

**Learning Tree International  
Fiscal 2006 First Quarter Conference Call**

**Remarks by Nick Schacht, President and Chief Executive Officer  
Learning Tree International  
February 13, 2006**

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 Exhibit 99.1 to our Annual Report on Form 10-K. Please read that exhibit carefully. Some of the factors discussed in Exhibit 99.1 that could affect us include risks associated with:

- \* The timely development, introduction, and customer acceptance of our courses;
- \* Competition;
- \* International operations, including currency fluctuations;
- \* Changing economic and market conditions;
- \* 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;
- \* Attracting and retaining qualified personnel.

I will begin today's presentation by covering our performance in our first quarter of fiscal 2006, which ended December 30, 2005. I will then provide some forward-looking information about our second quarter of fiscal 2006. After my presentation, we will open the floor for questions and discussion. LeMoyne Zacherl, our Chief Financial Officer, and Eric Garen, our Vice Chairman, 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>.

**Overall Results**

In our first quarter of fiscal 2006, for the third quarter in a row, we had quarterly year-over-year increases in the number of attendees at our courses. As we discussed in our previous call, the attendee increases have occurred most notably in our management courses and in courses held at customer sites, which typically have lower revenue per attendee than the IT courses we conduct in our own education centers. Accordingly, these attendee increases do not manifest themselves in revenue increases of the same

magnitude. We are assessing the implications of these attendee growth trends as we make future plans, but we believe they are a positive indicator of demand for our management courses and of the importance our customers continue to place on providing high-quality training for their employees.

Our revenues in the first quarter of fiscal 2006 were \$39.8 million, the same as in the first quarter of fiscal 2005. However, in local currency our revenues increased approximately 3% compared to the prior period, but these increases were offset by a negative 3% effect of changes in foreign exchange rates. We recorded income from operations of \$3.0 million in our first quarter compared to income from operations of \$2.6 million for the same quarter of fiscal 2005. We reported net income for the first quarter of \$2.2 million compared to net income of \$0.9 million for the same quarter last year. Our earnings per share for our first quarter were \$0.13, compared to earnings per share of \$0.05 in our first quarter in fiscal 2005.

### **First Quarter Revenue**

During our first quarter of fiscal 2006, we trained 24,028 course participants, a 10% increase from the 21,392 participants we trained in the same quarter last year. In our first quarter of fiscal 2006, average revenue per attendee was 9% lower than in the same quarter of the prior fiscal year. Without the effect of exchange rates, our average revenue per attendee declined 6% in our first quarter of fiscal 2006 compared to the same quarter of the prior fiscal year. This decline in average revenue per attendee was primarily due to an increase in the proportion of on-site course events, which typically have lower average revenue per attendee than courses conducted in our own education centers. Revenue per attendee also declined slightly due to an increase in the proportion of two- and three-day events compared to our longer events.

### **First Quarter Operating Model**

Let me now discuss how our operating model in our first quarter of fiscal 2006 compares with our operating model in the same quarter last year.

**Cost of Revenues.** Cost of revenues increased slightly to 47.6% of revenues in our first quarter of fiscal 2006 compared to 47.4% in our first quarter of fiscal 2005. Changes in foreign exchange rates did not materially affect our gross profit percentage, since exchange rate changes increased our cost of revenues by approximately the same percentage as they increased our revenues in the quarter.

Without the effect of exchange rates, the cost of revenues as a percentage of revenues in our second quarter of fiscal 2005 reflects a 7.5% decrease in the average revenue per event largely offset by a 7% decrease in the average cost per event.

The decrease in average revenue per event was due to the effect of exchange rates, the decrease in average revenue per attendee discussed earlier and a slight decrease in average attendees per event compared to the first quarter of our prior fiscal year.

The decrease in average cost per event, excluding the effect of exchange rates, primarily reflects lower education center expense and lower instructor-related expenses compared to the same quarter of our prior year.

During our first quarter of fiscal 2006, we presented 1,953 events, a 12% increase from the 1,751 events conducted during the same period in fiscal 2005.

**Course Development Expense.** During the first quarter of fiscal 2006, course development expense was 5.8% of revenues, compared with 4.5% in the first quarter of the prior year. Course development expense in our first quarter this year was \$2.3 million, compared with \$1.8 million in our first quarter of the prior year. This increase reflects the development work on an increased number of courses compared to the same period in fiscal year 2005. Our library of instructor-led courses numbered 145 titles at the end of our first quarter of fiscal 2006 compared with 136 titles at the same point a year earlier. During the first quarter, we retired one course title and we introduced five new titles: “SQL Server Programming Skills Upgrade”, “SQL Server Comprehensive Introduction”, “SQL Server Database Administration”, “SQL Server Server-Side Programming”, and “Deploying Clusters on Windows Server 2003.”

**Sales and Marketing Expense.** Sales and marketing expense in our first quarter this year decreased to \$9.3 million compared with \$9.8 million in the first quarter of the prior year, which represented 23.4% and 24.6% of revenues, respectively. This decrease primarily reflects reduced quantities of catalogs mailed in the quarter compared to the prior period, somewhat offset by the effect of changes in foreign exchange rates.

**General and Administrative Expense.** G&A expense in our first quarter decreased to 15.8% of revenues compared with 17.0% in the same quarter of our prior year. G&A expenses in our first quarter were \$6.3 million compared to \$6.8 million in our first quarter last year. The decrease in our G&A expense primarily reflects reductions in sublease-related expenses, reduced personnel and other administrative costs, and the effect of changes in foreign exchange rates, partially offset by increases in professional services fees, the cost of compensation expense due to employee stock options, and the cost of staffing related to our compliance programs.

Fiscal 2006 is our first year under FAS 123R to recognize compensation expense for employee stock option grants. In the first quarter of fiscal 2006, this expense totaled approximately \$272,000. We recorded the majority of these expenses in our general and administrative expenses, but smaller amounts of stock option compensation expense are also included in cost of sales, sales and marketing, and product development, based on where the related personnel costs are recorded.

As we discussed in earlier conference calls, in fiscal 2005 we incurred extraordinarily high costs related to our first-year program for compliance with Section 404 of the Sarbanes-Oxley Act of 2002. We did not incur any significant costs in this regard in the first quarter of the year, but the costs grew significantly in subsequent quarters. Part of our plan for fiscal 2006 and beyond includes the hiring of internal staff devoted to

compliance programs and internal audit and control, and our results for the first quarter of fiscal 2006 include some costs for that staff. Overall, we still expect that our compliance-related costs for fiscal 2006 will be lower than those we incurred in fiscal 2005.

**Operating Expenses.** In summary, our first quarter operating expenses decreased by \$448,000 compared to the first quarter of fiscal 2005. This decrease primarily reflects decreased costs for our marketing activities and the elimination of costs related to subleasing space in our London Education Center, partially offset by increased spending for course development and the effect of changes in foreign exchange rates.

**Results from Operations.** As a result of these factors, our income from operations as a percentage of revenues increased to 7.3% compared to 6.5% in the same quarter of our prior year.

**Other Income and Expense.** In our first quarter of fiscal 2006, we had interest income of \$738,000 compared to \$508,000 in the same period of the prior year. The increase in interest income primarily reflects higher interest rates.

**Income Taxes.** Our income tax provision in our first quarter of fiscal 2006 reflects a 38% annual tax rate.

**Net Income.** Our net income for the first quarter of fiscal 2006 was 5.6% of revenues compared to 2.2% in our first quarter of fiscal 2005.

### **Liquidity and Capital Resources**

During the first quarter of fiscal 2006, the total of cash and available for sale securities increased to \$77.4 million at December 30, 2005 from \$75.3 million at September 30, 2005. This increase primarily reflects an increase in net cash provided by operations of \$3.8 million, partially offset by the purchase of fixed assets of \$1.5 million.

### **Forward-Looking Operating Model**

With respect to our future operating model, let me first explicitly state that while some statements throughout this presentation are forward-looking, nearly all of the statements in this upcoming section are forward-looking and are subject to various risks and uncertainties, including those detailed from time to time in our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K and the “Risk Factors” in Exhibit 99.1. Since economic and market conditions may change at any time, our future revenues, plans and expenditures will vary from the observations in this section, and these differences may be material.

### **Recent Trends**

We are pleased to see continued increased demand for our management courses. We believe these results validate our previous statements about the market need for training in project management, personal effectiveness and other key business skills. Accordingly, in response to our expectation of customer demand our development plans for fiscal 2006 include significant numbers of new management course titles. In our first

quarter of fiscal 2006 we offered 32 titles in our management curriculum, representing 22% of our overall library, compared to 29 titles, or 21%, in the first quarter of fiscal 2005.

As we have for the past 31 years, we continue to emphasize excellence in educating and training IT professionals and managers 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 the tremendous loyalty of our customers. It is worth noting that all of our top 100 customers from 2000 remain Learning Tree customers today. We continue our emphasis on excellence by improving our core strengths: our expert instructors, proprietary content library, state-of-the-art classrooms, and worldwide course delivery systems.

**Effect of Exchange Rates.** Approximately half of our business annually is conducted in currencies other than US dollars and fluctuations in exchange rates will affect future revenues and expenses when translated into dollars. If the exchange rates of January 27, 2006 remain stable through the remainder of fiscal 2006, our revenues would be unfavorably affected by approximately 2% in both the second quarter and for our full fiscal year compared to the corresponding periods in fiscal 2005. Conversely, our expenses would be favorably affected by similar percentages in these periods.

**Second Quarter 2006 Revenues.** A number of factors other than exchange rates may influence our revenues in our second fiscal quarter ending March 31, 2006. These include the following:

\* First, at December 30, 2005, our backlog of \$28.5 million was about 6% higher than it had been on December 31, 2004. This December 30, 2005 backlog included a 4% negative effect from changes in foreign exchange rates. Four weeks later, at January 27, 2006, our overall backlog was 6% higher than it had been on January 31, 2005. And, at January 27, 2006, the sum of our revenues for January courses plus our backlog for February and March courses was 5% higher than it had been at January 31, 2005. These January 27, 2006 backlogs each included approximately a 2% negative effect from changes in foreign exchange rates.

\* Second, we have, however, noted a trend in previous quarters that increases in backlog over comparable prior periods have not fully materialized in corresponding revenue increases.

Based upon the above and other factors, we currently project that our revenues in the second quarter of fiscal 2006 will be approximately \$33.3 million to \$34.8 million, compared to \$34.9 million in the same quarter of the prior year.

**Second Quarter Gross Profit.** We expect our gross profit percentage in the second quarter of fiscal 2006 to be approximately 48.0% compared to 47.1% in our second quarter of fiscal 2005.

**Second Quarter Operating Expenses.** We expect our overall operating expenses for our second quarter of fiscal 2006 to be approximately \$20.1 million, about the same as in the same quarter a year earlier. This projection primarily reflects the elimination of costs related to the subleasing of space in our London Education Center and the effect of changes in foreign exchange rates, offset by increased spending on course development and stock option compensation expenses.

**Second Quarter Operating Income.** Based on the above, Learning Tree expects to realize an operating loss for the second quarter of fiscal 2006 of between \$3.2 million and \$4.1 million, compared to an operating loss of \$3.6 million in the second quarter of fiscal 2005.

**Second Quarter Interest Income.** Our interest income reflects changes in interest rates, as well as changes in our cash balances. We expect our second quarter interest income to be approximately \$750,000.

**2006 Tax Rate.** We estimate that our effective tax rate in the second quarter of fiscal 2006 will be between 36% and 39%, compared to an effective tax rate of approximately 71% for the second quarter of the prior year. The unusually high effective tax rate in fiscal 2005 was due principally to the effect of permanent differences, which had a large effect in fiscal 2005 when pre-tax income was significantly lower.

**Second Quarter Net Income.** Learning Tree expects a net loss for the second quarter of fiscal 2006 of approximately \$1.5 million to \$2.0 million, compared to a net loss of \$0.9 million for the second quarter of fiscal 2005.

#### **Summary following discussion**

Over the last 31 years, Learning Tree has built a strong position as the world's leading, vendor-independent provider of training for managers and technology 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.