

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

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

December 8, 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 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 covering our performance in our fourth quarter and our full fiscal year 2008, which ended October 3, 2008, after which I will comment both on the actions we are taking in response to current economic conditions and on the status of our growth initiatives. I will then provide some forward-looking information about our first 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>.

Financial Effects of Efforts to Solicit Offers to Purchase the Company

Before we begin, let me first describe the effect on our financial results of our recent exploration of a possible sale of the company, which we discontinued in October. Expenses related to this exploration reduced our operating income for our fourth quarter and full fiscal year 2008 by \$437,000 and \$997,000, respectively. Certain of our

employees, principally in our finance and accounting department, will be paid non-contingent transaction contribution bonuses. These bonuses have been accruing ratably between the date they were promised and March 31, 2009, when they will be paid. Thus, some of these bonus expenses have already been recorded. We project that the accrual of the remainder of these bonuses and other expenses associated with the now-discontinued sale process will reduce operating income in each of our first and second quarters of fiscal 2009 by approximately \$0.4 million.

Turning now to our fourth quarter of fiscal 2008, I'd like to begin by identifying some highlights of our operating results:

- Revenues in our fourth quarter of fiscal 2008 were \$44.2 million, the same as revenues in our fourth quarter of fiscal 2007;
- Gross profit was 56.7% of revenues compared to 56.9% in the same quarter of fiscal 2007;
- Operating expenses were 49.5% of revenues compared to 51.6% of revenues for the same quarter of fiscal 2007; and
- As a result of these factors, income from operations was \$3.2 million, an increase of \$0.8 million, or 35.6% over the same quarter of fiscal 2007.
- In the fourth quarter of our prior fiscal year, we recorded a tax benefit of \$4.3 million, primarily as a result of reversing a valuation allowance on deferred tax assets and recording other tax credits. These tax effects resulted in unusually high net income in our fourth quarter of fiscal 2007. As a result, our net income for our fourth quarter of fiscal 2008 of \$2.8 million represents a decline of \$5.1 million compared to the anomalously high net income in our fourth quarter of fiscal 2007.
- Also, as a result of these tax effects, earnings per share in our fourth quarter of fiscal 2008 were \$0.17 per share compared to \$0.48 per share in our fourth quarter of fiscal 2007.

For our full year of fiscal 2008,

- Revenues increased to \$181.3 million, an improvement of \$14.1 million, or 8.4% from revenues in fiscal 2007;
- Gross profit increased to 57.6% of revenues, compared to 56.4% for fiscal 2007;
- Operating expenses were 47.9% of revenues compared to 47.7% for fiscal 2007;
- Income from operations increased to \$17.7 million, an improvement of \$3.2 million, or 22% over fiscal 2007; and
- Net income was \$13.8 million, or \$0.83 per share (diluted), a decline of \$3.2 million from fiscal 2007, which was due to the previously mentioned tax effects which unusually increased net income in fiscal 2007.
- As a result of these factors, earnings per share in fiscal 2008 were \$0.83 per share (diluted) compared to \$1.03 per share in fiscal 2007.

Fourth Quarter Revenue and Participants

Revenues for our fourth quarter of fiscal 2008 were the same as in our fourth quarter of fiscal 2007. Several factors affected our fourth quarter revenues:

- First, as you may recall, Learning Tree operates on a 52/53-week accounting year convention. Fiscal 2008 was a 53-week year, and the extra week occurred in our

- fourth quarter. Accordingly, our fourth quarter of fiscal 2008 had 14 weeks, compared to 13 weeks in our fourth quarter of fiscal 2007.
- Second, the effects of changes in foreign exchange rates were substantially different from those we anticipated in our prior earnings call on August 5, 2008. In that call we said that we expected the effect of changes in foreign exchange rates to have a positive effect of approximately 2% on our fourth quarter revenues, compared to the same quarter of the prior year. However, shortly thereafter the dollar abruptly strengthened compared to other currencies, and thus changes in foreign exchange rates actually had a negative effect of approximately 1% on our revenues, compared to our fourth quarter of fiscal 2007.
 - Finally, during our fourth quarter we experienced a slowdown in our sales volumes compared to earlier periods in fiscal 2008.

Overall, during our fourth quarter of fiscal 2008, we trained a total of 23,609 course participants, a 2.3% increase from the 23,078 participants we trained in the same quarter last year.

During our fourth quarter of fiscal 2008, we provided 27,020 attendee-days of training in management courses, a 7.0% increase compared to 25,247 attendee-days in the same quarter of the prior year. We provided 58,454 attendee-days of training in IT courses during the quarter, a 4.5% decrease compared to 61,217 attendee-days in our fourth quarter of fiscal 2007. Overall, we provided a total of 85,474 attendee-days of training in the quarter, a 1.1% decrease compared to 86,464 attendee-days in our fourth quarter of fiscal 2007.

In our fourth quarter of fiscal 2008, average revenue per participant was 2.4% lower than in the same quarter of fiscal 2007. This decrease was primarily due to three factors: first, the 1% negative effect of changes in foreign exchange rates; second, an increased proportion of participants in management course events which are shorter and therefore have a lower average revenue per participant than IT course events; and third, an increased proportion of participants in course events held at client locations, which have lower average revenue per participant than courses we hold in our own education centers. These decreases in revenue per participant were partially offset by the effects of price increases and a shift in the mix of single seat, voucher and passport attendees at courses held in our own education centers.

Fourth Quarter Operations

I will now discuss our operations in our fourth quarter of fiscal 2008 and how they compare with the same quarter last year.

Cost of Revenues. Cost of revenues was 43.3% of revenues in our fourth quarter of fiscal 2008 compared to 43.1% in our fourth quarter of fiscal 2007, and our gross profit percentage accordingly was 56.7% compared to 56.9%. 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 change in cost of revenues as a percentage of revenues in our fourth quarter of fiscal 2008 reflects a 1.5% decrease in average revenue per event, partially offset by a 0.2% decrease in average cost per event. The decrease in our average revenue per event was the result of the 2.4% decrease in average revenue per participant discussed earlier partially offset by a 0.9% increase in average participants per event. The decrease in average cost per event principally resulted from the effect of changes in foreign exchange rates, largely offset by various increases in our cost of revenues.

During our fourth quarter of fiscal 2008, we presented 1,766 events, a 1.4% increase from the 1,742 events conducted during the same period in fiscal 2007.

Course Development Expense. During our fourth quarter of fiscal 2008, our spending on course development was \$2.4 million, \$0.1 million less than in the same quarter of our prior year. As a result, course development expense was 5.4% of revenues in our fourth quarter of this fiscal year compared to 5.6% during the same quarter of our prior year. Our spending on course development in our fourth quarter of fiscal 2008 reflected an increase in the number of titles developed during the quarter compared to the same quarter of the prior year, offset by reduced spending on other aspects of our course development processes.

In our fourth quarter of fiscal 2008, we introduced ten new IT course titles and retired four IT course titles, and we introduced four new management course titles and retired none. Our library of instructor-led courses numbered 185 titles at the end of fiscal 2008 compared with 162 titles at the same point a year earlier. At the end of fiscal 2008 we had 54 management titles in our course library, compared with 47 management titles at the end of fiscal 2007. Our library included 131 IT titles at the end of fiscal 2008, compared to 115 a year earlier.

Sales and Marketing Expense. Sales and marketing expense in our fourth quarter was \$11.3 million, or 25.6% of revenues, compared with \$12.4 million, or 28.0% of revenues, for the same quarter of the prior year. The decrease largely resulted from the fact that marketing expense in our fourth quarter of fiscal 2007 included unusual provisions of approximately \$0.6 million for an audit of sales and use taxes related to our catalog mailings and \$0.5 million of marketing costs associated with the third quarter of fiscal 2007.

General and Administrative Expense. G&A expense in our fourth quarter was 18.5% of revenues compared with 18.0% in the same quarter of our prior year. G&A expense in our fourth quarter was \$8.2 million, compared to \$7.9 million in our fourth quarter last year. The increase in G&A expense for our fourth quarter of fiscal 2008 was largely attributable to the \$437,000 of costs associated with our efforts to explore a potential sale of the company, partially offset by the effect of changes in foreign exchange rates. The costs associated with exploring the potential sale of the company include non-contingent transaction contribution bonuses for certain employees, principally in our finance and

accounting department, as well as legal fees and special committee fees associated with this process.

Results from Operations. As a result of these factors, in our fourth quarter of fiscal 2008 we achieved income from operations of \$3.2 million, or 7.1% of revenues, compared to income from operations of \$2.3 million, or 5.3% of revenues, in the same quarter of our prior year.

Other Income and Expense. In our fourth quarter of fiscal 2008, other income, net was \$0.8 million compared with \$1.2 million in the same quarter of fiscal 2007. This decline primarily resulted from incurring a foreign currency transaction loss of \$0.1 million in our fourth quarter of fiscal 2008 compared to a foreign currency transaction gain of \$0.2 million in the same quarter of fiscal 2007. Net interest income was \$1.0 million in our fourth quarter of fiscal 2008, the same as in our fourth quarter of fiscal 2007.

Pre-Tax Income. As a result of the preceding factors, pre-tax income in our fourth quarter of fiscal 2008 was \$4.0 million, compared to pre-tax income of \$3.5 million in our fourth quarter of fiscal 2007.

Income Taxes. In our fourth quarter of fiscal 2008 our effective tax rate was 31.0% and we recorded tax expense of \$1.2 million. This compares to a tax benefit of \$4.3 million recorded in our fourth quarter of fiscal 2007. As we explained last year, our income tax provision in our fourth quarter of fiscal 2007 was significantly affected by both the reversal of a valuation allowance and a tax credit resulting from a transfer pricing audit conducted by the Canadian Revenue Agency.

Net Income. As a result of these prior-year tax effects, net income for our fourth quarter of fiscal 2008 was \$2.8 million, or 6.2% of revenues, compared to net income of \$7.8 million, or 17.7%, in our fourth quarter of fiscal 2007.

Liquidity and Capital Resources

During fiscal 2008, the total of our cash and available for sale securities increased by \$5.7 million to \$94.2 million at October 3, 2008 from \$88.5 million at September 28, 2007. This includes \$26.6 million of auction rate securities stated at fair value. 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 \$4.3 million temporary impairment in their value based on a valuation by an independent expert. At the end of our fourth quarter the temporary impairment was reduced to \$2.6 million based on the independent expert's valuation as of that date. This improvement is reflected in our balance sheet of October 3, 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.

Since October 3, 2008 we have redeemed \$3.2 million of our auction rate securities at par value, including \$2.7 million which we sold to Wachovia Securities pursuant to a repurchase agreement. We have also signed a repurchase agreement with UBS under

which we have the right to sell all of our remaining auction rate securities at their par value of \$26.1 million at any time during the period from June 30, 2010 through July 2, 2012.

Net working capital at October 3, 2008, defined as current assets minus current liabilities, decreased to \$31.2 million compared to \$43.9 million as of September 28, 2007. The change in working capital was primarily due to the reclassification of \$23.4 million of auction rate securities to non-current assets and the \$2.6 million temporary impairment of the auction rate securities, partially offset by cash generated by operations. Excluding the reclassification of auction rate securities and the temporary impairment, net working capital would have been \$57.2 million, an increase of \$13.4 million since the end of our fiscal year 2007.

We did not repurchase any shares of our common stock during our fourth quarter of fiscal 2008. However, during our first quarter of fiscal 2009 we have, as of December 1, 2008, repurchased 261,216 shares of our common stock, at an average price of \$10.68. We may make additional purchases of common stock through open market transactions, but we have no commitments to do so.

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 our clients' tremendous loyalty. It is worth noting that all of our top 100 customers from five years ago in our fiscal year 2003 were still Learning Tree customers 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.

The current economic climate is having an effect on our business, and many economists are predicting a long, challenging period for the global economy. We believe that effective training in information technology and management skills improves our customers' competitiveness, and that our customers will continue to invest in training their personnel in these critical competencies. However, we also expect that some customers will reduce their spending on training services as part of their response to the current economic conditions. We therefore believe we must manage our business with the expectation that such economic conditions will adversely affect our revenues, an impact that will only be partially offset by the positive effects of the growth initiatives we instituted last year.

Actions We Are Taking

We thus believe it is prudent to manage our business based on the assumption that we will provide fewer attendee-days of training in fiscal 2009 than in fiscal 2008. We are focusing on improving the efficiency and effectiveness of our operations, since the extent

and duration of the current slowdown remains uncertain. To that end, we have already taken the following actions:

- In terms of our staffing, last month we eliminated 73 existing positions, representing approximately 14% of our workforce, across a wide range of levels, functions and locations.
- We have also instituted a variety of other cost-saving measures throughout our operations.
- We believe that we can benefit from continuing to develop new course titles at an increased pace from the fiscal 2006 – 2007 period, although in light of economic conditions we have decided to slow that rate somewhat from the high rate we achieved in fiscal 2008. We expect that this will decrease course development expense by approximately \$0.5 million in fiscal 2009 compared to fiscal 2008.
- Even in this climate of uncertainty, our strong financial position should allow us to maintain most of our sales and marketing programs with the goal of expanding our market share and strengthening our position for the time when the external economic environment begins to improve. We intend to continue to balance our goal of growth with an ongoing assessment of the effectiveness of our sales and marketing expenditures, to seek greater efficiencies, and to focus our investment in sales and marketing on activities which we expect to provide a rapid positive return.

Overall, we intend to continue to focus on maintaining profitability by managing our costs. We believe that projecting the future is particularly difficult at present, given the unusual economic events of the last few months. Accordingly, we will monitor the ongoing changes in the environment and seek to adapt our business to those changes as and when they occur.

Status of Key Growth Initiatives

Our revenue growth initiatives are particularly important in light of the current economic environment, even if they result in just helping to maintain revenues in the coming year, rather than growing them. While in some cases we have adjusted these initiatives, we believe that it is wise to continue investing in activities that will positively benefit revenues and profits for Learning Tree both in fiscal 2009 and in future years. Here is the current status of our major efforts:

- 1. Significantly increase the rate of introduction of our new course titles.** As I noted earlier, in fiscal 2008 we began working to accelerate our revenue growth through the rapid expansion of our course library, which we believe 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.

In fiscal 2006 and 2007, we introduced an average of 27 new course titles per year. In fiscal 2008, we introduced 34 new course titles. In fiscal 2009 we now

anticipate introducing approximately 52 new course titles, 22 of which we had started developing in fiscal 2008.

- 2. 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.
- 3. Continue to improve the effectiveness of our sales and marketing.** We have used our proprietary POST™ system of cutting-edge business intelligence techniques to improve the return on our investment in catalog-based direct marketing by 107% between fiscal 2004 and fiscal 2008. We are now using our POST™ methods to continue improving the effectiveness of our telesales force, to evaluate our investments in marketing, and to identify productive ways to use our database to expand our marketing efforts.
- 4. Significantly grow our direct sales force.** We continue to believe we have a substantial opportunity to increase our market share of courses held at customer locations, particularly for large, enterprise-level customers. During fiscal 2008 we increased our sales force. We are now carefully monitoring the productivity and effectiveness of that investment in the current economic environment prior to making further sales staff increases. Provided that we see evidence of productivity from our staffing increases, we intend to continue our investment in this regard.

First Quarter 2009 Financial Guidance

Effect of Exchange Rates. One of the effects of the recent economic turmoil has been the substantial strengthening of the U.S. dollar between mid-August and now. 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 December 1, 2008 remain constant for the remainder of the first quarter of fiscal 2009, we would expect to report an unfavorable effect of approximately 12% on our revenues during our first 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 during that quarter. The effect of changes in foreign exchange rates is somewhat less pronounced on operating expenses than on revenues and cost of sales, primarily due to a greater proportion of dollar-denominated corporate operating expenses, including 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.

Calendar Effects. In fiscal 2008, our first quarter began on September 29, 2007 and included 12 weeks available for training, as the final week in that quarter was Christmas week, in which we conducted no class events. However in fiscal 2009, because of our 52/53 week accounting convention, our first quarter began on October 4, 2008, and includes both Christmas and New Year's weeks. Our first quarter in fiscal 2009 will therefore have only 11 weeks during which we conduct class events, an effective reduction in available training time of approximately 8%, which we expect will reduce our revenues in the quarter by between 5% and 7% compared to our first quarter last year.

Revenues. For our first quarter of fiscal 2009, we currently expect revenues to be between \$37.0 million and \$38.5 million, compared to revenues of \$50.9 million in our first quarter of fiscal 2008, a reduction of between 24% and 27%. As just discussed, we expect approximately 12% of that reduction to be attributable to the effect of changes in foreign exchange rates, and between 5% and 7% to be attributable to the calendar placement of our first quarter in fiscal 2009. The remaining 5%-10% reduction would then be due to reduced sales compared to fiscal 2008, partly offset by the effect of price increases.

First Quarter Gross Profit. We expect a gross profit percentage in our first quarter of fiscal 2009 of between 55.5% and 57.0% compared to 60.0% in our first quarter of fiscal 2008. The lower percentage will primarily result from allocating the fixed costs of our education centers and classroom equipment to fewer expected events in our first quarter of fiscal 2009 than we held in our first quarter of fiscal 2008. We expect to maintain about the same number of participants per event in our first quarter of fiscal 2009 that we achieved in the same quarter of fiscal year 2008.

First Quarter Operating Expenses. Operating expenses for the first fiscal quarter of 2009 will include \$0.4 million of expenses associated with the potential sale of the company and \$0.3 million associated with severance costs for the staff reductions previously discussed. We expect overall operating expenses for our first quarter of fiscal 2009 to be between \$18.5 million and \$19.0 million, a reduction of between 14% and 16% compared to \$22.1 million in the same quarter a year earlier. We expect approximately 8% of that reduction to be due to the expected effect of changes in foreign exchange rates, and another 9% to be due to certain one-time expenses we incurred in our first quarter of fiscal 2008 which will not recur in our current quarter. The one-time expenses in our first quarter of fiscal 2008 were primarily for professional services and consulting fees, and employee expenses related to stock option expiration and severance. Those decreases will be partially offset by the \$0.7 million of one-time expenses noted above for our first quarter of fiscal 2009.

First Quarter Operating Income. As a result of the above factors, we expect first quarter operating income to be between \$1.7 million and \$3.2 million compared with operating income of \$8.5 million in the first quarter of fiscal 2008.

First Quarter Interest Income. We expect first quarter interest income of approximately \$0.7 million.

First Quarter Pre-Tax Income. Overall, we expect to report pre-tax income for our first quarter of fiscal 2009 of between \$2.4 million and \$3.9 million, compared with pre-tax income of \$9.4 million in the first quarter of the prior year.

Effective Tax Rate. Our projected effective tax rate for our first quarter and full 2009 fiscal year is approximately 37%.

Fiscal 2009 and Beyond. We are pleased with the progress we achieved in fiscal 2008 toward our goals of improved profitability and increased revenues. As just described, in our first quarter of fiscal 2009 we will face more challenging exchange rates, fewer available course weeks, and lower orders than in our first quarter of the prior fiscal year. Furthermore, the run rates we have seen in enrollments for courses at our education centers and orders for customer-site events have been lower during our first quarter of fiscal 2009 than they had been in our fourth quarter of fiscal 2008. We anticipate this will primarily affect revenues in our second quarter of fiscal 2009. On the other hand, in contrast to our first quarter of fiscal 2009, which had one less week available for training than in the corresponding quarter of the prior year, this year our second quarter will benefit from having one additional week available for training compared to last year.

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 in fiscal 2009. We continue to evaluate our plans and actions in response to the changing face of the economic situation. We have already made significant adjustments to our business model in response to current conditions and we continue to look for further operating efficiencies in our business. Meanwhile, we are continuing to work hard to generate more sales and to capitalize on our efficient and effective 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. Long term, we remain confident in our abilities to grow our revenues and profits when economic conditions improve, and are excited by the future potential for Learning Tree.

Summary following discussion

Learning Tree is financially very strong and we will continue to take the necessary actions to maintain that financial strength. Over our 34-year history Learning Tree has weathered numerous financial downturns and has built a strong position as the world's leading vendor-independent provider of training for managers and IT 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 look forward to continuing to help our customers maximize the productivity and the effectiveness of their people.