Learning Tree International, Inc.
Fiscal Year 2010 Third Quarter Conference Call

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

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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 third quarter of fiscal 2010, which ended July 2, 2010. I will then provide some forward-looking information about our fourth 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.

Before getting to our third-quarter results, I want to clarify a potential source of confusion for our investors and potential investors. In light of recent news stories about the recruitment and student-loan practices of some for-profit colleges, I thought it would be useful to clearly define how Learning Tree is different from the companies that are the subject of those news stories:

1. We are a professional development and training company, not a college. Our training improves the work-related knowledge and job skills of employees in their current jobs so that their employers will be more competitive.
2. We market and sell our services exclusively to corporations, government agencies and other organizations who contract with us to train their existing employees. We do not sell to consumers.
3. We invoice and are paid directly by our organizational clients – we are not paid by the individual participants in our courses.
4. Neither our individual course participants nor their employers use student loans to pay for our services.
5. Accordingly, Government regulations regarding post-secondary academic institutions and student loans do not affect our business; nor are we subject to the various business risks associated with such loans.

We hope these facts will serve to eliminate any confusion between our business practices and those of the for-profit colleges that sell directly to their students, promise to find them jobs and rely heavily on student loans for payment.

Now let me bring you up to date on several items of interest since our last quarterly report.

- First, including the effect of changes in foreign exchange rates, in our third quarter of fiscal 2010 our consolidated revenues exceeded those for the third quarter of our prior year. This is our first year-on-year quarterly revenue increase since our fourth quarter of fiscal 2008. I should also mention that even without the effect of changes in foreign exchange rates, our revenues were essentially the same as they were in our third quarter last year – which is also the best year-over-year quarterly comparison we've had since fiscal 2008.
- Our third quarter saw a significant increase in our work for the U.S. Department of Veterans Affairs, pursuant to the contract we were awarded earlier this year. We expect our work for the VA to reach its full volume in our fourth quarter this fiscal year.
- Also during our third quarter, we received our 5,000th enrollment for online participation in our live classroom courses through Learning Tree AnyWare™, our patent-pending, online learning platform. AnyWare allows individuals located anywhere in the world to use their Internet browser to participate in our instructor-led classes being conducted live in Learning Tree Education Centers or at customer locations. We now offer our customers the ability to attend more than 150 Learning Tree course titles through AnyWare.
- In May we were awarded a contract by the NATO CIS Services Agency to train up to 1,000 NATO staff throughout Europe over the next 3 years. We are pleased to be recognized by customers on both sides of the Atlantic for our ability to quickly roll out major training programs that support mission-driven needs.
- Finally, at the end of our second quarter this fiscal year, we reported that we were still holding approximately $16.4 million in auction rate securities. I am pleased

to report that during our third quarter UBS repurchased all of those auction rate securities at their full face value.

I am also pleased to announce that after carefully considering a wide range of factors, including our cash balances, the stability of our revenues, our continued ability to deliver quality training at a profit, the successful disposition of our auction rate securities, and other factors affecting our business, yesterday our Board decided to issue a special dividend of $2.20 per share to shareholders of record as of August 20, 2010. The total amount of the dividend will be approximately $30 million, and we expect to pay that dividend on or about September 10, 2010. After the dividend, we will remain debt-free and we will retain a cash reserve in excess of our expected continued investment in the growth of our business, whether through the development of new course titles; learning technologies and methods such as MagnaLearn™, RealityPlus™ and AnyWare™; or our next innovation in training.

Third Quarter Results

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

- Revenues in our third quarter of fiscal 2010 increased 1.6% to $32.8 million, compared to revenues of $32.3 million in our third quarter of fiscal 2009. We are pleased to have returned to year-over-year revenue growth—however modest—in our third quarter this year, and this result continues the upward trend we have achieved in our quarterly comparisons over the past several quarters. As Nick will discuss in a few minutes, we expect this positive trend to continue into our fourth quarter.
- Our gross profit in our third quarter was 52.1% of revenues, compared to 55.3% in our same quarter of fiscal 2009;
- Our operating costs in our third quarter were $15.8 million, compared to $14.6 million in third quarter of fiscal 2009;
- As a result of these factors, income from operations in our third quarter was $1.3 million, compared to $3.2 million in our third quarter of fiscal 2009;
- Due to income tax adjustments under ASC 740, formerly referred to as FIN48, we recorded a tax benefit of $0.5 million in our third quarter this year;
- Our net income in our third quarter was $2.1 million, the same as in our third quarter of fiscal 2009; and
- Our fully diluted earnings per share in our third quarter were $0.15, the same as in our third quarter of fiscal 2009. This includes the impact of a 7% reduction in the weighted average of the number of our outstanding common shares as a result of our stock repurchases over the past 12 months.

Third Quarter Revenue and Participants

As I just noted, our revenues of $32.8 million for our third quarter of fiscal 2010 were 1.6% higher than our revenues in our third quarter of fiscal 2009. This was primarily driven by a 10.5% increase in the number of participants in our courses, largely offset by an 8.6% decrease in revenue per participant compared to the same quarter of our prior fiscal year. Changes in foreign exchange rates increased our reported revenues by 2.1% compared to the same quarter of our prior year.

Overall, during our third quarter of fiscal 2010, we trained a total of 21,124 course participants, a 10.5% increase from the 19,117 participants we trained in our same quarter last year. This is the first such quarter-to-quarter increase since our fourth quarter of fiscal 2008.

During our third quarter of fiscal 2010, attendee-days of management course training increased 44.8% to 32,786 compared to 22,650 in the same quarter of our prior fiscal year. This increase was due in large part to the rapid ramp-up of participants in our FAC-P/PM training for the Department of Veterans Affairs. Attendee-days of IT course training decreased 9.4% to 38,875 compared to 42,910 in our third quarter of fiscal 2009. Total attendee-days of training in the quarter increased 9.3% to 71,661, compared to 65,560 in our third quarter of fiscal 2009.

Including the impact of the effect of changes in foreign exchange rates discussed earlier, in our third quarter of fiscal 2010 average revenue per participant was 8.6% lower than in the same quarter of fiscal 2009. This decrease resulted from a significant increase in the proportion of attendees at courses held on-site for our clients, which are generally priced lower per participant than courses held in our own education centers.

Third Quarter Operations

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

Cost of Revenues. Cost of revenues was 47.9% of revenues in our third quarter of fiscal 2010 compared to 44.7% in our third quarter of fiscal 2009, and our gross profit percentage accordingly was 52.1% compared to 55.3% in the 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 that they affect our revenues.

The increase in cost of revenues as a percentage of revenues in our third quarter of fiscal 2010 reflects a 2.1% increase in average cost per event and a 5.2% decrease in average revenue per event. The increase in our average cost per event was principally the result of the following factors:

- Costs associated with the development, growth and operation of our AnyWare course offerings—including those related to equipment and infrastructure, technical and support personnel, and instructor training—increased our average cost per event by approximately 1.9%. We expect to continue investing in AnyWare;
- Start-up costs associated with our contract with the VA, including instructor recruitment and training and curriculum revision and development, which we expect to abate by the end of our fourth quarter of this fiscal year; and

- A non-recurring expenditure of increased maintenance and refurbishment costs for our Education Centers.

These increased costs were somewhat offset by savings in other areas as a result of our ongoing cost management initiatives. The decrease in our average revenue per event was primarily the result of the 8.6% reduction in revenue per participant partially offset by a 3.7% increase in participants per event compared to the same quarter of our prior year.

During our third quarter of fiscal 2010, we presented 1,641 events, a 6.6% increase from the 1,540 events conducted during the same period in fiscal 2009.

Course Development Expense. We spent $1.8 million on course development during our third quarter of fiscal 2010, $0.1 million more than in the same quarter of our prior fiscal year. Course development expense was 5.4% of revenues in our third quarter of fiscal 2010 compared to 5.0% in the same quarter of fiscal 2009. In our third quarter of fiscal 2010, we introduced three new IT course titles and retired four IT course titles, and we introduced two new management course titles and retired two.

Our library of instructor-led courses numbered 213 titles at the end of our third quarter of fiscal 2010 compared with 211 titles at the same point a year earlier. At the end of our third quarter of fiscal 2010, we had 75 management titles in our course library, compared with 70 management titles at the end of our third quarter of fiscal 2009. Our library included 138 IT titles at the end of our third quarter of fiscal 2010, compared to 141 a year earlier.

Sales and Marketing Expense. We have begun making what we believe are prudent increases in sales and marketing spending aimed at capturing more business with large clients, increasing the market penetration of our AnyWare live on-line delivery method and taking advantage of emerging market opportunities.

In our third quarter of fiscal 2010 our sales and marketing expense increased to $7.8 million from $7.0 million in the same quarter last year. This increase was largely due to additional catalog production and advertising expense, increased professional services fees and sales commissions, plus an overall increase of approximately 2.5% due to changes in foreign exchange rates. Sales and marketing expense in our third quarter of this fiscal year was 23.7% of revenues, compared with 21.7% of revenues for the same quarter of our prior fiscal year.

General and Administrative Expense. G&A expense during our third quarter of fiscal 2010 was $6.2 million, compared to $6.0 million in the third quarter of fiscal 2009, primarily as a result of higher facilities maintenance expense and personnel-related expenses, as well as the effect of changes in foreign exchange rates. G&A expense in our third quarter was 19.0% of revenues compared with 18.7% in the same quarter of our prior year.

Income from Operations. As a result of these factors, in our third quarter of fiscal 2010 we had income from operations of $1.3 million, or 4.0% of revenues, compared to income from operations of $3.2 million, or 9.9% of revenues, in the same quarter of our prior fiscal year.

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

Pre-Tax Income. As a result of the preceding factors, we had pre-tax income in our third quarter of fiscal 2010 of $1.5 million, compared to pre-tax income of $3.5 million in our third quarter of fiscal 2009.

Income Taxes. In our third quarter of fiscal 2010 we recorded a tax benefit of $0.5 million due to income tax adjustments under ASC 740, formerly referred to as FIN48. This compares to tax expense of $1.4 million and an effective tax rate of 38.7% in our third quarter of fiscal 2009.

Net Income. For our third quarter of fiscal 2010, we recorded net income of $2.1 million, or 6.3% of revenues, compared to net income of $2.1 million, or 6.6% of revenues, in our third quarter of fiscal 2009.

Liquidity and Capital Resources
During our first nine months of fiscal 2010, the total of our cash and available for sale securities decreased to $67.5 million at July 2, 2010 from $73.8 million at October 2, 2009. The decrease in our cash balances was primarily due to the use of $4.5 million to pay our previously announced settlement of a contract dispute with the U.S. Government, $3.5 million to repurchase our stock on the open market, $2.0 million for purchases of furniture and computer equipment for our education centers, and $1.0 million due to the effect of changes in exchange rates on our reported cash balances. The effect of these decreases was partially offset by cash provided by operations, and by the elimination of a temporary impairment of $2.4 million related to our auction rate securities.

At October 2, 2009, our portfolio of $73.8 million of cash and available for sale securities reflected a $2.4 million reduction for a temporary impairment of auction rate securities that we owned. During our third quarter of fiscal 2010, we sold all of our remaining auction rate securities at their full face value. We thus were able to eliminate the temporary impairment, and the amount or cash and available for sale securities we reported at July 2, 2010 correspondingly increased by $2.4 million.

During our third quarter of fiscal 2010, we repurchased 126,965 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.

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

repeatedly strengthened and weakened 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 August 6, 2010 remain constant for the remainder of our fourth quarter of fiscal 2010, we would expect to report an unfavorable effect of approximately 1.0% on our revenues during our fourth quarter of fiscal 2010 compared to the same quarter of fiscal 2009. 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 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.

Fourth Quarter Revenues. For our fourth quarter of fiscal 2010, we expect to achieve revenues of between $32.0 million and $34.0 million, compared to revenues of $31.8 million in our fourth quarter of fiscal 2009.

Fourth Quarter Gross Profit. We expect a gross profit percentage in our fourth quarter of fiscal 2010 of between 53.3% and 54.8%, compared to 55.7% in our fourth quarter of fiscal 2009.

Fourth Quarter Operating Expenses. We expect overall operating expenses for our fourth quarter of fiscal 2010 to be between $15.5 million and $16.5 million. This compares to $19.1 million in our fourth quarter last year, which included a $4.2 million expense accrual related to a contract dispute with the U.S. Government. Our expected increase in operating expenses (exclusive of the $4.2 million accrual last year) results primarily from planned increases in sales and marketing expenditures, as we discussed earlier.

Fourth Quarter Income from Operations. As a result of the above factors, we expect income from operations for our fourth quarter of fiscal 2010 to be between $1.0 million and $2.5 million, compared with a loss from operations of $1.4 million in our fourth quarter of fiscal 2009.

Fourth Quarter Interest Income. We expect fourth quarter interest income to be approximately $0.1 million.

Fourth Quarter Pre-Tax Income. As a result of the above factors, we expect pre-tax earnings for our fourth quarter of fiscal 2010 to be between $1.1 million and $2.6 million, compared with a pre-tax loss of $1.4 million in our fourth quarter of fiscal 2009.

Effective Tax Rate. We estimate that our effective tax rate in our fourth quarter of fiscal 2010 will be approximately 48.6%, which is unusually high due to the effect of permanent differences.

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

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. 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.