

Learning Tree International, Inc.
Fiscal 2007 First Quarter Conference Call

**Remarks by Mr. Eric Garen, Chairman of the Board and Mr. Nicholas Schacht,
President and Chief Executive Officer**

July 31, 2007

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 Form 10K. 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; and
- Attracting and retaining qualified personnel.

We will begin today's presentation with some remarks from our co-founder and the Chairman of our Board of Directors, Mr. Eric Garen. I will then discuss our performance in our first quarter of fiscal 2007, which ended December 29, 2006, and will then provide some forward-looking information about our second and third quarters of fiscal 2007. After our presentation, we will open the floor for questions and discussion. Bob Waldron, our interim 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>.

Mr. Garen: Good afternoon. I am pleased to participate in this call, in which we will discuss our financial and operational results for the first quarter of our fiscal year 2007. As you will hear, Nick and his team have achieved substantial improvements in our first quarter operating results compared with the prior year as the direct result of concerted

efforts throughout Learning Tree to reduce costs, improve revenues, and refine our systems and processes so that we operate our business more efficiently and effectively.

I am also pleased that we have made good progress toward bringing our financial reporting up to date. Upon filing our fiscal 2006 10-K at the end of April, we dedicated ourselves to finding a new independent public accounting firm. Within six weeks, we completed our search and engaged BDO Seidman, a firm whose expertise and international presence matched our needs. We have now completed our first 10-Q reviewed by them, and we are making steady progress to complete our filings for our second and third quarters of fiscal 2007.

Our increased profitability on modest revenue growth in our first quarter of fiscal 2007, which Nick will momentarily discuss in detail, together with our expectation of reporting similar improvements in our second and third fiscal quarters, underscores our belief in the strength of our business model. We intend to continue building on what our team has already accomplished this year with the goal of further growth of both profits and revenues.

Mr. Schacht: In our Annual Report on Form 10-K for fiscal 2006 which we filed on April 30, 2007, we restated our quarterly consolidated financial statements for the first three quarters of that year, and when we refer to those periods in this call, we will be referring to those restated results.

As Eric noted, we've made some significant progress this fiscal year, and I'd like to start out by providing some highlights of our first quarter operating results:

- Revenues increased by \$2.9 million, or 7.3% from the results for the same quarter of our prior fiscal year;
- Gross Profit increased to 57.0% of revenues from 52.4% for the same quarter of our prior fiscal year;
- Operating Expenses decreased to 42.8% of revenues from 46.1% for the same quarter of our prior fiscal year;
- As a result of these factors, Income from Operations increased by \$3.6 million, or 142% over the same quarter of our prior fiscal year; and
- Net income increased by \$2.4 million, or 127% from the first quarter of fiscal 2006.

Overall Results and Business Overview

Now, let me provide you a more detailed report on our overall results. Revenues in our first quarter of fiscal 2007 were \$42.7 million, compared to revenues of \$39.8 million for the same quarter last year. We recorded income from operations of \$6.1 million in our first quarter compared to income from operations of \$2.5 million for the same quarter of fiscal 2006. We reported net income for our first quarter of \$4.3 million, or 26 cents per share, compared to net income of \$1.9 million, or 11 cents per share, for the same quarter last year.

First Quarter Revenue

Overall, during our first quarter of fiscal 2007, we trained 23,644 course participants, a 1% decrease from the 23,993 participants we trained in the same quarter last year.

During our first quarter of fiscal 2007, in management courses, we provided 27,734 attendee-days of training during the quarter, a 17% increase compared to 23,681 attendee-days in the same quarter of the prior year. In IT courses, we provided 61,736 attendee-days of training during the quarter, an 11% decrease from 68,993 attendee-days in our first quarter of fiscal 2006. Overall, we provided a total of 89,470 attendee-days of training, a 3% decrease from 92,674 attendee-days in our first quarter of fiscal 2006.

In our first quarter of fiscal 2007, average revenue per participant was 9% higher than in the same quarter of the prior fiscal year, due to a 4% positive effect of changes in foreign exchange rates, a shift in product mix from participants using our more heavily discounted passports to higher-priced voucher and single-seat participants, and price increases. These factors were partially offset by an increased proportion of participants in our shorter-duration management courses compared to our longer-duration IT courses.

First Quarter Results from Operations

I will now discuss our results from operations in our first quarter of fiscal 2007 and how they compare with the same quarter last year.

Cost of Revenues. Cost of revenues declined to 43.0% of revenues in our first quarter of fiscal 2007 compared to 47.6% in our first quarter of fiscal 2006, and our gross profit percentage accordingly increased to 57.0%, compared to 52.4% in the same period in the prior year. 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.

The improvement in cost of revenues as a percentage of revenues in our first quarter of fiscal 2007 reflects an 11% increase in average revenue per event. The increase in average revenue per event, excluding the effect of changes in foreign exchange rates, is the result of a 2% increase in average participants per event and the increase in average revenue per participant discussed earlier. Cost per event for our first quarter of fiscal year 2007 was essentially unchanged from the same quarter in the prior year, a result of the effect of the 4% change in foreign exchange rates offset by an approximately equal reduction in costs associated with our Learning Tree Education Centers and other cost reduction initiatives.

During our first quarter of fiscal 2007, we presented 1,886 events, compared to the 1,953 events we conducted during the same period in fiscal 2006. The reduction in the number of events held in the quarter compared to the prior year reflects our ongoing efforts to improve our course scheduling processes and thereby increase our overall average number of participants per event; however, our first quarter results reflect only a partial impact of those efforts. We expect the full impact from this re-scheduling to phase in over the course of our second and third quarters of fiscal 2007.

Course Development Expense. During our first quarter of fiscal 2007, our spending on course development was \$1.9 million compared with \$2.3 million in the same quarter last year. This resulted in course development expense of 4.4% of revenues in our first quarter of this fiscal year compared to 5.8% during the same quarter of our prior year. Our higher spending in the prior fiscal year was due to our intensive effort to convert some of our management courses to our proprietary RealityPlus platform, which provides a unique and highly effective method of delivering management education and training in an immersive, simulation-based environment. We completed that RealityPlus conversion effort in our fourth quarter of fiscal 2006.

In our first quarter of fiscal 2007, we retired three IT course titles and introduced four new IT titles. As a result, our library of instructor-led courses numbered 153 titles at the end of our first quarter of fiscal 2007 compared with 145 titles at the same point a year earlier. At the end of our first quarter this year we had 43 management titles in our course library, compared with 30 management titles at the end of our first quarter in fiscal 2006. Our library of IT titles numbered 110 at the end of our first quarter, compared to 115 a year earlier.

Sales and Marketing Expense. Sales and marketing expense in our first quarter was 21.8% of revenues, compared with 23.5% for the same quarter in the prior year. Sales and marketing expense remained at \$9.3 million, approximately the same as during our first quarter of fiscal 2006. Sales and marketing expense in the first quarter of our fiscal year is typically lower than in other quarters due to the fact that we mail fewer course catalogs during the December holiday period.

Sales and marketing—and, in particular, our direct mail activity—is one of our largest expenditures. We have carefully adjusted the market segments to which we mail our catalogs. At the same time, we have been increasing our sales staff in certain operating units with appropriately trained and managed personnel. We will continue to analyze and evaluate the effectiveness of our marketing and selling expenditures, and to adjust these costs when we believe we can further improve the return on our investment in marketing and sales.

General and Administrative Expense. G&A expense in our first quarter decreased to 16.6% of revenues compared with 16.9% in the same quarter of our prior year. G&A expense in our first quarter was \$7.1 million compared to \$6.7 million in our first quarter last year. The increase in expenditure was principally due to the effect of changes in foreign exchange rates and, to a lesser extent, costs associated with subleasing and facilities arrangements in our United Kingdom Education Center.

Results from Operations. As a result of these factors, we achieved income from operations of \$6.1 million, or 14.3% of revenues, in the first quarter of fiscal 2007 compared to income from operations of \$2.5 million, or 6.3% of revenues, in the same quarter of our prior year.

Other Income and Expense. In our first quarter of fiscal 2007, we recorded foreign exchange gains of \$61,000 compared to losses of \$53,000 in the same quarter of the prior year. In our first quarter of fiscal 2007, we had interest income of \$929,000 compared to \$738,000 in the same period of the prior year. The increase in our interest income primarily reflects higher interest rates compared to those in the prior year and the effect of changes in foreign exchange rates. Also, we recorded a one-time gain of approximately \$418,000 related to the sale of stock in Rasmussen College during the quarter.

Pre-Tax Income. As a result of the preceding factors, our pre-tax income in our first quarter of fiscal 2007 was \$7.3 million, compared to pre-tax income of \$3.2 million in the first quarter of fiscal 2006.

Income Taxes. For our first quarter of fiscal 2007, our effective tax rate is 41%, which is the same as our projected effective tax rate for our full fiscal year. By comparison, in our first quarter of fiscal 2006 our effective tax rate was 40%. As we noted in our last conference call, our effective tax rate may fluctuate significantly due to the valuation allowance we established in the fourth quarter of fiscal 2006 related to certain deferred tax assets as well as the large impact of permanent differences in lower income quarters. Our effective tax rate for the first quarter of fiscal 2007 continues to reflect the impact of that valuation allowance and, accordingly, our effective tax rate is somewhat higher than would normally be the case.

Net Income. In summary, our net income for our first quarter of fiscal 2007 was \$4.3 million, or 10.1% of revenues, compared to net income of \$1.9 million, or 4.8%, in our first quarter of fiscal 2006.

Liquidity and Capital Resources

During the three months ended December 29, 2006, the total of cash and available for sale securities increased to \$75.7 million from \$72.2 million at September 29, 2006. This increase primarily reflects cash generated from operations, partially offset by purchases of fixed assets and leasehold improvements and the effect of changes in foreign exchange rates.

We did not repurchase any shares of our common stock during the quarter.

Future Outlook

As we have for the past 33 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 their tremendous loyalty. It is worth noting that out of our top 100 customers from five years ago, all 100 of them continue to be 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, application of technology to education, 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. We expect to report a favorable effect of approximately 4% due to changes in foreign exchange rates in our second quarter of fiscal 2007, and a favorable effect of approximately 4% due to those changes in our third quarter of fiscal 2007, which will have the effect of increasing both our revenue and our expenses in those quarters compared to the corresponding periods in fiscal 2006.

Second Quarter 2007 Revenues

We currently expect to report revenues in our second fiscal quarter ended March 30, 2007 of between \$37.3 million and \$37.7 million, compared to \$34.3 million in the same quarter of the prior year.

Second Quarter Gross Profit. We expect to report a gross profit percentage in our second quarter of fiscal 2007 of between 53.5% and 54.0% compared to 46.8% in our second quarter of fiscal 2006. As we discussed earlier, this improvement reflects the beneficial effects of actions we have implemented over the past few quarters to increase our number of participants per event and to decrease cost, as well as the effects of price increases and changes in product mix.

Second Quarter Operating Expenses. We expect to report overall operating expenses for our second quarter of fiscal 2007 of approximately \$19.3 million, compared to \$20.2 million in the same quarter a year earlier. This primarily reflects decreased spending on course development, reduced marketing expenses and reductions in professional fees, partially offset by the effect of changes in foreign exchange rates and increased costs for sales personnel.

Second Quarter Interest Income. We expect to report second quarter interest income of approximately \$0.9 million.

Second Quarter Pre-Tax Income. As a result of the above factors, we expect to report pre-tax income for our second quarter of fiscal 2007 of between \$1.6 million and \$2.0 million, compared with a pre-tax loss of approximately \$3.3 million in the second quarter of the prior year.

Effective Tax Rate. We estimate that our effective tax rate in our second quarter of fiscal 2007 will be approximately 41%.

Third Quarter 2007 Revenues

Turning now to our third fiscal quarter ended June 29, 2007, we currently expect to report revenues of between \$42.0 million and \$43.0 million, compared to \$41.2 million in our third quarter of fiscal 2006.

Third Quarter Gross Profit. We expect to report a gross profit percentage in our third quarter of fiscal 2007 of between 55% and 56% compared to 50.7% in our third quarter of fiscal 2006.

Third Quarter Operating Expenses. We expect to report overall operating expenses for our third quarter of fiscal 2007 of between \$19 million and \$19.5 million, compared to \$21.3 million in the same quarter a year earlier.

Third Quarter Interest Income. We expect to report third quarter interest income of approximately \$1.0 million.

Third Quarter Pre-Tax Income. As a result of the above factors, we expect to report pre-tax income for our third quarter of fiscal 2007 of between \$4.6 million and \$6.1 million, compared with pre-tax income of approximately \$0.6 million in the third quarter of the prior year.

Summary. In summary, we expect to report revenues for the first three quarters of fiscal 2007 of between \$122.0 million and \$123.4 million compared with \$115.3 million for the same period of the prior year, and we expect to report pre-tax income of between \$13.5 million and \$15.4 million compared with \$0.5 million for the same period of the prior year.

These significant improvements in our operating performance are the result of our initiatives to improve the efficiency and effectiveness of our business processes, to reduce costs, and to increase our revenues. We continue to explore ways to improve our results in future periods.

Additionally, we are excited about the opportunities we see for continuing to expand our use of innovative instructional technology in our management curriculum, and adding new courses in both IT and management training.

Summary following discussion

Over the last 33 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.