

Learning Tree International, Inc.
Fiscal Year 2010 Year-End Conference Call

**Remarks by Mr. Nicholas Schacht, President and Chief Executive Officer
and Bob Waldron, Chief Financial Officer**

December 9, 2010

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 2010. After my overview, Bob Waldron, our Chief Financial Officer, will discuss our performance in our fourth quarter which ended October 1, 2010. I will then provide some forward-looking information about our first quarter of fiscal 2011. 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>.

In fiscal 2010, commercial and Government organizations worldwide continued to be cautious in hiring and spending, and this in turn has made our operating climate uncertain and difficult to predict. I am very proud of what Learning Tree management and staff have accomplished in this environment. During fiscal 2010, we continued to focus on cost control and coupled that with aggressive marketing, selling and product development initiatives that resulted in large new contracts and the roll-out of an exciting new product.

Partly as a result of these efforts, in the second half of this fiscal year we achieved modest revenue growth, and we are now focused on continuing that revenue growth, as well as making further improvements to our margins and operating results.

Several aspects of our fourth quarter results are particularly noteworthy:

- First, in our fourth quarter of fiscal 2010 our revenues grew by 6.6% over the same period of the prior year;
- Second, the number of attendee days of training that we delivered in our fourth quarter increased by 17.7% compared with the same quarter a year earlier; and
- Third, our customers have continued to show strong interest in training 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 online in live instructor-led classes being conducted in Learning Tree Education Centers or at customer locations. More than 4,000 participants attended Learning Tree courses via AnyWare in fiscal 2010.

Fourth Quarter Results

In discussing our results of operations from our fourth quarter of fiscal 2010, and in comparing those results to those from the same quarter of our prior year, it's important to remember that the results from our fourth quarter of fiscal 2009 were significantly affected by two unusual one-time factors:

- In our fourth quarter of fiscal 2009, we recorded a charge to G&A of \$4.2 million related to the settlement of a contract dispute; and
- Our income tax provision for our fourth quarter of fiscal 2009 included a one-time charge of \$0.7 million related to the repatriation of cash from our foreign subsidiaries.

My discussion today will compare our fiscal 2010 results to our fiscal 2009 results, which in turn include the effects of these two one-time factors in accordance with GAAP. Since you may wish to take these factors into account, our press release includes a table which reconciles the effects of these one-time factors.

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

- Revenues in our fourth quarter of fiscal 2010 were \$33.9 million, compared to revenues of \$31.8 million in our fourth quarter of fiscal 2009. As Nick just mentioned, this represents an increase of 6.6%;
- Our gross profit percentage in our fourth quarter was 53.5% of revenues, compared to 55.7% in our same quarter of fiscal 2009. As I'll detail in a moment, this change largely resulted from an increase in the proportion of our courses delivered at customer locations, and particularly those delivered under our large contract with the Veterans Administration;

- Operating expenses in our fourth quarter of fiscal 2010 were \$16.0 million, compared to \$19.1 million in our fourth quarter of fiscal 2009, which included that \$4.2 million charge I just mentioned; and
- Earnings per share for our fourth quarter of fiscal 2010 were \$0.08, compared to a loss per share of \$0.10 for our fourth quarter of fiscal 2009. In our fourth quarter of fiscal 2010 the weighted average number of outstanding common shares was 3.7% lower than in our fourth quarter of fiscal 2009 as a result of our stock repurchases.

For all of fiscal 2010:

- Revenues were \$127.5 million, a reduction of \$5.1 million or 3.8% from revenues in fiscal 2009;
- Gross profit was 53.6% of revenues, compared to 55.3% for fiscal 2009;
- Operating costs for fiscal 2010 were \$63.1 million, or 49.5% of revenues, compared to \$71.3 million for fiscal 2009, or 53.8% of revenues.
- Earnings per share for fiscal 2010 were \$0.32 (diluted) compared to earnings per share of \$0.08 (diluted) for fiscal 2009.

Fourth Quarter Revenue and Participants

As just noted, in our fourth quarter of fiscal 2010 our revenues of \$33.9 million were 6.6% higher than our revenues in our fourth quarter of fiscal 2009. This principally resulted from three factors:

- We had 16.3% more course participants during our fourth quarter of fiscal 2010 than in the same quarter of our prior year;
- Due to the increase in the proportion of our events delivered at customer locations, our revenue per participant declined by approximately 8.2%; and
- Changes in foreign exchange rates adversely affected our reported revenues in our fourth quarter of fiscal 2010 by approximately 1.5%.

Overall, during our fourth quarter of fiscal 2010, we trained a total of 21,017 course participants, a 16.3% increase from the 18,067 participants we trained in our same quarter last year. Compared to the fourth quarter of fiscal 2009, during our fourth quarter of fiscal 2010:

- Attendee-days of management training increased by 58.8%, to 37,213 from 23,429;
- Attendee-days of IT training decreased by 6.6%, to 37,157 from 39,777; and
- Total attendee-days of training increased by 17.7%, to 74,370 from 63,206.

Fourth Quarter Operations

Next, I'll discuss our operations in our fourth quarter of fiscal 2010 and how they compare with our same quarter of fiscal 2009.

Cost of Revenues. Cost of revenues was 46.5% of revenues in our fourth quarter of fiscal 2010 compared to 44.3% in our fourth quarter of fiscal 2009, and our gross profit percentage accordingly was 53.5% compared to 55.7% in our 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 as they affect our revenues.

The change in cost of revenues as a percentage of revenues in our fourth quarter of fiscal 2010 primarily reflects a 2.7% decrease in average revenue per event and a 1.9% increase in average cost per event. The decrease in our average revenue per event was primarily the result of the 8.2% decrease in average revenue per participant I discussed earlier, which was largely offset by a 6.0% increase in average participants per event.

The increase in average cost per event was due to:

- Ongoing 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;
- Non-recurring expenditures for increased maintenance and refurbishment costs for our Education Centers; and
- The allocation of our education center expenses over fewer education center events than during our prior fiscal year.

In fiscal 2011, we are focusing closely on our revenue and cost structures, with the goal of improving our gross profit percentages.

During our fourth quarter of fiscal 2010, we presented 1,565 events, a 9.7% increase from the 1,426 events conducted during the same period in fiscal 2009.

Course Development Expense. During our fourth quarter of fiscal 2010, we spent \$1.9 million on course development, \$0.3 million more than in the same quarter of fiscal 2009. Course development expense was 5.7% of revenues in our fourth quarter of fiscal 2010 compared to 5.1% in the same quarter of fiscal 2009. The increase was primarily due to higher course production costs, personnel costs and professional services fees.

In our fourth quarter of fiscal 2010, we introduced 4 new IT course titles and retired 5 IT course titles, and we introduced 1 new management course title and retired 3.

Our library of instructor-led courses included a total of 214 titles at the end of our fourth quarter of fiscal 2010 compared with 219 titles at the same point a year earlier. At the end of our fourth quarter of fiscal 2010, we had 77 management titles in our course library, compared with 76 management titles at the end of our fourth quarter of fiscal 2009. Our library included 137 IT titles at the end of our fourth quarter of fiscal 2010, compared to 143 a year earlier.

We introduced our Learning Tree AnyWare™ learning platform in our fourth quarter of fiscal 2009, and we have steadily expanded the number of AnyWare-enabled course titles from the original 40 to more than 160. AnyWare allows individuals located anywhere in the world to use their Internet browser to participate online in live instructor-led classroom courses. We now conduct AnyWare events at eight Education Centers across North America and Europe. We also use AnyWare to conduct onsite events for individual clients, using a classroom at a customer's location with additional individuals from the same customer participating remotely via AnyWare.

Sales and Marketing Expense. In our fourth quarter of fiscal 2010 we increased our sales and marketing expense to \$8.2 million from \$7.0 million in the same quarter last year. The increase primarily resulted from increased personnel expenses and costs for professional services as a result of higher revenues and increased sales efforts. Changes in foreign exchange rates reduced overall sales and marketing expense by 1.8% compared to our fourth quarter of fiscal 2009. Sales and marketing expense in our fourth quarter of fiscal 2010 was 24.2% of revenues, compared with 22.1% of revenues for the same quarter of fiscal 2009.

General and Administrative Expense. G&A expense during our fourth quarter of fiscal 2010 was \$5.8 million, or 17.1% of revenues, compared to \$10.5 million in our fourth quarter of fiscal 2009. Excluding the prior period one-time charge, G&A expense for our fourth quarter of fiscal 2009 was \$6.3 million or 19.7% of revenues. Aside from that one-time factor, G&A expense in our fourth quarter of fiscal 2010 was lower primarily due to lower lease costs and the reversal of an asset retirement obligation as a result of renegotiating the lease for one of our education centers.

Income from Operations. In our fourth quarter of fiscal 2010, we achieved income from operations of \$2.2 million, or 6.4% of revenues, compared to a loss from operations of \$1.4 million, or 4.5% of revenues, in the same quarter of our fiscal 2009.

Other Income and Expense. In our fourth quarter of fiscal 2010, other expense, net was less than \$0.1 million, about the same as in our fourth quarter of fiscal 2009.

Pre-Tax Income. Pre-tax income in our fourth quarter of fiscal 2010 was \$2.1 million compared to a pre-tax loss of \$1.4 million in our fourth quarter of fiscal 2009.

Income Taxes. Our tax expense for the fourth quarter of fiscal 2010 was \$1.0 million, for an effective tax rate of 45.4%, compared to a tax expense of less than \$0.1 million in our fourth quarter of fiscal 2009. The high rate for the fourth quarter of fiscal 2010 is the result of the effect of permanent differences. In the fourth quarter of fiscal 2009 we had a pre-tax loss of \$1.4 million but recorded a small tax expense of less than \$0.1 million as a result of \$0.7 million of taxes associated with the repatriation of cash from our foreign subsidiaries.

Net Income. Net income for our fourth quarter was \$1.2 million, or 3.4% of revenues, compared to a net loss of \$1.4 million, or 4.5% of revenues in our fourth quarter of fiscal 2009.

Liquidity and Capital Resources

During fiscal 2010, the total of our cash and available for sale securities decreased to \$39.4 million at October 1, 2010 from \$73.8 million at October 2, 2009. This decrease primarily resulted from the payment of a one-time special dividend of \$29.9 million, our use of \$4.8 million to repurchase our common stock on the open market and our use of \$4.5 million to settle the previously mentioned contract dispute. We also used approximately \$3.0 million to purchase equipment, property and leasehold improvements. These uses of cash were partially offset by cash provided from operations during fiscal 2010.

During our fourth quarter of fiscal 2010, we repurchased 141,766 shares of our common stock on the open market at an average price of \$9.96. We may make additional purchases of common stock, but we have no commitments to do so.

First Quarter Fiscal 2011 Financial Guidance

Effect of Exchange Rates. Approximately half of our business annually is conducted in currencies other than U.S. dollars and fluctuations in exchange rates will affect future revenues and expenses when translated into dollars. The U.S. dollar strengthened against most foreign currencies during our first three quarters of fiscal 2010 and since then it has weakened. If the exchange rates of December 2, 2010 remain constant for the remainder of our first quarter of fiscal 2011, we would expect to report an unfavorable effect of approximately 1% on our revenues during our first quarter of fiscal 2011 compared to the same quarter of fiscal 2010. Of course, we would also see a favorable effect from exchange rates on our overall expenses, though this effect is less pronounced because more of our expenses are denominated in dollars, including our corporate management and centralized IT, marketing and course development activities which are located here in the United States.

First Quarter Revenues. We currently expect revenues for our first quarter of fiscal 2011 of between \$34.2 million and \$35.7 million, which would represent an increase of between 5% and 10% from revenues of \$32.5 million in our first quarter of fiscal 2010, even after the 1% unfavorable 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 2011 of between 54% and 55% compared to 56.8% in our first quarter of fiscal 2010, largely because a greater proportion of classes will be held at customer locations than in our first quarter of fiscal 2010.

First Quarter Operating Expenses. We expect overall operating expenses for our first quarter of fiscal 2011 to be between \$16.0 million and \$16.5 million, an increase of between 10% and 13% compared to \$14.6 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 \$3.9 million in our first quarter of fiscal 2010.

First Quarter Interest Income. We expect first quarter interest income to be less than \$0.1 million.

First Quarter Pre-Tax Income. Overall, we expect to report pre-tax income for our first quarter of fiscal 2011 of between \$2.0 million and \$3.5 million, compared with \$4.1 million in the first quarter of fiscal 2010.

Effective Tax Rate. We estimate that our effective tax rate in our first quarter of fiscal 2011 will be approximately 34.5%.

In summary, we are cautiously optimistic about the revenue trends of recent quarters. We plan to continue to adjust our business model in our efforts to increase both revenue growth and profitability, and we believe that the improvements we have made thus far in our business have built a strong, effective position from which to address the opportunities that lie ahead.

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.

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.