute cancellations compared with what we had been expecting; and the fact that we were able to realize the results of our initiatives to reduce direct costs somewhat sooner than we had anticipated. We have continued to pay close attention to all aspects of our operating model in an effort to maximize our gross profit.

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 third quarter of fiscal 2009 reflects a 20.4% decrease in average revenue per event, partly offset by a 14.5% decrease in average cost per event. The decrease in our average revenue per event was the result of the 13.6% decrease in average revenue per participant I discussed earlier and an 7.9% 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 our success in reducing certain costs of sales compared to our third quarter in fiscal 2008.

During our third quarter of fiscal 2009, we presented 1,540 events, a 13.9% decrease from the 1,788 events conducted during the same period in fiscal 2008.

Course Development Expense. We spent \$1.6 million on course development during our third quarter of fiscal 2009, \$1.0 million less than in the same quarter of our prior fiscal year. As part of our cost saving efforts, we have reduced course development expense, principally by reducing the number of new course titles under development compared to the same quarter in our prior year. Course development expense was 5.0% of revenues in our third quarter of fiscal 2009 compared to 5.6% in the same quarter of fiscal 2008.

In our third quarter of fiscal 2009, we introduced eight new IT course titles and retired five IT course titles, and we introduced two new management course titles and retired none. We had begun the development of many of our new course titles prior to scaling back our course development growth initiative in response to current economic conditions.

Our library of instructor-led courses numbered 211 titles at the end of our third quarter of fiscal 2009 compared with 175 titles at the same point a year earlier. At the end of our third quarter of fiscal 2009, we had 70 management titles in our course library, compared with 50 management titles at the end of our third quarter of fiscal 2008. Our library included 141 IT titles at the end of our third quarter of fiscal 2009, compared to 125 a year earlier. During this period, we have continued to research and develop various approaches to delivering “hybrid” learning, which combines instructor-led classroom training with web-based e-learning.

Sales and Marketing Expense. In our third quarter of this fiscal year we reduced our sales and marketing expense to \$7.0 million from \$11.2 million in the same quarter last year. Approximately \$1.9 million of that reduction was due to mailing fewer catalogs and reductions in other marketing activities, \$1.1 million was due to lower payroll costs, \$0.5 million was due to lower sales commissions as a result of lower revenues, and \$0.3 million was due to lower costs for professional services compared to our third quarter of fiscal 2008. The remainder of the reduction was spread among several expense categories. Approximately \$0.6 million of our overall reduction in sales and marketing expense was caused by a 5.4% effect from changes in foreign exchange rates. Sales and marketing expense in our third quarter of this fiscal year was 21.7% of revenues, compared with 23.9% of revenues for the same quarter of our prior fiscal year.

General and Administrative Expense. G&A expense during our third quarter of fiscal 2009 was \$6.0 million, compared to \$8.1 million in our third quarter of fiscal 2008. Approximately \$1.2 million of our reduction in G&A cost was due to lower compensation-related expense, including lower accruals for incentive compensation and equity-based compensation, and \$0.5 million was due to lower expenses for professional services. The remainder of the reduction was spread among several expense categories. Approximately \$0.5 million of our overall decrease in G&A expense for our third quarter

of fiscal 2009 was due to changes in foreign exchange rates compared to our third quarter of fiscal 2008.

Despite our reductions in absolute expenditure on G&A, the reduction in our revenues resulted in G&A expense in our third quarter of 18.7% of revenues compared with 17.3% in the same quarter of our prior year.

Income from Operations. As a result of these factors, in our third quarter of fiscal 2009 we had income from operations of \$3.2 million, or 9.9% of revenues, compared to income from operations of \$5.4 million, or 11.4% of revenues, in the same quarter of our prior fiscal year.

Other Income and Expense. In our third quarter of fiscal 2009, other income, net was \$0.3 million compared with \$0.7 million in the same quarter of fiscal 2008. The difference primarily resulted from a decrease of \$0.6 million in interest income due to lower interest rates and lower cash balances, which was partially offset by an \$89,000 foreign currency transaction gain compared to a loss of \$229,000 in the same quarter in fiscal 2008.

Pre-Tax Income. As a result of the preceding factors, our pre-tax income in our third quarter of fiscal 2009 was \$3.5 million, compared to pre-tax income of \$6.1 million in our third quarter of fiscal 2008.

Income Taxes. In our third quarter of fiscal 2009 we recorded tax expense of \$1.4 million based on an effective tax rate of 38.7%. This compares to tax expense of \$2.3 million and an effective tax rate of 37.3% in our third quarter of fiscal 2008.

Net Income. Net income for our third quarter of fiscal 2009 was \$2.1 million, or 6.6% of revenues, compared to net income of \$3.8 million, or 8.1% of revenues in our third quarter of fiscal 2008.

Liquidity and Capital Resources

During our first nine months of fiscal 2009, the total of our cash and available for sale securities decreased by \$19.1 million to \$75.1 million at July 3, 2009, from \$94.2 million at October 3, 2008. This decrease is primarily due to our use of \$21.0 million to repurchase our stock on the open market and foreign exchange translation losses of \$1.7 million. These decreases were partially offset by \$4.9 million in net cash provided by operations during our first nine months of fiscal 2009 and \$1.7 million from investing activities.

During our third quarter of fiscal 2009, we repurchased 766,305 shares of our common stock at an average price of \$10.04. From the end of our third quarter through August 7, we repurchased an additional 162,551 shares of our common stock at an average price of \$10.52. And, between October 15, 2008, when we reinitiated repurchases, and August 7, 2009 we have repurchased a total of 2,422,439 shares at an average price of \$9.38. This brings our total outstanding shares to 14,162,697 as of August 7, 2009. We may make

additional purchases of common stock through open market transactions, but we have no commitments to do so.

On July 30 we sold some of our auction rate securities, receiving \$9.0 million in cash as payment for their full face value. This sale reduced the total face value of our remaining auction rate securities to \$17.1 million. As a result of the recent redemption, and based on a new valuation of our remaining auction rate securities by an independent expert, we have reduced our temporary impairment related to auction rate securities from \$5.2 million to \$2.6 million, establishing a fair value of \$14.5 million for those remaining securities. This \$14.5 million fair value is classified in non-current available for sale securities in our third quarter balance sheet. All of our remaining auction rate securities are subject to a repurchase agreement we've signed with UBS which gives us the right to sell them to UBS at their face value any time between June 30, 2010 and July 2, 2012. 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.

Fourth Quarter 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 August 7, 2009 remain constant for the remainder of our fourth quarter of fiscal 2009, we would expect to report an unfavorable effect of approximately 4.6% on our revenues during our fourth 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.

Because of our 52/53-week accounting calendar, every so often one of our fiscal quarters comprises 14 calendar weeks, while most quarters comprise 13 calendar weeks. Our fourth quarter of fiscal 2009 will be a 13-week quarter, but our fourth quarter of fiscal 2008 was a 14-week quarter. Accordingly, even if our revenue per week were unchanged from last year, this calendar effect would result in 7% lower revenues for our fourth quarter of fiscal 2009 than the same quarter of fiscal 2008.

Fourth Quarter Revenues. We currently expect revenues for our fourth quarter of fiscal 2009 of between \$30.5 million and \$32.5 million, which would represent a reduction of between 27% and 31% from revenues of \$44.2 million in our fourth quarter of fiscal 2008. This includes the 4.6% negative effect of changes in foreign exchange rates and the 7% negative impact of our accounting calendar I just discussed.

Fourth Quarter Gross Profit. We expect a gross profit percentage in our fourth quarter of fiscal 2009 of between 54.5% and 55.5% compared to 56.7% in our fourth 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 because we expect to have somewhat fewer participants per event in our fourth quarter of this fiscal year than in our fourth quarter last year.

Fourth Quarter Operating Expenses. We expect overall operating expenses for our fourth quarter of fiscal 2009 to be between \$14.0 million and \$15.0 million, a reduction of between 32% and 36% compared to \$21.9 million in the same quarter a year earlier.

Fourth Quarter Income from Operations. As a result of the above factors, we expect to achieve fourth quarter operating income of between \$1.7 million and \$3.2 million compared with \$3.2 million in our fourth quarter of fiscal 2008.

Fourth Quarter Interest Income. We expect fourth quarter interest income to be approximately \$0.2 million.

Fourth Quarter Pre-Tax Income. Overall, we expect to report pre-tax income for our fourth quarter of fiscal 2009 of between \$1.9 million and \$3.4 million, compared with \$4.0 million in the fourth quarter of our prior year.

Effective Tax Rate. We estimate that our effective tax rate in our fourth quarter of fiscal year 2009 will be approximately 41.5%.

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 evolving 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

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 its founding in 1974, Learning Tree has weathered repeated financial downturns and capitalized on numerous periods of economic expansion. And as we have been establishing our 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.

During the present financial crisis, we have taken and are continuing to take the actions necessary to maintain that 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.