Learning Tree International, Inc.
Fiscal 2009 Year-end Conference Call

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

December 10, 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 would like to begin today's presentation with an overview of our accomplishments in fiscal year 2009, which we are especially proud to have achieved during what has been the most challenging economic period in our company's history. I will then focus specifically on our performance in our fourth quarter of fiscal 2009, which ended October 2, 2009, followed by some forward-looking information about our first quarter of fiscal 2010. 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.

Fiscal 2009 was an extremely challenging year for the worldwide economy, and it had a far greater impact on our business than any of the other recessions we've ridden through since our founding in 1974. I am very proud of how Learning Tree management and staff responded to this year's challenges. We quickly and effectively identified and implemented a series of actions aimed at matching the size of our business to our clients' reduced demand for training. And most important, despite these actions, in fiscal 2009 we received from our customers the highest quality ratings in our 35-year history.

Before discussing the results of our operations in our fourth quarter, I would like to address two non-recurring items that affect our fourth quarter financial results:

- First, we previously disclosed the existence of a claim by the U.S. Government concerning the expiration and prepayment terms of our passport and voucher programs, relating to prior fiscal years. While we continue to believe that we have complied with the terms of our contracts, we have offered to settle the dispute by making a cash payment to the Government, and accordingly we recorded a charge in our fourth quarter of fiscal 2009 to reflect the anticipated cost of such a settlement. This resulted in a $4.2 million increase to our G&A expense in that quarter. Although our respective positions are close in settling this matter, clearly there can be no assurance that agreement on a settlement will be reached, and the ultimate payment could be more or less than the amount reserved.
- Second, during our fourth quarter, several of our wholly owned foreign subsidiaries paid us one-time cash dividends totaling $17.5 million as part of a cash management program. This resulted in additional U.S. income tax expense of $0.7 million.

During this call, I believe it will be easier to understand our ongoing operations if we exclude the impact of these two non-recurring items; thus, in the remainder of this discussion I will describe our current results for our fourth quarter and full fiscal year 2009 excluding the impact of these two items, except in those instances where I specifically mention them. For your convenience, we have attached a table to our earnings release that reconciles the impact of these items to our GAAP disclosures.

With that in mind, let me say a few words about our overall results. In fiscal 2009, our worldwide revenues declined by 26.9% compared to fiscal 2008. Nevertheless we were able to maintain a gross profit margin of 55.3%, which was only a slight reduction compared to our prior year. Excluding the one-time $4.2 million charge related to the prior period claim by the U.S. government, we reduced operating costs by $19.7 million or about 23%, resulting in operating income of $6.2 million and net income of $3.9 million, or $0.26 per share, for fiscal 2009. Additionally, we continued to sustain positive cash flow from operations, generating $7.5 million in operating cash flow for fiscal 2009.

Our overall business environment continues to be extremely challenging. The actions we have taken to manage our business continue to produce their intended effects, and we intend to continue carefully managing our business through the current economic situation. During our fourth quarter of fiscal 2009 we achieved a gross profit of 55.7%, exceeding our previous projections. Through aggressive targeted cuts, (excluding the one-time $4.2 million charge) we were able to reduce our operating expenses for our fourth quarter by $7.0 million, or 32% from those in the same quarter last year. As a result, despite the 28.1% decline in revenues between those periods, our operating expenses actually declined as a percentage of revenues from 49.5% to 46.8%. 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.

During our fourth quarter of fiscal 2009 we began to deliver training using our new patent-pending e-Learning platform, Learning Tree AnyWare™, which allows individuals located anywhere in the world to attend a live instructor-led class being conducted in a Learning Tree Education Center or at a customer location. Remote participants use an ordinary Internet connection to connect to our classroom interface. Remote AnyWare class participants see and hear their instructor and classmates with real-time video. They see all the instructor's annotations in real-time on both in-class MagnaLearn™ projection screens. They participate fully in discussions, ask questions, collaborate in breakout sessions, and complete the same hands-on exercises (with the same personal assistance from the instructor) as their classroom-based counterparts. Because of this complete involvement, AnyWare participants gain the full benefit of our courses, and achieve the same level of knowledge and skill transfer as our in-class participants. Customer feedback has been enthusiastic, and corroborates our belief that AnyWare is highly differentiated from other e-learning formats and is significantly more effective in achieving multi-day job-related learning.

We expect to continue to expand our AnyWare™ course offerings in the coming months. Following this conference call, we will conduct a live demonstration of AnyWare. You should have previously received an invitation to this demonstration and, if you responded, you should have received log-in instructions. If you wish to attend the demonstration but do not have log-in instructions, please e-Mail beth_haden@learningtree.com now so as to receive those instructions prior to the demonstration. If today is not convenient, but you would still like a demonstration of AnyWare, please send an e-Mail to that address and we will arrange an opportunity to participate in a future demonstration.

Fourth Quarter Results

And now, I'll provide you with some key financial information from our fourth quarter of fiscal 2009:

- Revenues in our fourth quarter of fiscal 2009 were $31.8 million, compared to revenues of $44.2 million in our fourth quarter of fiscal 2008, a decline of 28.1%;
- As I just noted, our gross profit percentage in our fourth quarter was 55.7% of revenues which, while less than the 56.7% we achieved in the same quarter of fiscal 2008, was somewhat higher than we had expected at the time of our previous earnings release on August 11th;

- Excluding the $4.2 million charge related to the prior period claim, we reduced our operating expenses by 32% to $14.9 million during our fourth quarter of fiscal 2009 from $21.9 million in the same quarter of our prior fiscal year. Including the $4.2 million charge, our total operating expenses for our fourth quarter of fiscal 2009 were $19.1 million, which was still lower than in the fourth quarter of fiscal 2008;
- Excluding the effects of the one-time charge related to the prior period claim, our income from current operations for our fourth quarter of fiscal 2009 was $2.8 million, an 11% decrease from the same period in fiscal 2008. But after that charge, we recorded a loss from operations of $1.4 million, compared to income from operations of $3.2 million in our fourth quarter of fiscal 2008;
- Excluding the charge related to the prior period claim and the $0.7 million of additional taxes discussed above, net income for our fourth quarter of fiscal 2009 was $2.0 million. Including those two items, in our fourth quarter of fiscal 2009 we had a net loss of $1.4 million compared to net income of $2.8 million in our fourth quarter of fiscal 2008; and
- Excluding the charge related to the prior period claim and the $0.7 million of additional taxes, earnings per share for our fourth quarter of fiscal 2009 were $0.14. Including those two items, our loss per share on a fully diluted basis in our fourth quarter of fiscal 2009 was $0.10 compared to earnings per share of $0.17 in our fourth quarter of fiscal 2008. These earnings per share calculations include the impact of a 14.8% reduction in the weighted average number of outstanding common shares as a result of our stock repurchases, which I will discuss a little later.

And now for some key financial information from our full 2009 fiscal year:

- Revenues were $132.6 million, a reduction of $48.7 million, or 26.9% from revenues in fiscal 2008;
- Gross profit was 55.3% of revenues, compared to 57.6% for fiscal 2008;
- Excluding the charge related to the prior period claim, operating expenses were 50.6% of revenues compared to 47.9% for fiscal 2008. Including the effects of the one-time charge related to the prior period claim, operating expenses were 53.8% of revenues for fiscal 2009;
- Excluding the charge related to the prior period claim, income from current operations was $6.2 million; including that charge, income from operations was $2.0 million compared to $17.7 million in fiscal 2008;
- Excluding the charges related to the prior period claim and the additional taxes on the dividends, net income for fiscal 2009 was $4.6 million. Including those items, net income was $1.2 million, compared to net income of $13.8 million in fiscal 2008; and
- As a result of these factors, excluding the charges related to the prior period claim and the additional taxes on the dividends, earnings per share for fiscal 2009 were $0.30 (diluted). Including those items, earnings per share in fiscal 2009 were $0.08 per share (diluted) compared to $0.83 per share (diluted) in fiscal 2008.

Fourth Quarter Revenue and Participants

As I just noted, in our fourth quarter of fiscal 2009 our revenues of $31.8 million were 28.1% lower than our revenues in our fourth quarter of fiscal 2008. This was due to several factors:

- First, as you may recall, Learning Tree operates on a 52/53-week accounting year convention. Fiscal 2008 was a 53-week year, and our fourth quarter of fiscal 2008 had 14 weeks. In comparison, our fourth quarter of fiscal 2009 was a normal 13-week quarter. Even if revenue per week had remained unchanged from last year, this calendar effect alone would result in approximately 7% lower revenues for our fourth quarter of fiscal 2009 than the same quarter of fiscal 2008;
- During our fourth quarter of fiscal 2009, we delivered 26.1% fewer attendee-days of training than in the same quarter of our prior year. Approximately 7% of this was due to the calendar effect I just discussed;
- Changes in foreign exchange rates adversely affected our reported revenues by 2.9%; and
- These factors were partly offset by a 1.3% positive effect of price increases.

Overall, during our fourth quarter of fiscal 2009, we trained a total of 18,067 course participants, a 23.5% decrease from the 23,609 participants we trained in our same quarter last year.

Compared to the fourth quarter of fiscal 2008, during our fourth quarter of fiscal 2009:

- Attendee-days of management training decreased by 13.3%, to 23,429 from 27,020;
- Attendee-days of IT training decreased by 32.0%, to 39,777 from 58,454; and
- Total attendee-days of training decreased by 26.1%, to 63,206, from 85,474.

In our fourth quarter of fiscal 2009, average revenue per participant was 6.2% lower than in the same quarter of fiscal 2008. This decrease was principally due to 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 compared to the fourth quarter of our prior fiscal year, as well as the 2.9% impact from changes in foreign exchange rates noted earlier. These effects were partly offset by the effects of price increases.

Fourth Quarter Operations

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

Cost of Revenues. Cost of revenues was 44.3% of revenues in our fourth quarter of fiscal 2009 compared to 43.3% in our fourth quarter of fiscal 2008, and our gross profit percentage accordingly was 55.7% compared to 56.7% in the prior year.

As I just mentioned, our actual gross profit percentage for our fourth quarter exceeded our expectations at the time of our last conference call. This was principally due to lower levels of last-minute cancellations than we had anticipated. We also believe that the introduction of our AnyWare e-Learning platform in the quarter made a small contribution to increasing the number of participants per event compared to our prior expectations. 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 affect our cost of revenues by approximately the same percentage as they affect our revenues.

The change in cost of revenues as a percentage of revenues in our fourth quarter of fiscal 2009 primarily reflects an 11.1% decrease in average revenue per event, partly offset by a 9.4% decrease in average cost per event. The decrease in our average revenue per event was the result of the 6.2% decrease in average revenue per participant I discussed earlier and a 5.2% decrease in average participants per event. The decrease in average cost per event principally resulted from our success in reducing certain costs of sales compared to our fourth quarter in fiscal 2008 as well as to the effect of changes in foreign exchange rates. These decreases were partially offset by an increased cost per event for our education center and course equipment expenses, which were allocated over fewer events compared to the same quarter in our prior year.

During our fourth quarter of fiscal 2009, we presented 1,426 events, a 19.3% decrease from the 1,766 events conducted during the same period in fiscal 2008.

Course Development Expense. As part of our cost saving efforts we reduced course development expense in fiscal 2009, principally by reducing the number of new course titles under development compared to the unusually high number we had under development in our prior year. During our fourth quarter of fiscal 2009, we spent $1.6 million on course development, $0.8 million less than in the same quarter of fiscal 2008. Course development expense was 5.1% of revenues in our fourth quarter of fiscal 2009 compared to 5.4% in the same quarter of fiscal 2008.

In our fourth quarter of fiscal 2009, we introduced five new IT course titles and retired three IT course titles, and we introduced eight new management course titles and retired two.

Our library of instructor-led courses included a total of 219 titles at the end of our fourth quarter of fiscal 2009 compared with 185 titles at the same point a year earlier. At the end of our fourth quarter of fiscal 2009, we had 76 management titles in our course library, compared with 54 management titles at the end of our fourth quarter of fiscal 2008. Our library included 143 IT titles at the end of our fourth quarter of fiscal 2009, compared to 131 a year earlier.

As I already noted, in our fourth quarter of fiscal 2009, we introduced our Learning Tree AnyWare™ learning platform. In that quarter, participants could use AnyWare to remotely attend classes in 40 of our course titles as they were being presented live at our Reston Education Center, located near Washington DC. Since then, we have continued to expand both the number of our AnyWare-enabled course titles and the number of classroom locations where AnyWare-enabled events are physically presented. We currently market more than 145 AnyWare-enabled course titles for events being held at our Education Centers in both Reston and Rockville in the Washington DC area, New York, Los Angeles, and Atlanta; as well as at our Ottawa, Canada and London, England education centers. We also use AnyWare to conduct onsite events for individual clients. In these on-site AnyWare events, we conduct a live classroom-based course for individuals at a client's location, with additional individuals from the same organization participating remotely from around the world via AnyWare.

Sales and Marketing Expense. In our fourth quarter of fiscal 2009 we reduced our sales and marketing expense to $7.0 million from $11.3 million in the same quarter last year. Approximately $2.1 million of that reduction was due to mailing fewer catalogs and reductions in other marketing activities; $1.2 million was due to lower payroll costs; $0.4 million was due to lower sales commissions as a result of lower revenues; and $0.2 million was due to lower costs for professional services compared to our fourth quarter of fiscal 2008. The remainder of the reduction was spread among several expense categories. Approximately $0.2 million of our overall reduction in sales and marketing expense was caused by a 2.2% effect from changes in foreign exchange rates. Sales and marketing expense in our fourth quarter of this fiscal year was 22.1% of revenues, compared with 25.6% of revenues for the same quarter of our prior fiscal year.

General and Administrative Expense. Excluding the $4.2 million charge related to the prior period claim, G&A expense during our fourth quarter of fiscal 2009 was $6.3 million, compared to $8.2 million in our fourth 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 $0.7 million was due to lower expenses for professional services. Approximately $0.2 million of our overall decrease in G&A expense for our fourth quarter of fiscal 2009 was due to changes in foreign exchange rates compared to our fourth quarter of fiscal 2008.

Despite our reductions in absolute expenditure on G&A, and excluding the $4.2 million charge related to the prior period claim, the reduction in our revenues resulted in G&A expense in our fourth quarter of 19.7% of revenues compared with 18.5% in the same quarter of our prior year.

Income from Operations. Throughout fiscal 2009, we made rapid adjustments to our business model in response to changing economic conditions. As a result, in our fourth quarter of fiscal 2009, excluding the $4.2 million charge related to the prior period claim we achieved income from current operations of $2.8 million, or 8.8% of revenues, compared to income from operations of $3.2 million, or 7.1% of revenues, in the same quarter of our prior fiscal year. As I stated earlier, due to the effects of the one-time charge related to the prior period claim, we reported a loss from operations in our fourth quarter of $1.4 million.

Other Income and Expense. In our fourth quarter of fiscal 2009, other income, net was less than $0.1 million compared with $0.8 million in the same quarter of fiscal 2008. The difference primarily resulted from a decrease of $0.8 million in interest income due to lower interest rates and to a slightly lesser extent due to lower cash balances.

Pre-Tax Income. Excluding the effects of the one-time charge related to the prior period claim, our pre-tax income in our fourth quarter of fiscal 2009 was $2.8 million. Including that charge, our pre-tax loss in our fourth quarter of fiscal 2009 was $1.4 million, compared to pre-tax income of $4.0 million in our fourth quarter of fiscal 2008.

Income Taxes. Even though we had a pre-tax loss of $1.4 million in our fourth quarter of fiscal 2009 we recorded a small tax expense of less than $0.1 million. This is primarily due to the tax benefit for the charge related to the prior period claim which was offset by the $0.7 million of taxes associated with the dividends that we received from our foreign subsidiaries. Excluding those two items, tax expense for our fourth quarter of fiscal 2009 would have been $0.9 million which would have resulted in an effective tax rate of 30.9%. This compares to tax expense of $1.2 million and an effective tax rate of 31.1% in our fourth quarter of fiscal 2008.

Net Income. Excluding the effects of the one-time charges for the prior period claim and the tax associated with the dividends we received from our foreign subsidiaries, net income for our fourth quarter was $2.0 million, or 6.2% of revenues**.** Including those items, we recorded a net loss for our fourth quarter of fiscal 2009 of $1.4 million compared to net income of $2.8 million, or 6.2% of revenues, in our fourth quarter of fiscal 2008**.**

Liquidity and Capital Resources

During fiscal 2009, the total of our cash and available for sale securities decreased to $73.8 million at October 2, 2009 from $94.2 million at October 3, 2008. This decrease is primarily due to our use of $25.2 million to repurchase our stock and foreign exchange translation losses of $0.6 million. These decreases were partially offset by $7.5 million in net cash provided by operations during fiscal 2009 and $10.7 million from investing activities which resulted from the sale of $12.9 million of our available for sale securities, somewhat offset by $2.1 million in purchases of equipment, property and leasehold improvements.

During our fourth quarter of fiscal 2009, we repurchased 382,498 shares of our common stock on the open market at an average price of $10.83. From the end of our fourth quarter through December 7, 2009, we repurchased an additional 73,643 shares of our common stock at an average price of $11.32. And, between October 15, 2008, when we reinitiated repurchases, and December 7, 2009, we have repurchased a total of 2,716,029 shares at an average price of $9.54, which brings our total outstanding shares to

13,869,107 as of December 2, 2009. We may make additional purchases of common stock, but we have no commitments to do so.

On July 30, 2009 we sold some of our auction rate securities, receiving $9.0 million in cash as payment for their full face value. After the end of our fourth quarter, we subsequently sold an additional $0.1 million of auction rate securities. These sales reduced the total face value of our remaining auction rate securities to $17.0 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 $2.6 million at the end of our third fiscal quarter to $2.4 million, establishing a fair value of $14.6 million for those remaining securities. 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.

All of our remaining auction rate securities are subject to a repurchase agreement we have 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. Therefore, the $14.6 million fair value for our auction rate securities is now classified in current available for sale securities in our year-end balance sheet.

First Quarter Fiscal 2010 Financial Guidance

Effect of Exchange Rates. One of the effects of the recent economic turmoil has been the sudden strengthening of the U.S. dollar during our first and second fiscal quarters of 2009 and its subsequent weakening, which has continued into our first fiscal quarter of 2010. 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 4, 2009 remain constant for the remainder of our first quarter of fiscal 2010, we would expect to report a favorable effect of approximately 5% on our revenues during our first quarter of fiscal 2010 compared to the same quarter of fiscal 2009. Of course, we would also see an unfavorable, 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.

First Quarter Revenues. We currently expect revenues for our first quarter of fiscal 2010 of between $31.5 million and $33.0 million, which would represent a reduction of between 13% and 17% from revenues of $38.0 million in our first quarter of fiscal 2009. This includes the 5% favorable effect of changes in foreign exchange rates I discussed earlier.

First Quarter Gross Profit. We expect a gross profit percentage in our first quarter of fiscal 2010 of between 54.5% and 55.5% compared to 57.0% in our first quarter of fiscal 2009, 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 first quarter of fiscal 2010 than in our first quarter of fiscal 2009.

First Quarter Operating Expenses. We expect overall operating expenses for our first quarter of fiscal 2010 to be between $14.5 million and $15.5 million, a reduction of between 18% and 24% compared to $19.0 million in the same quarter a year earlier.

First Quarter Income from Operations. As a result of the above factors, we expect to achieve first quarter operating income of between $2.0 million and $3.5 million compared with $2.7 million in our first quarter of fiscal 2009.

First Quarter Interest Income. We expect first quarter interest income to be approximately $0.2 million.

First Quarter Pre-Tax Income. Overall, we expect to report pre-tax income for our first quarter of fiscal 2010 of between $2.2 million and $3.7 million, compared with $3.1 million in the first quarter of our prior year.

Effective Tax Rate. We estimate that our effective tax rate in our first quarter of fiscal 2010 will be approximately 39.4%.

In summary, we expect that today's challenging business climate will continue for some time. 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 believe that the improvements we have made in our business 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 foresee as a period of enhanced opportunity to capture increased market share. We are particularly focused on capitalizing on our proprietary AnyWare remote delivery platform to help grow our business. We are confident in our long-term ability to grow our revenues and profits, especially 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.

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.

As a reminder, we will shortly be conducting our on-line demonstration of Learning Tree AnyWare™. Those of you attending should have your log-in instructions and credentials—if not, please e-Mail Beth Haden at beth_haden@learningtree.com. That demonstration will begin in five minutes.